Stellus Capital Investment Corp
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PROSPECTUS SUPPLEMENT
(to Prospectus dated April 3, 2017)

$50,000,000

Stellus Capital Investment Corporation

Common Stock

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through debt and related equity investments in middle-market companies.

We have entered into an equity distribution agreement, dated August 22, 2017, with Raymond James & Associates, Inc., or the Sales Agent, relating to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. The equity distribution agreement provides that we may offer and sell up to $50,000,000 of our common stock from time to time through the Sales Agent. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act of 1933, as amended, or the Securities Act, including sales made directly on the New York Stock Exchange, or NYSE, or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices.

Our common stock is listed on the NYSE under the trading symbol SCM. The last sale price, as reported on NYSE on August 22, 2017, was $13.66 per share. The net asset value per share of our common stock at June 30, 2017 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $13.84.

Under the terms of the equity distribution agreement, the Sales Agent will receive a commission from us equal to 1.50% of the gross sales price of any shares of our common stock sold through the Sales Agent under the equity distribution agreement. The Sales Agent is not required to sell any specific number or dollar amount of common stock, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the shares of our common stock offered by this prospectus supplement and the accompanying prospectus. See Plan of Distribution beginning on page S-16 of this prospectus supplement.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it will likely increase the risk of loss for purchasers in this offering. In this regard, on May 24, 2017, our stockholders voted to allow us to issue common

stock at a price below net asset value per share for the period ending on the earlier of the one year anniversary of the date of our 2017 Annual Meeting of Stockholders and the date of our 2018 Annual Meeting of Stockholders. The latest date the authorization will expire is May 24, 2018. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock, although the number of shares sold in each offering may not exceed 25% of our outstanding common stock immediately prior to such sale. In addition, we cannot issue shares of our common stock below net asset value unless our board of directors determines that it would be in our and our stockholders best interests to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In addition, continuous sales of common stock below net asset value may have a negative impact on total returns and could have a negative impact on the market price of our shares of common stock. See Sale of Common Stock Below Net Asset Value in this prospectus supplement and Sales of Common Stock Below Net Asset Value in the accompanying prospectus.

The companies in which we invest are typically highly leveraged, and, in most cases, our investments in such companies will not be rated by national rating agencies. If such investments were rated, we believe that they would likely receive a rating below investment grade (i.e., below BBB or Baa), which are often referred to as junk.

This prospectus supplement and the accompanying prospectus, contain important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus supplement and the accompanying prospectus before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or SEC. The SEC also maintains a website at *http://www.sec.gov* that contains such information. This information is also available free of charge by contacting us at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027, Attention: Investor Relations, or by calling us collect at (713) 292-5400 or on our website at *www.stelluscapital.com*. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus supplement, and the accompanying prospectus.

We are an emerging growth company under the federal securities laws and are subject to reduced public company reporting requirements. The latest possible date on which we may qualify as an emerging growth company is December 31, 2017.

Investing in our common stock involves a high degree of risk. Before buying any shares, you should read the discussion of the material risks of investing in our common stock in Risk Factors beginning on page 17 of the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

RAYMOND JAMES

The date of this prospectus supplement is August 23, 2017

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of the common stock and certain matters relating to us. The second part, the accompanying prospectus, gives more general information about the securities that we may offer from time to time, some of which may not apply to the common stock offered by this prospectus supplement. For information about our common stock, see Description of Our Common Stock in the accompanying prospectus.

If information varies between this prospectus supplement and the accompanying prospectus, you should rely only on such information in this prospectus supplement. The information contained in this prospectus supplement supersedes any inconsistent information included in the accompanying prospectus. In various places in this prospectus supplement and the accompanying prospectus, we refer you to other sections of such documents for additional information by indicating the caption heading of such other sections. The page on which each principal caption included in this prospectus supplement and the accompanying prospectus can be found is listed in the table of contents above. All such cross references in this prospectus supplement are to captions contained in this prospectus supplement and not in the accompanying prospectus, unless otherwise stated.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS. WE HAVE NOT, AND THE SALES AGENT HAS NOT, AUTHORIZED ANY OTHER PERSON TO PROVIDE YOU WITH DIFFERENT OR ADDITIONAL INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR ADDITIONAL INFORMATION, YOU SHOULD NOT RELY ON IT. WE ARE NOT, AND THE SALES AGENT IS NOT, MAKING AN OFFER TO SELL THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. YOU SHOULD ASSUME THAT THE INFORMATION APPEARING IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS IS ACCURATE ONLY AS OF THEIR RESPECTIVE DATES, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS OR ANY SALES OF THE SECURITIES. OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THOSE DATES.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read the more detailed information set forth under Risk Factors and the other information included in this prospectus supplement and the accompanying prospectus carefully. Except as otherwise indicated, the terms we, us, our, and the Company refer to Stellus Capital Investment Corporation; and Stellus Capital Management refers to our investment adviser and administrator, Stellus Capital Management, LLC.

Stellus Capital Investment Corporation

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. We originate and invest primarily in private 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. Unitranche debt is typically structured as first lien loans with certain risk characteristics of second lien debt. Mezzanine debt includes senior unsecured and subordinated loans.

Our investment activities are managed by our investment adviser, Stellus Capital Management, an investment advisory firm led by Robert T. Ladd and its other senior investment professionals. We source investments primarily through the extensive network of relationships that the senior investment professionals of Stellus Capital Management have developed with financial sponsor firms, financial institutions, middle-market companies, management teams and other professional intermediaries. The companies in which we invest are typically highly leveraged, and, in most cases, our investments in such companies will not be rated by national rating agencies. If such investments were rated, we believe that they would likely receive a rating which is often referred to as junk.

