

Stellus Capital Investment Corp  
Form 10-Q  
May 08, 2018

**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 March 31, 2018**

**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)**

<b>Maryland</b>	<b>46-0937320</b>
<b>(State or other Jurisdiction of Incorporation or Organization)</b>	<b>(I.R.S. Employer Identification No.)</b>

**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  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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of the issuer's Common Stock, \$0.001 par value per share, outstanding as of May 4, 2018 was 15,953,810.

**STELLUS CAPITAL INVESTMENT CORPORATION**

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

	March 31, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Non-controlled, affiliated investments, at fair value (amortized cost of \$135,519 and \$1,052,185, respectively)	\$ 140,000	\$ 990,000
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$426,244,352 and \$367,401,021, respectively)	431,159,720	370,849,772
Cash and cash equivalents	45,494,363	25,110,718
Receivable for sales and repayments of investments	26,891	26,891
Interest receivable	3,787,060	2,922,204
Other receivables	37,647	—
Prepaid expenses	298,186	361,270
Total Assets	\$ 480,943,867	\$ 400,260,855
<b>LIABILITIES</b>		
Notes payable	\$ 47,389,684	\$ 47,306,488
Credit facility payable	116,948,703	39,332,479
SBA-guaranteed debentures	87,919,481	87,818,813
Dividends payable	1,807,570	1,806,671
Management fees payable	1,575,366	1,621,592
Incentive fees payable	1,164,735	371,647
Interest payable	683,980	1,021,173
Unearned revenue	175,989	139,304
Administrative services payable	361,727	327,033
Other accrued expenses and liabilities	653,500	268,413
Total Liabilities	\$ 258,680,735	\$ 180,013,613
Commitments and contingencies (Note 7)		
Net Assets	\$ 222,263,132	\$ 220,247,242
<b>NET ASSETS</b>		
Common Stock, par value \$0.001 per share (200,000,000 and 100,000,000 shares authorized; 15,953,810 and 15,945,879 shares issued and outstanding, respectively)	\$ 15,954	\$ 15,946
Paid-in capital	228,161,215	228,066,762
Accumulated net realized loss from investments, net of cumulative dividends of \$4,246,819 for both periods	(9,450,971 )	(10,786,240 )

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Distributions in excess of net investment income	(1,382,915 )	(435,794 )
Net Unrealized appreciation on investments and cash equivalents, net of provision for taxes of \$0 for both periods	4,919,849	3,386,568
Net Assets	\$222,263,132	\$220,247,242
Total Liabilities and Net Assets	\$480,943,867	\$400,260,855
Net Asset Value Per Share	\$13.93	\$13.81

## STELLUS CAPITAL INVESTMENT CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
INVESTMENT INCOME		
Interest income	\$ 10,730,748	\$ 9,476,252
Other income	181,033	387,728
Total Investment Income	\$ 10,911,781	\$ 9,863,980
OPERATING EXPENSES		
Management fees	\$ 1,748,896	\$ 1,564,528
Valuation fees	134,410	166,089
Administrative services expenses	351,229	309,098
Incentive fees	968,826	1,021,227
Professional fees	469,138	227,677
Directors' fees	92,000	92,000
Insurance expense	85,697	109,252
Interest expense and other fees	2,464,980	2,068,630
Other general and administrative expenses	121,226	161,852
Total Operating Expenses	\$ 6,436,402	\$ 5,720,353
Net Investment Income	\$ 4,475,379	\$ 4,143,627
Net Realized Gain (Loss) on Investments and Cash Equivalents	\$ 1,335,269	\$ (712,051 )
Net Change in Unrealized Appreciation on Investments and Cash Equivalents	\$ 1,533,281	\$ 2,584,583
Benefit for taxes on unrealized gain on investments	\$—	\$ 8,593
Net Increase in Net Assets Resulting from Operations	\$ 7,343,929	\$ 6,024,752
Net Investment Income Per Share	\$ 0.28	\$ 0.33
Net Increase in Net Assets Resulting from Operations Per Share	\$ 0.46	\$ 0.48
Weighted Average Shares of Common Stock Outstanding	15,952,841	12,479,957
Distributions Per Share	\$ 0.34	\$ 0.34

