

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)

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 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
ASSETS		
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
LIABILITIES		
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
NET ASSETS		
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)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
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	Amo Cost
Non-controlled, affiliated investments	(2)								Houston, TX		
Glori Energy Production Inc. Glori Energy Production, LLC Class A Common Units	(4)	Equity					2/1/2017		Energy: Oil & Gas	1,000 shares	135
Subtotal Non-controlled, affiliated investments											135
Non-controlled, non-affiliated investments	(2)								Deer Park, TX		
Abrasive Products & Equipment, LLC, et al Term Loan (SBIC)	(2)(12)	 nbsp;nbsp;									