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation. We seek to achieve our investment objective by:

- accessing the extensive origination channels that have been developed and established by the Stellus Capital Management investment team that include long-standing relationships with private equity firms, commercial banks, investment banks and other financial services firms;
- investing in what we believe to be companies with strong business fundamentals, generally within our core middle-market company focus;
- focusing on a variety of industry sectors, including business services, energy, general industrial, government services, healthcare, software and specialty finance;
- focusing primarily on directly originated transactions;
- applying the disciplined underwriting standards that the Stellus Capital Management investment team has developed over their extensive investing careers; and
- capitalizing upon the experience and resources of the Stellus Capital Management investment team to monitor our investments.

In addition, we received exemptive relief from the SEC to co-invest with investment funds managed by Stellus Capital Management 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 Management, 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 that (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

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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 Management that have 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.

As a BDC, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to continue to, finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing, such as the maturity, covenant package and rate structure of the proposed borrowings, our ability to raise funds through the issuance of our securities and the risks of such borrowings within the context of our investment outlook. Ultimately, we only intend to use leverage if the expected returns from borrowing to make investments will exceed the cost of such borrowings.

We have elected and qualified to be treated for federal income tax purposes as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code, or the Code. As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute (or that we have deemed to distribute) to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

SBIC License

Our wholly owned subsidiary holds a license from the Small Business Administration, or SBA, to operate as a small business investment company, or SBIC. Our wholly-owned SBIC subsidiary s SBIC license allows it to obtain leverage by issuing SBA-guaranteed debentures, or the SBA Debentures, up to a maximum of $150 million under current SBIC regulations, subject to required capitalization of the SBIC subsidiary and other requirements. As of June 30, 2017, the SBIC subsidiary had $38.0 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 June 30, 2017, the SBIC subsidiary had $65 million of SBA Debentures outstanding. 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 at the time of issuance at a market-driven spread over U.S. Treasury Notes with ten-year maturities. We believe that the SBA Debentures are an attractive source of debt capital.

We have received exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the 200% asset coverage ratio we are required to maintain under the 1940 Act. The exemptive relief provides us with increased flexibility under the 200% asset coverage test by permitting us to borrow up to $117.0 million (based on current regulatory capital, as such term is defined by the SBA, of $58.5 million as of June 30, 2017) more than we would otherwise be able to absent the receipt of this exemptive relief.

Portfolio Composition

Our investments generally range in size from $5.0 million to $30.0 million, and we may also selectively invest in larger positions, and we generally expect that the size of our positions will increase in proportion to the size of our capital base. Pending such investments, we may reduce our outstanding indebtedness or invest in cash, cash equivalents, U.S. government securities and other high-quality debt investments with a maturity of one year or less. In

the future, we may adjust opportunistically the percentage of our assets held in various types of loans, our principal loan sources and the industries to which we have greatest exposure, based on market conditions, the credit cycle, available financing and our desired risk/return profile.

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The following table provides a summary of our portfolio investments as of June 30, 2017:

		As of June 30, 2017 ($ in millions)	
Number of portfolio companies		46	
Fair value[(a)]		$ 337.4	
Cost		$ 330.3	
% of portfolio at fair value	first lien debt	23.6	%
% of portfolio at fair value	second lien debt	46.1	%
% of portfolio at fair value	mezzanine debt	22.9	%
% of portfolio at fair value	equity	7.4	%
Weighted-average annual yield[(b)]		11.3	%

(a) As of June 30, 2017, $215.5 million of our debt investments at fair value were at floating interest rates, which represented approximately 69% of our total portfolio of debt investments at fair value. As of June 30, 2017, $97.0 million of our debt investments at fair value were at fixed interest rates, which represented approximately 31% of our total portfolio of debt investments at fair value.

(b) The weighted-average yield on all of our debt investments as of June 30, 2017, was approximately 11.3%, of which approximately 10.8% was current cash interest. The weighted average yield of our debt investments is not the same as a return on investment for our stockholders but, rather, relates to a portion of our investment portfolio and is calculated before the payment of all of our and our subsidiaries fees and expenses. The weighted average yield was computed using the effective interest rates for all of our debt investments, which represents the interest rate on our debt investment restated as an interest rate payable annually in arrears and is computed including cash and payment in kind, or PIK interest, as well as accretion of original issue discount. There can be no assurance that the weighted average yield will remain at their current level.

Leverage

Credit Facility. On November 7, 2012, we entered into a revolving credit facility, or the Credit Facility, with various lenders. SunTrust Bank, one of the lenders, serves as administrative agent under the Credit Facility. The Credit Facility, as amended on November 21, 2014 and August 31, 2016, provides for borrowings in an aggregate amount of $120.0 million on a committed basis with an accordion feature that allows us to increase the aggregate commitments up to $195.0 million, subject to new or existing lenders agreeing to participate in the increase and other customary conditions. Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) LIBOR plus 2.625% with no LIBOR floor or (ii) 1.625% plus an alternate base rate based on the highest of the Prime Rate, Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. We pay unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable quarterly in arrears. Any amounts borrowed under the Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on October 1, 2018. As of June 30, 2017, we had approximately $38.4 million outstanding under the Credit Facility.

6.50% Notes. On May 5, 2014, we closed a public offering of $25.0 million in aggregate principal amount of 6.50% Notes due 2019, or the 6.50% Notes. The 6.50% Notes mature on April 30, 2019, and may be redeemed in whole or in part at any time or from time to time at our option on or after April 30, 2016. The 6.50% Notes bear interest at a rate

of 6.50% per year payable quarterly on February 15, May 15, August 15 and November 15, of each year. As of June 30, 2017, we had $25.0 million of the 6.50% Notes outstanding. We will redeem the 6.50% Notes at 100% of their principal amount plus accrued and unpaid interest on September 20, 2017.