## STELLUS CAPITAL INVESTMENT CORPORATION

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

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Increase in Net Assets Resulting from Operations		
Net investment income	\$4,475,379	\$4,143,627
Net realized gain/(loss) on investments and cash equivalents	1,335,269	(712,051 )
Net change in unrealized appreciation on investments and cash equivalents	1,533,281	2,584,583
Benefit for taxes on unrealized appreciation on investments	—	8,593
Net Increase in Net Assets Resulting from Operations	\$7,343,929	\$6,024,752
Stockholder distributions from		
Net investment income	(5,422,500 )	(4,241,903 )
Total Distributions	\$(5,422,500 )	\$(4,241,903 )
Capital share transactions		
Issuance of common stock	94,788	—
Partial Share Redemption	(327 )	—
Net increase in net assets resulting from capital share transactions	\$94,461	\$—
Total increase in net assets	\$2,015,890	\$1,782,849
Net assets at beginning of period	\$220,247,242	\$170,881,785
Net assets at end of period (includes \$1,382,915 and \$435,794 of distributions in excess of net investment income, respectively)	\$222,263,132	\$172,664,634



## STELLUS CAPITAL INVESTMENT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	<b>For the three months ended March 31, 2018</b>	<b>For the three months ended March 31, 2017</b>
Cash flows from operating activities		
Net Increase in net assets resulting from operations	\$ 7,343,929	\$ 6,024,752
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchases of investments	(71,713,787 )	(23,151,902 )
Proceeds from sales and repayments of investments	15,618,134	39,279,309
Net change in unrealized appreciation on investments	(1,533,281 )	(2,584,583 )
Deferred tax benefit	—	(8,593 )
Increase in investments due to PIK	(152,006 )	(82,119 )
Amortization of premium and accretion of discount, net	(343,739 )	(267,611 )
Amortization of loan structure fees	66,224	122,908
Amortization of deferred financing costs	83,196	46,669
Amortization of loan fees on SBA-guaranteed debentures	100,668	80,211
Net realized loss (gain) on investments	(1,335,269 )	712,051
Changes in other assets and liabilities		
Decrease (increase) in interest receivable	(864,856 )	329,975
Increase in other receivable	(37,647 )	(7,294 )
Decrease (increase) in prepaid expenses	63,084	(62 )
Decrease in management fees payable	(46,226 )	(43,767 )
Increase (decrease) in incentive fees payable	793,088	(129,650 )
Increase in administrative services payable	34,694	31,358
Decrease in interest payable	(337,193 )	(550,338 )
Increase (decrease) in unearned revenue	36,685	(1,786 )
Increase in dividend payable	899	—
Increase in other accrued expenses and liabilities	385,087	318,964
Net cash provided by (used in) operating activities	\$ (51,838,316 )	\$ 20,118,492
Cash flows from financing activities		
Proceeds from the issuance of common stock	—	—
Offering costs paid for common stock issued	—	(81,813 )
Stockholder distributions paid	(5,327,712 )	(4,241,903 )
Borrowings under credit facility	86,550,000	9,000,000
Repayments of credit facility	(9,000,000 )	(22,500,000 )
Partial Share Redemption	(327 )	—
Net cash provided by (used in) financing activities	\$ 72,221,961	\$ (17,823,716 )
Net increase in cash and cash equivalents	\$ 20,383,645	\$ 2,294,776

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Cash and cash equivalents balance at beginning of period	25,110,718	9,194,129
Cash and cash equivalents balance at end of period	\$ 45,494,363	\$ 11,488,905
Supplemental and non-cash financing activities		
Interest expense paid	2,512,086	2,369,181
Excise tax paid	27,717	37,648
Shares issued pursuant to Dividend Reinvestment Plan	94,788	—
Conversion from debt to equity	—	864,101

**Stellus Capital Investment Corporation****Consolidated Schedule of Investments****March 31, 2018**

Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Initial Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares
Non-controlled, affiliated investments	(2)									
Glori Energy Production Inc.									Houston, TX	
Glori Energy Production, LLC Class A Common Units	(4)	Equity					2/1/2017		Energy: Oil & Gas	1,000 shares
Subtotal Non-controlled, affiliated investments										
Non-controlled, non-affiliated investments	(2)									
Abrasive Products & Equipment, LLC, et al									Deer Park, TX	
Term Loan (SBIC)	(2)(12)	Second Lien	L+10.50%	1.00%	12.80%		9/5/2014	3/5/2020	Chemicals, Plastics, & Rubber	\$5,325,237
APE Holdings, LLC Class A Common Units Total	(4)	Equity					9/5/2014			375,000 units
Apex Environmental Resources Holdings, LLC									Amsterdam, OH	
Common Units	(4)	Equity					10/30/2015		Environmental Industries	766 shares
Preferred Units Total	(4)	Equity					10/30/2015			766 shares