5.75% Notes. On August 21, 2017, we issued $42.5 million in aggregate principal amount of 5.75% notes due 2022, or the 5.75% Notes, and received net proceeds of approximately $41.0 million. We granted the underwriters in the offering a 30-day option to purchase up to an additional $6.375 million in aggregate principal amount of the 5.75% Notes. The 5.75% Notes will mature on September 15, 2022, and may be redeemed in whole or in part at any time or from time to time at our option on or after September 15, 2019 at a redemption price equal to 100% of the

outstanding principal, plus accrued and unpaid interest. The 5.75% Notes bear interest at a rate of 5.75% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 5.75% Notes will be listed on the NYSE under the trading symbol SCA with a par value of $25.00 per share. We expect to use the net proceeds from the sale of the 5.75% Notes to redeem all of the outstanding indebtedness under the 6.50% Notes, which currently amounts to approximately $25.0 million plus accrued interest. We expect to use the remaining net proceeds from the sale of the 5.75% Notes to repay a portion of the outstanding indebtedness under the Credit Facility.

SBA Debentures. Due to the SBIC subsidiary s status as a licensed SBIC, we have the ability to issue SBA Debentures at favorable interest rates. As of June 30, 2017, the SBIC subsidiary had $65.0 million of SBA Debentures outstanding.

Stellus Capital Management

Stellus Capital Management manages our investment activities and is responsible for analyzing investment opportunities, conducting research and performing due diligence on potential investments, negotiating and structuring our investments, originating prospective investments and monitoring our investments and portfolio companies on an ongoing basis.

The senior investment professionals of Stellus Capital Management have an average of over 27 years of investing, corporate finance, restructuring, consulting and accounting experience and have worked together at several companies. The Stellus Capital Management investment team has a wide range of experience in middle-market investing, including originating, structuring and managing loans and debt securities through market cycles. The Stellus Capital Management investment team continues to provide investment sub-advisory services to D. E. Shaw & Co., L.P. and its associated investment funds, or the D. E. Shaw group, with respect to an approximately $150.0 million investment portfolio as of June 30, 2017 in middle-market companies pursuant to sub-advisory arrangements.

In addition to serving as our investment adviser and the sub-advisor to the D. E. Shaw group as noted above, Stellus Capital Management currently manages a private credit fund that has an investment strategy that is identical to our investment strategy and energy private equity funds. We received exemptive relief from the SEC to co-invest with investment funds managed by Stellus Capital Management (other than the D. E. Shaw group funds) 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). We believe that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification. We will not co-invest with the energy private equity funds, as the energy private equity funds focus on predominantly equity-related investments, and we focus on predominantly credit-related investments.

Stellus Capital Management is headquartered in Houston, Texas, and also maintains offices in the Washington, D.C. area and Charlotte, North Carolina.

Market Opportunity

We originate and invest primarily in private middle-market companies through first lien, second lien, unitranche and mezzanine debt financing, often times with a corresponding equity investment. We believe the environment for investing in middle-market companies is attractive for several reasons, including:

Robust Demand for Debt Capital. We believe that private equity firms have significant committed but uncalled capital, a large portion of which is still available for investment in the United States. We expect the large amount of

uninvested capital commitments will drive buyout activity over the next several years, which should, in turn, create lending opportunities for us. In addition to increased buyout activity, a high volume of senior secured and high yield debt was originated in the calendar years 2004 through 2007 and will come due in the near term and, accordingly, we believe that new financing opportunities will increase as many companies seek to refinance this indebtedness.

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Reduced Availability of Capital for Middle-Market Companies. We believe there are fewer providers of, and less capital available for financing to middle-market companies, as compared to the time period prior to the recent economic downturn. We believe that, as a result of that downturn, many financing providers have chosen to focus on large, liquid corporate loans and managing capital markets transactions rather than lending to middle-market businesses. In addition, we believe recent regulatory changes, including the adoption of the Dodd-Frank Act and the introduction of the international capital and liquidity requirements under the Basel III Accords have caused banks to curtail their lending to middle-market-companies. As a result, we believe that less competition will facilitate higher quality deal flow and allow for greater selectivity throughout the investment process.

Attractive Deal Pricing and Structures. We believe that the pricing of middle-market debt investments is higher, and the terms of such investments are more conservative, compared to larger liquid, public debt financings, due to the more limited universe of lenders as well as the highly negotiated nature of these financings. These transactions tend to offer stronger covenant packages, higher interest rates, lower leverage levels and better call protection compared to larger financings. In addition, middle-market loans typically offer other investor protections such as default penalties, lien protection, change of control provisions and information rights for lenders.

Specialized Lending Requirements. Lending to middle-market companies requires in-depth diligence, credit expertise, restructuring experience and active portfolio management. We believe that several factors render many U.S. financial institutions ill-suited to lend to middle-market companies. For example, based on the experience of Stellus Capital Management s investment team, lending to middle-market companies in the United States (a) is generally more labor intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of the information available with respect to such companies, (b) requires specialized due diligence and underwriting capabilities, and (c) may also require more extensive ongoing monitoring by the lender. We believe that, through Stellus Capital Management, we have the experience and expertise to meet these specialized lending requirements.

Competitive Strengths

We believe that the following competitive strengths will allow us to achieve positive returns for our investors:

Experienced Investment Team. Through our investment adviser, Stellus Capital Management, we have access to the experience and expertise of the Stellus Capital Management investment team, including its senior investment professionals who have an average of over 27 years of investing, corporate finance, restructuring, consulting and accounting experience and have worked together at several companies. The Stellus Capital Management investment team has a wide range of experience in middle-market investing, including originating, structuring and managing loans and debt securities through market cycles. We believe the members of Stellus Capital Management s investment team are proven and experienced, with extensive capabilities in leveraged credit investing, having participated in these markets for the predominant portion of their careers. We believe that the experience and demonstrated ability of the Stellus Capital Management investment team to complete transactions enhances the quantity and quality of investment opportunities available to us.

Established, Rigorous Investment and Monitoring Process. The Stellus Capital Management investment team has developed an extensive review and credit analysis process. Each investment that is reviewed by Stellus Capital Management is brought through a structured, multi-stage approval process. In addition, Stellus Capital Management takes an active approach in monitoring all investments, including reviews of financial performance on at least a quarterly basis and regular discussions with management. Stellus Capital Management s investment and monitoring process and the depth and experience of its investment team should allow it to conduct the type of due diligence and monitoring that enables it to identify and evaluate risks and opportunities.

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Demonstrated Ability to Structure Investments Creatively. Stellus Capital Management has the expertise and ability to structure investments across all levels of a company s capital structure. Furthermore, we believe that current market conditions will allow us to structure attractively priced debt investments and may allow us to incorporate other return-enhancing mechanisms such as commitment fees, original issue discounts, early redemption premiums, PIK, interest or some form of equity securities.

Resources of Stellus Capital Management Platform. We have access to the resources and capabilities of Stellus Capital Management, which has 18 investment professionals, including Robert T. Ladd, Dean D Angelo, Joshua T. Davis and Todd A. Overbergen, who are supported by six managing directors, two principals, two vice presidents and three analysts. These individuals have developed long-term relationships with middle-market companies, management teams, financial sponsors, lending institutions and deal intermediaries by providing flexible financing throughout the capital structure. We believe that these relationships provide us with a competitive advantage in identifying investment opportunities in our target market. We also expect to benefit from Stellus Capital Management s due diligence, credit analysis, origination and transaction execution experience and capabilities, including the support provided with respect to those functions by Mr. Huskinson, who serves as our chief financial officer and chief compliance officer, and his staff of eight finance and operations professionals.

Risk Factors

An investment in our securities is subject to risks. The following is a summary of the principal risks that you should carefully consider before investing in our securities. In addition, see Risk Factors beginning on page 17 of the accompanying prospectus to read about factors you should consider before deciding to invest in our securities.

We are dependent upon key personnel of Stellus Capital Management for our future success. If Stellus Capital Management were to lose any of its key personnel, our ability to achieve our investment objective could be significantly harmed.
Our business model depends to a significant extent upon strong referral relationships. Any inability of Stellus Capital Management to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.
Our financial condition, results of operations and cash flows will depend on our ability to manage our business effectively.
There are significant potential conflicts of interest that could negatively affect our investment returns.
The incentive fee structure we have with Stellus Capital Management may create incentives that are not fully aligned with the interests of our stockholders.
We will be subject to corporate-level income tax and may default under the Credit Facility if we are unable to maintain our qualification as a RIC under Subchapter M of the Code.
Regulations governing our operation as a BDC affect our ability to and the way in which we raise additional capital and, as a BDC, the necessity of raising additional capital may expose us to risks, including the typical risks associated with leverage.
Because we finance our investments with borrowed money, the potential for gain or loss on amounts invested in us is magnified and may increase the risk of investing in us.
Because we use debt to finance our investments, changes in interest rates will affect our cost of capital and net investment income.
Adverse developments in the credit markets may impair our ability to borrow money.

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Most of our portfolio investments are recorded at fair value as determined in good faith by our board of directors and, as a result, there may be uncertainty as to the value of our portfolio investments.
Our ability to enter into transactions with our affiliates will be restricted, which may limit the scope of investments available to us.
The involvement of our interested directors in the valuation process may create conflicts of interest.
There are conflicts related to other arrangements with Stellus Capital Management.
If we fail to maintain our status as a BDC, our business and operating flexibility could be significantly reduced.
Pending legislation may allow us to incur additional leverage.
The effect of global climate change may impact the operations of our portfolio companies.
Existing stockholders may incur dilution if, in the future, we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.

Conflicts of Interests

We may have conflicts of interest arising out of the investment advisory activities of Stellus Capital Management, including those described below.

Our investment strategy includes investments in secured debt (including first lien, second lien and unitranche) and mezzanine debt (including senior unsecured and subordinated debt), as well as related equity securities of private middle-market companies. Stellus Capital Management also manages, and in the future may manage, other investment funds, accounts or investment vehicles that invest or may invest in assets eligible for purchase by us. For example, Stellus Capital Management currently manages private credit funds that have an investment strategy that is identical to our investment strategy. Stellus Capital Management also provides non-discretionary advisory services to the D. E. Shaw group, pursuant to sub-advisory arrangements, with respect to a private investment fund and a strategy of a private multi-strategy investment fund (collectively with the D. E. Shaw group fund, the D. E. Shaw group funds) to which the D. E. Shaw group serves as investment adviser that have an investment strategy similar to our investment strategy. Our investment policies, fee arrangements and other circumstances may vary from those of other investment funds, accounts or investment vehicles managed by Stellus Capital Management.

We have received exemptive relief from the SEC to co-invest with investment funds managed by Stellus Capital Management (other than the D. E. Shaw group funds, 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 Management, 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 that (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 the private credit funds managed by Stellus Capital Management that have 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.

In the course of our investing activities, we pay management and incentive fees to Stellus Capital Management. We have entered into an investment advisory agreement with Stellus Capital

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Management that provides that these fees are based on the value of our gross assets. Because these fees are based on the value of our gross assets, Stellus Capital Management will benefit when we incur debt or use leverage. This fee structure may encourage Stellus Capital Management to cause us to borrow money to finance additional investments. Our board of directors is charged with protecting our interests by monitoring how Stellus Capital Management addresses these and other conflicts of interests associated with its management services and compensation. While our board of directors is not expected to review or approve each investment decision, borrowing or incurrence of leverage, our independent directors will periodically review Stellus Capital Management s services and fees as well as its portfolio management decisions and portfolio performance. See Risk Factors The incentive fee structure we have with Stellus Capital Management may create incentives that are not fully aligned with the interests of our stockholders in the accompanying prospectus.