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Atmosphere Aggregator Holdings II, LP								Atlanta, GA	
Common Units	(4)	Equity				6/30/2015		Services: Business	254,250 units
Atmosphere Aggregator Holdings, LP	(4)	Equity				6/30/2015			750,000 units
Common Units Total									
ASC Communications, LLC	(7)							Chicago, IL	
Term Loan (SBIC)	(2)(12)	First Lien	L+6.25%	1.00%	8.13%	6/29/2017	6/29/2022	Healthcare & Pharmaceuticals	\$6,462,500
ASC Communications Holdings, LLC	(2)(4)	Equity				6/29/2017			73,529 shares
Class A Preferred Units (SBIC) Total									

**Stellus Capital Investment Corporation****Consolidated Schedule of Investments****March 31, 2018**

Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Initial Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares
Beneplace, LLC Term Loan (SBIC)	(2)(12)	Second Lien	L+10.00%	1.00%	12.30%		3/27/2017	9/27/2022	Austin TX FIRE: Insurance	\$5,000,000
Beneplace Holdings, LLC Preferred Units	(4)	Equity					3/27/2017			500,000 units
Total Binder & Binder National Social Security Disability Advocates, LLC Residual claim from Term Loan BW DME Acquisition, LLC	(8)								Hauppauge, NY Services: Consumer	\$100,000
Term Loan (SBIC) BW DME Holdings, LLC Class A Preferred Units	(2)(12)(13)	First Lien	L+6.00%	1.00%	10.03%		8/24/2017	8/24/2022	Tempe, AZ Healthcare & Pharmaceuticals	\$16,695,800
LLC Class A Preferred Units Total C.A.R.S. Protection Plus, Inc. Term Loan	(4)	Equity					8/24/2017			1,937,261 shares
	(12)	First Lien	L+8.50%	0.50%	10.07%		12/23/2015	12/31/2020	Murrysville, PA Automotive	\$98,746

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Term Loan (SBIC) CPP Holdings LLC Class A Common Units	(2)(12)	First Lien	L+8.50%	0.50%	10.07%	12/23/2015	12/31/2020		\$7,702,191
Total Catapult Learning, LLC et al								Camden, NJ	
Term Loan Colford Capital Holdings, LLC Preferred Units	(12)(13)	First Lien	L+6.50%	1.00%	9.69%	8/6/2015	7/16/2020	Education	\$12,171,050
Total Condor Borrower, LLC								New York, NY	
Term Loan Condor Top Holdco Limited Convertible Preferred Shares	(12)	Second Lien	L+8.75%	1.00%	10.51%	10/27/2017	4/27/2025	Services: Business	\$13,750,000
Condor Holdings Limited Preferred Shares, Class B	(4)	Equity				10/27/2017			500,000 shares
Total Dream II Holdings, LLC Class A Common Units	(4)	Equity				10/27/2017		Boca Raton, FL	
Class A Common Units	(4)	Equity				10/20/2014		Services: Consumer	250,000 units

## Stellus Capital Investment Corporation

## Consolidated Schedule of Investments

March 31, 2018

Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Initial Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares
Empirix Inc.									Billerica, MA	
Term Loan	(12)	Second Lien	L+9.50%	1.00%	11.25%		11/1/2013	5/1/2020	Software	\$11,657,850
Term Loan (SBIC)	(2)(12)	Second Lien	L+9.50%	1.00%	11.25%		11/1/2013	5/1/2020		\$9,750,000
Empirix Holdings I, Inc. Common Shares, Class A	(4)	Equity					11/1/2013			1,304 shares
Empirix Holdings I, Inc. Common Shares, Class B	(4)	Equity					11/1/2013			1,317,406 shares
Total Energy Labs Inc. Term Loan (SBIC)	(2)(12)(13)	First Lien	L+7.00%	0.50%	12.16%		9/29/2016	9/29/2021	Houston, TX Energy: Oil & Gas	\$8,548,387
Energy Labs Holding Corp. Common Stock	(4)	Equity					9/29/2016			500 shares
Total EOS Fitness OPCO Holdings, LLC	(2)(12)	First Lien	L+8.25%	0.75%	9.92%		12/30/2014	12/30/2019	Phoenix, AZ	\$3,150,812