Stellus Capital Management may from time to time incur expenses in connection with investments to be made on our behalf and on behalf of other investment funds, accounts and investment vehicles managed by Stellus Capital Management. Stellus Capital Management will allocate such expenses on a pro rata basis according to the participation in a transaction, subject to oversight by our board of directors.

Corporate Information

Our principal executive offices are located at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027, and our telephone number is (713) 292-5400. We maintain a website located at *www.stelluscapital.com* (under the Public Investors section). Information on our website is not incorporated into or a part of this prospectus or any accompanying prospectus supplement and you should not consider information on our website to be part of this prospectus or any accompanying prospectus.

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies. We will remain an emerging growth company until the earlier of (a) the last day of the fiscal year (i) following the fifth anniversary of the completion of our initial public offering on November 13, 2012, (ii) in which we have total annual gross revenue of at least $1.07 billion, or (iii) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30th, and (b) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Recent Developments

Investment Portfolio

On July 3, 2017, we invested an additional $0.06 million in the equity of Apex Environmental Resources Holdings LLC.

On July 7, 2017, we received full repayment on the second lien term loan of Atkins Nutritionals Holdings II, Inc. for proceeds of $8.0 million.

On July 14, 2017, we received full repayment on the unsecured term loan of OG Systems LLC for proceeds of $4.0 million.

On July 26, 2017, we invested $22.5 million in the first lien term loan of Resolute Industrial, LLC, a provider of water and air-cooled services and manufacturer. We also committed to fund a $2.5 million revolver and a $5.75 million delayed draw term loan. Additionally, we invested $0.75 million in the equity of the company.

On August 16, 2017, we invested $20.0 million in the first lien loan of TechInsights, Inc. a technology company which helps patent owners maximize the value of their patents through portfolio assessment. We also committed to fund a $3.0 million revolver.

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5.75% Notes Offering

On August 21, 2017, we issued $42.5 million in aggregate principal amount of 5.75% Notes and received net proceeds of approximately $41.0 million. The Company has granted the underwriters for the offering a 30-day option to purchase up to an additional $6.375 million in aggregate principal amount of the 5.75% Notes. The 5.75% Notes will mature on September 15, 2022, and may be redeemed in whole or in part at any time or from time to time at our option on or after September 15, 2019 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. The 5.75% Notes bear interest at a rate of 5.75% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 5.75% Notes will be listed on the NYSE under the trading symbol SCA with a par value of $25.00 per share. We expect to use the net proceeds from the sale of the 5.75% Notes to redeem all of the outstanding indebtedness under the 6.50% Notes, which currently amounts to approximately $25.0 million plus accrued interest. We expect to use the remaining net proceeds from the sale of the 5.75% Notes to repay a portion of the outstanding indebtedness under the Credit Facility.

Credit Facility

The outstanding balance under the Credit Facility as of August 22, 2017 was $32.0 million.

Dividend Declared

On July 7, 2017, our board of directors declared a regular monthly dividend for each of July 2017, August 2017 and September 2017 as follows:

Declared	Ex-Dividend Date	Record Date	Payment Date	Amount per Share
7/7/2017	7/27/2017	7/31/2017	8/15/2017	$ 0.1133
7/7/2017	8/29/2017	8/31/2017	9/15/2017	$ 0.1133
7/7/2017	9/28/2017	9/29/2017	10/13/2017	$ 0.1133

On July 10, 2017, The New York Stock Exchange announced a change beginning with record date of September 7, 2017, going forward. Ex-dividend dates were changed from two to one business day prior to the record date. Based on this change, the correct ex-dividend date for the September 29, 2017 record date is September 28, 2017, instead of September 27, 2017 as reported in our July 10, 2017 press release.

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THE OFFERING

Common stock offered by us

Shares of our common stock having an aggregate offering price of up to $50,000,000.

Manner of offering

At the market offering that may be made from time to time through the Sales Agent using commercially reasonable efforts. See Plan of Distribution.

Use of proceeds

If we sell shares of our common stock with an aggregate offering price of $50,000,000 at a price of $13.84 per share (the net asset value of our common stock at June 30, 2017), we anticipate that our net proceeds, after deducting the Sales Agent commissions and estimated expenses payable by us will be approximately $49.1 million. We intend to use the net proceeds from this offering to repay a portion of the amount outstanding under our Credit Facility and for general corporate purposes, which may include investing in debt or equity securities and working capital requirements.

As of August 22, 2017, we had $32.0 million outstanding under the Credit Facility. The Credit Facility has a maturity date of October 1, 2018. Borrowings under the Credit Facility currently bear interest on a per annum basis equal to LIBOR plus 2.625% with no LIBOR floor. See Use of Proceeds in this prospectus supplement for more information.

Distributions

We pay monthly distributions to our stockholders out of assets legally available for distribution. Our monthly distributions, if any, will be determined by our board of directors.

Our board of directors has declared a regular monthly dividend of $0.1133 per share payable on August 15, 2017, September 15, 2017 and October 13, 2017 to common shareholders of record on July 31, 2017, August 31, 2017 and September 29, 2017, respectively.

Taxation

We have elected to be treated for U.S. federal income tax purposes as a RIC. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders. To maintain our qualification as a RIC and the associated tax benefits, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our net ordinary income and net short-term capital gains, if any, in excess of our net long-term capital losses. See Distributions and Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

New York Stock Exchange symbol

SCM.

Trading at a discount

Shares of closed-end investment companies, including BDCs, frequently trade in the secondary market at a discount to their net asset values. The risk that our

shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value. See Risk Factors beginning on page 17 of the accompanying prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our common stock.

Leverage

We expect to continue to use borrowed funds in order to make additional investments. We expect to use this practice, which is known as leverage, when the terms and conditions are favorable to long-term investing and well aligned with our investment strategy and portfolio composition in an effort to increase returns to our stockholders, but this strategy involves significant risks. See Risk Factors beginning on page 17 of the accompanying prospectus. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% immediately after each such borrowing. The amount of leverage that we employ will depend on Stellus Capital Management s and our board of directors assessment of market and other factors at the time of any proposed borrowing.

Our current borrowings include:

Our 6.50% Notes, of which $25.0 million were outstanding as of August 22, 2017;

Our 195.0 million Credit Facility, of which $32.0 was outstanding as of August 22, 2017;

Our SBA Debentures, of which $65.0 million were outstanding as of August 22, 2017; and

Our 5.75% Notes, of which $42.5 million were outstanding as of August 22, 2017.

Risk Factors

See Risk Factors beginning on page 17 of the accompanying prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our common stock.

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FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in our common stock will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Moreover, the information set forth below does not include any transaction costs and expenses that investors will incur in connection with each offering of our securities pursuant to this prospectus supplement. Except where the context suggests otherwise, whenever this prospectus supplement contains a reference to fees or expenses paid by us or that we will pay fees or expenses, common stockholders will indirectly bear such fees or expenses.

Stockholder Transaction Expenses:		
Sales load (as a percentage of offering price)	1.50	%(1)
Offering expenses (as a percentage of offering price)	0.27	%(2)
Dividend reinvestment plan expenses		%(3)
Total Stockholder Transaction Expenses (as a percentage of offering price)	1.77	%
Annual Expenses (as percentage of net assets attributable to common stock):		
Base management fees	2.67	%(4)
Incentive fees payable under the investment advisory agreement	2.05	%(5)
Interest payments on borrowed funds	2.69	%(6)
Other expenses	2.19	%(7)
Total annual expenses	9.60	%

(1) Represents the Sales Agent commission with respect to the shares of common stock being sold in this offering. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

(2) The percentage reflects estimated offering expenses of approximately $135,000.

(3) The expenses of the dividend reinvestment plan are included in Other expenses.

(4) Our base management fee, payable quarterly in arrears, is 1.75% of our gross assets, including assets purchased with borrowed amounts or other forms of leverage (including traditional and effective leverage such as preferred stock, public and private debt issuances, derivative instruments, repurchase agreements and other similar instruments or arrangements) and excluding cash and cash equivalents and is estimated by assuming the base management fee remains consistent with the fees incurred for the three months ended June 30, 2017.

(5) This item represents the incentive fee payable to Stellus Capital Management based on annualizing actual amounts earned on our pre-incentive fee net investment income for the three months ended June 30, 2017, and assumes that the capital gains incentive fees payable at the end of the 2017 calendar year will be based on the actual cumulative realized capital gains net of cumulative realized losses and unrealized capital depreciation as of June 30, 2017.

The incentive fee consists of two components, ordinary income and capital gains:

The ordinary income component, which is payable quarterly in arrears, equals 20.0% of the excess, if any, of our pre-incentive fee net investment income over a 2.0% quarterly (8.0% annualized) hurdle rate, expressed as a rate of return on the value of our net assets attributable to our common stock, and a catch-up provision, measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our investment adviser receives no incentive fee until our net investment income equals the hurdle rate of 2.0% but then receives, as a catch-up, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5% subject to a total return requirement and deferral of non-cash amounts. The effect of the catch-up provision is that, subject to the total return and deferral provisions

discussed below, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, Stellus Capital Management will receive 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply. The ordinary income component of the incentive fee is computed on income that may include interest that is accrued but not yet received in cash. The foregoing ordinary income component of the incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of our 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 (as defined below) over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter will be limited to the lesser of (i) 20.0% of the amount by which our pre-incentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and accordingly, there is no clawback of amounts previously paid if subsequent quarters are below the quarterly hurdle, and there is no delay of payment if prior quarters are below the quarterly hurdle.

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The capital gains component of the incentive fee equals 20.0% of our Incentive Fee Capital Gains, if any, which equals our aggregate cumulative realized capital gains from inception through the end of each calendar year, computed net of our aggregate cumulative realized capital losses and our aggregate cumulative unrealized capital depreciation, less the aggregate amount of any previously paid capital gain incentive fees. The second component of the incentive fee is payable, in arrears, at the end of each calendar year (or upon termination of the investment advisory agreement, as of the termination date). We will record an expense accrual relating to the capital gains component of the incentive fee payable by us to Stellus Capital Management when the net unrealized gains on our investments exceed all realized capital losses on our investments given the fact that a capital gains incentive fee would be owed to Stellus Capital Management if we were to liquidate our investment portfolio at such time. The actual incentive fee payable to our investment adviser related to capital gains is determined and payable in arrears at the end of each fiscal year and includes only realized capital gains for the period. See Management Agreements Management Fee and Incentive Fee in the accompanying prospectus.

Stellus Capital Management has agreed to permanently waive any interest accrued on the portion of the incentive fee attributable to deferred interest (such as PIK interest or OID).

(6) In addition to our existing SBA Debentures, the 6.50% Notes, the 5.75% Notes and the Credit Facility, we may borrow funds from time to time to make investments to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities or if the economic situation is otherwise conducive to doing so. The costs associated with any borrowings are indirectly borne by our stockholders. As of June 30, 2017, we had $65.0 million of SBA Debentures outstanding, $25.0 million in aggregate principal amount of 6.50% Notes outstanding, plus accrued interest and approximately $38.4 million outstanding under the Credit Facility. For purposes of this calculation, we have assumed that the June 30, 2017 amounts of SBA Debentures remain outstanding and have computed interest expense using an assumed interest rate of 3.1%. For purposes of this calculation, we have assumed that the 6.50% Notes have been fully redeemed with use of proceeds from the 5.75% Notes. We intend to fully redeem the 6.50% Notes on September 20, 2017. For the 5.75% Notes, we have used an assumed interest rate of 5.75%. We have also assumed borrowings of $54.0 million under the Credit Facility at an interest rate equal to 2.625% per annum. See Senior Securities in the accompanying prospectus.