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Term Loan (SBIC) EOS Fitness Holdings, LLC Class A Preferred Units EOS Fitness Holdings, LLC Class B Common Units Total Fast Growing Trees, LLC	(4)	Equity				12/30/2014		Hotel, Gaming, & Leisure	118 shares
Term Loan (SBIC) SP FGT Holdings, LLC, Class A Common Total Fumigation Holdings, Inc. Class A Common Stock Furniture Factory Outlet, LLC	(4)	Equity				12/30/2014			3,017 shares
Term Loan (SBIC) SP FGT Holdings, LLC, Class A Common Total Fumigation Holdings, Inc. Class A Common Stock Furniture Factory Outlet, LLC	(16)							Fort Mill, SC	
Term Loan (SBIC) SP FGT Holdings, LLC, Class A Common Total Fumigation Holdings, Inc. Class A Common Stock Furniture Factory Outlet, LLC	(2)(12)	First Lien	L+7.75%	1.00%	9.54%	2/5/2018	02/05/23	Retail	\$20,500,000
Term Loan (SBIC) SP FGT Holdings, LLC, Class A Common Total Fumigation Holdings, Inc. Class A Common Stock Furniture Factory Outlet, LLC	(4)	Equity				2/5/2018			1,000,000 shares
Term Loan (SBIC) SP FGT Holdings, LLC, Class A Common Total Fumigation Holdings, Inc. Class A Common Stock Furniture Factory Outlet, LLC	(4)	Equity				6/30/2015		Liberty, MO  Chemicals, Plastics, & Rubber	250 shares
Term Loan (SBIC) SP FGT Holdings, LLC, Class A Common Total Fumigation Holdings, Inc. Class A Common Stock Furniture Factory Outlet, LLC	(12)	First Lien	L+9.00%	0.50%	11.30%	6/10/2016	6/10/2021	Fort Smith, AR  Consumer Goods: Durable	\$15,405,284
Term Loan (SBIC) SP FGT Holdings, LLC, Class A Common Total Fumigation Holdings, Inc. Class A Common Stock Furniture Factory Outlet, LLC	(11)	Unsecured	11.00%			6/10/2016	2/3/2021		\$122,823
Term Loan (SBIC) SP FGT Holdings, LLC, Class A Common Total Fumigation Holdings, Inc. Class A Common Stock Furniture Factory Outlet, LLC	(4)	Equity				6/10/2016			13,445 shares
Term Loan (SBIC) SP FGT Holdings, LLC, Class A Common Total Fumigation Holdings, Inc. Class A Common Stock Furniture Factory Outlet, LLC								Cary, NC	



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Term Loan (12)	Second Lien	L+10.25%	1.00%	12.55%	2/6/2015	1/30/2022	Education	\$5,000,000
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**Stellus Capital Investment Corporation****Consolidated Schedule of Investments****March 31, 2018**

Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Initial Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares
Good Source Solutions, Inc.									Carlsbad, CA	
Term Loan	(12)(13)	First Lien	L+7.25%	0.50%	12.53%		7/15/2016	7/15/2021	Beverage, Food, & Tobacco	\$1,350,000
Term Loan (SBIC)	(2)(12)(13)	First Lien	L+7.25%	0.50%	12.53%		7/15/2016	7/15/2021		\$1,200,000
Good Source Holdings, LLC Class A Preferred Units	(4)	Equity					7/15/2016			159 shares
Good Source Holdings, LLC Class B Common Units	(4)	Equity					7/15/2016			4,482 shares
Total Grupo HIMA San Pablo, Inc., et al									San Juan, PR	
Term Loan	(12)	First Lien	L+7.00%	1.50%	8.84%		2/1/2013	1/31/2018	Healthcare & Pharmaceuticals	\$4,750,000
Term Loan	(15)	Second Lien	13.75%		0.00%		2/1/2013	7/31/2018		\$4,109,524
Total Hostway Corporation									Chicago, IL	
Term Loan	(12)	Second Lien	L+4.25%	1.25%	6.13%		12/27/2013	12/13/2020	High Tech Industries	\$6,750,000
J.R. Watkins, LLC	(9)								San Francisco, CA	
Term Loan (SBIC)	(2)(12)	First Lien	L+6.50%	1.25%	8.80%		12/22/2017	12/22/2022	Consumer Goods: non-durable	\$12,468,750