(7) Includes our overhead expenses, including payments under the administration agreement based on our allocable portion of overhead and other expenses incurred by Stellus Capital Management. See Management Agreements Administration Agreement in the accompanying prospectus. Assumes that the amount of our overhead expenses remains consistent with our overhead expenses during the three-month period ended June 30, 2017.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in us. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return (excluding incentive fes)	$ 94	$ 268	$ 427	$ 764

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the investment management agreement, which, assuming a 5% annual return, would either not be payable or would have a de minimis effect, is not included in the example. If we

achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. For example, if we assumed that we received our 5.0% annual return completely in the form of net realized capital gains on our investments, which results in a capital gains incentive fee earned, the projected dollar amount of total cumulative expenses set forth in the above illustration and the capital gains incentive fee would be as follows:

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 75	$ 219	$ 355	$ 666

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While the examples assume reinvestment of all distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by (a) 95% of the market price per share of our common stock at the close of trading on the payment date fixed by our board of directors or (b) the average purchase price of all shares of common stock purchased by the administrator of the dividend reinvestment plan in the event shares are purchased in the open market to satisfy the share requirements of the dividend reinvestment plan, which may be at, above or below net asset value.

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus supplement and the accompanying prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this this prospectus supplement and the accompanying prospectus may include, but are not limited to, statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the effect of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with Stellus Capital Management;
- the dependence of our future success on the general economy and its effect on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- the use of borrowed money to finance a portion of our investments;
- our redemption of the 6.50% Notes;
- the adequacy of our financing sources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the ability of Stellus Capital Management to locate suitable investments for us and to monitor and administer our investments;
- the ability of Stellus Capital Management to attract and retain highly talented professionals;
- our ability to qualify and maintain our qualification as a RIC and as a BDC; and
- the effect of future changes in laws or regulations (including the interpretation of these laws and regulations by regulatory authorities) and conditions in our operating areas, particularly with respect to BDCs or RICs.

Such forward-looking statements may include statements preceded by, followed by or that otherwise include the words may, might, will, intend, should, could, can, would, expect, believe, estimate, anticipa or similar words.

We have based the forward-looking statements included in this prospectus supplement and the accompanying prospectus on information available to us on the date of this prospectus supplement and the accompanying prospectus and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements, and future results could differ materially from historical performance. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law or SEC rule or regulation. You are advised to consult any additional disclosures that we may make directly to you, including in the form of a prospectus supplement or post-effective amendment to the registration statement to which this prospectus relates, or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

You should understand that, under Sections 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)B of the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus supplement and the accompanying prospectus, if any.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS 31

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PLAN OF DISTRIBUTION

We have entered into an equity distribution agreement, dated August 22, 2017, with Raymond James & Associates, Inc., under which it will act as our sales agent in connection with the offer and sale of shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Upon written instructions from us, the Sales Agent will use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, our common stock under the terms and subject to the conditions set forth in the respective equity distribution agreement. We will instruct the Sales Agent as to the amount of common stock to be sold by it. We may instruct the Sales Agent not to sell common stock if the sales cannot be effected at or above the price designated by us in any instruction. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less the Sales Agent s commission, may be less than the net asset value per share of our common stock at the time of such sale. We or the Sales Agent may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange at prices related to the prevailing market prices or at negotiated prices.

The Sales Agent will provide written confirmation of a sale to us no later than the opening of the trading day on the NYSE following each trading day in which shares of our common stock are sold under the equity distribution agreement. Each confirmation will include the number of shares of common stock sold on the preceding day, the net proceeds to us and the compensation payable by us to the Sales Agent in connection with the sales.

Under the terms of the equity distribution agreement, the Sales Agent will be entitled to compensation equal to 1.50% of the gross sales price of shares of our common stock sold through it as sales agent. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Agent under the terms of the equity distribution agreement, will be approximately $135,000 (including up to $40,000 in reimbursement of the Sales Agent s counsel fees).

Settlement for sales of shares of common stock prior to September 5, 2017 will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by us and the Sales Agent in connection with a particular transaction, in return for payment of the net proceeds to us. Settlement for sales of shares of common stock on or after September 5, 2017 will occur on the second trading day following the date on which such sales are made, or on some other date that is agreed upon by us and the Sales Agent in connection with a particular transaction, in return for payment of the net proceeds to us. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

We will report at least quarterly the number of shares of our common stock sold through the Sales Agent under the equity distribution agreement and the net proceeds to us.

In connection with the sale of the common stock on our behalf, the Sales Agent may be deemed to be an underwriter within the meaning of the Securities Act, and the compensation of the Sales Agent may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to the Sales Agent with respect to certain civil liabilities, including liabilities under the Securities Act.

The offering of our shares of common stock pursuant to the equity distribution agreement will terminate upon the earlier of (i) the sale of all common stock subject to the equity distribution agreement or (ii) the termination of the equity distribution agreement as permitted therein.

The principal business address of Raymond James & Associates, Inc. is 880 Carillon Parkway, St. Petersburg, FL 33716.

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USE OF PROCEEDS

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all $50.0 million of common stock offered under this prospectus supplement and the accompanying prospectus at a price of $13.84 per share (the net asset value of our common stock at June 30, 2017), we estimate that the net proceeds of this offering will be approximately $49.1 million after deducting the estimated commissions payable to the Sales Agent and our estimated offering expenses.