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J.R. Watkins Holdings, Inc. Class A Preferred Total ICD Intermediate Holdco 2, LLC	(4)	Equity				12/22/2017				1,000 shares
Term Loan (SBIC) ICD Holdings, LLC, Class A Preferred Total	(2)(12)	Second Lien	L+9.00%	1.00%	11.30%	1/1/2018	7/1/2024	Finance		\$10,000,000
	(4)	Equity				1/1/2018				9,962 shares

## Stellus Capital Investment Corporation

## Consolidated Schedule of Investments

March 31, 2018

Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Initial Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares
Kelleyamerit Holdings, Inc.									Walnut Creek, CA	
Term Loan	(12)(13)	First Lien	L+7.50%	1.00%	10.54%		3/30/2018	3/30/2023	Automotive	\$9,750,000
Keais Records Service, LLC									Houston, TX	
Term Loan	(12)	Second Lien	L+10.50%	0.50%	12.80%		6/30/2016	6/30/2022	Services: Business	\$7,750,000
Keais Holdings, LLC Class A Units	(4)	Equity					6/30/2016			148,335 units
Total KidKraft, Inc.									Dallas, TX	
Term Loan	(6)	Second Lien	12.00%		11.00%	1.00%	9/30/2016	3/30/2022	Consumer Goods: Durable	\$9,338,418
Livingston International, Inc.									Toronto, Ontario	
Term Loan	(5)(12)	Second Lien	L+8.25%	1.25%	10.55%		4/23/2013	4/18/2020	Transportation: Cargo	\$6,841,739
Madison Logic, Inc.									New York, NY	
Term Loan (SBIC)	(2)(12)	First Lien	L+8.00%	0.50%	9.88%		11/30/2016	11/30/2021	Media: Broadcasting & Subscription	\$4,843,750
Madison Logic Holdings, Inc. Common Stock (SBIC)	(2)(4)	Equity					11/30/2016			5,000 shares
Madison Logic Holdings, Inc.	(2)(4)	Equity					11/30/2016			4,500 shares

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Series A Preferred Stock (SBIC)									
Total Magdata Intermediate Holdings, LLC								Austin TX	
Term Loan	(12)	Second Lien	L+9.50%	1.00%	11.80%	10/16/2017	4/16/2024	Software	\$12,500,000
MBS Holdings, Inc. Series E Preferred Stock	(4)	Equity				3/10/2014		Birmingham, AL Media: Broadcasting & Subscription	2,774,695 shares
Series F Preferred Stock	(4)	Equity				3/10/2014			399,308 shares
Total Mobileum, Inc.								Santa Clara, CA	
Term Loan	(12)	Second Lien	L+10.25%	0.75%	12.55%	11/1/2016	5/1/2022	Software	\$9,000,000
Mobile Acquisition Holdings, LP Class A-2 Common Units	(4)	Equity				11/1/2016			750 units
Total									

## Stellus Capital Investment Corporation

## Consolidated Schedule of Investments

March 31, 2018

Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Initial Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amor Cost
MTC Parent, L.P. Class A-2 Common Units	(4)	Equity					12/1/2015		Oak Brook, IL Finance	750,000 shares	0
National Trench Safety, LLC, et al Term Loan (SBIC)	(2)	Second Lien	11.50%		11.50%		3/31/2017	3/31/2022	Houston, TX Construction & Building	\$10,000,000	9,852
NTS Investors, LP Class A Common Units	(4)	Equity					3/31/2017			2,335 units	500,0
Total OGS Holdings, Inc. Series A Convertible Preferred Stock	(4)	Equity					4/22/2014		Chantilly, Virginia Services: Government	11,521 shares	50,00
Price for Profit, LLC Term Loan (SBIC)	(17) (2)(12)	First Lien	L+6.50%	1.00%	8.80%		1/31/2018	1/31/2023	Cleveland, OH Services: Business	\$11,000,000	10,78
I2P Holdings, LLC, Series A Preferred	(4)	Equity					1/31/2018			750,000 shares	750,0