We intend to use the net proceeds from this offering to repay a portion of the amount outstanding under the Credit Facility and general corporate purposes, which may include investing in debt or equity securities and working capital requirements. As of August 22, 2017, we had $32.0 million outstanding under the Credit Facility. The Credit Facility has a maturity date of October 1, 2018. Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) LIBOR plus 2.625% with no LIBOR floor or (ii) 1.625% plus an alternate base rate based on the highest of the Prime Rate, Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. We pay unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable quarterly in arrears. Pending such use, we will invest the net proceeds of this offering primarily in short-term securities consistent with our BDC election and our qualification as a RIC for U.S. federal income tax purposes, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of investments in accordance with our investment objective. See Regulation Temporary Investments in the accompanying prospectus.

We anticipate that substantially all of the net proceeds from this offering of our securities will be used as described above within three to six months, depending on market conditions.

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CAPITALIZATION

The equity distribution agreement provides that we may offer and sell up to $50,000,000 of our common stock from time to time through our Sales Agent for the offer and sale of such common stock. The table below assumes that we will sell all of the $50,000,000 of our common stock at a price of $13.84 per share (the net asset value of our common stock at June 30, 2017) but there is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than $13.84, depending on the net asset value and market price of our common stock at the time of any such sale. The following table sets forth our capitalization as of June 30, 2017:

on an actual basis;

on an adjusted basis to reflect the sale of $42.5 million aggregate principal amount of the 5.75% Notes after giving effect to the use of the cash proceeds from such sale as described in the Use of Proceeds section of our prospectus supplement related to such 5.75% Notes (assuming no exercise of the underwriters option to purchase additional 5.75% Notes); and

on an as further adjusted basis giving effect to the transactions noted above and the assumed sale of $50,000,000 of our common stock at a price of $13.84 per share (the net asset value of our common stock at June 30, 2017) less Sales Agent commissions and expenses and repayment of a portion of the amount outstanding under the Credit Facility.

This table should be read in conjunction with our Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus.

	As of June 30, 2017 (unaudited)		
	Actual	As Adjusted for the Offering of the 2022 Notes[(2)]	As Further Adjusted for this Offering[(2)]
Assets			
Cash and cash equivalents	$ 6,953,303	$ 6,953,303	$ 33,149,914
Investments, at fair value	$ 337,370,312	$ 337,370,312	$ 337,370,312
Other assets	$ 4,318,889	$ 4,318,889	$ 4,318,889
Total assets	$ 348,642,504	$ 348,642,504	$ 374,839,115
Liabilities:			
Credit Facility (net of deferred financing costs)[(1)]	$ 38,418,389	$ 22,918,389	$
6.50% Notes Payable (net of deferred financing costs)	$ 24,654,747	$	$
5.75% Notes Payable (net of deferred financing costs)	$	$ 40,500,000	$ 40,500,000
SBA Debentures (net of deferred financing costs)	$ 63,503,349	$ 63,503,349	$ 63,503,349
Other liabilities	$ 5,162,846	$ 5,267,593	$ 5,612,846
Total liabilities	$ 132,189,331	$ 132,189,331	$ 109,616,195

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	As of June 30, 2017 (unaudited)		
	Actual	As Adjusted for the Offering of the 2022 Notes[(2)]	As Further Adjusted for this Offering[(2)]
Stockholder s equity:			
Common stock, par value $0.001 per share (200,000,000 shares authorized; 15,642,457 shares issued and outstanding, actual; 19,204,335 shares issued and outstanding, as adjusted)	$15,642	$15,642	$19,255
Paid-in capital	$224,052,179	$224,052,179	$273,163,566
Accumulated net realized loss	$(13,801,668)	$(13,801,668)	$(13,801,668)
Distributions in excess of net investment income	$(912,456)	$(912,456)	$(1,257,709)
Net unrealized appreciation on investments and cash equivalents, net of provision for taxes of $0	$7,099,476	$7,099,476	$7,099,476
Total stockholders equity	$216,453,173	$216,453,173	$265,222,920
Total liabilities and stockholders equity	$348,642,504	$348,642,504	$374,839,115
Net asset value per share	$13.84	$13.84	$13.77

(1) As of August 22, 2017, we had approximately $32.0 million outstanding under the Credit Facility. This table has not been adjusted to reflect the change in our outstanding borrowings under the Credit Facility subsequent to June 30, 2017.

(2) Excludes up to $6.375 million 5.375% notes issueable upon exercise of the underwriters over-allotment option.

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SELECTED FINANCIAL AND OTHER DATA

The following selected financial data for the years ended December 31, 2016, 2015, 2014, 2013 and the period from Inception (May 18, 2012) through December 31, 2012 was derived from our financial statements which have been audited by Grant Thornton, LLP, our independent registered public accounting firm, and the selected financial data for the six-months ended June 30, 2017 and 2016 is derived from our unaudited financial statements but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the financial condition and operating results for such interim periods. Interim results as of and for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The data should be read in conjunction with our financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement and the accompanying prospectus.

Statement of Operations Data:	For the six-months ended June 30, 2017	For the six-months ended June 30, 2016	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the period from Inception (May 18, 2012) through December 31, 2012
Total investment income	$20,258,345	$19,091,002	$39,490,197	$35,158,559	$32,324,847	$29,400,736	$3,696,432
Total expenses, net of fee waiver	$11,176,259	$11,046,610	$22,177,996	$18,611,431	$15,812,750	$13,389,007	$2,392,076
Net investment income	$9,082,086	$8,044,392	$17,312,201	$16,547,128	$16,512,097	$16,011,729	$1,304,356
Net increase in net assets resulting from operations	$12,069,518	$7,553,769	$23,199,062	$7,670,536	$10,179,142	$17,544,997	$1,298,424
Per Share Data:							
Net asset value	$13.84	$13.12	$13.69	$13.19	$13.94	$14.54	$14.45
Net investment income	$0.65	$0.64	$1.39	$1.33	$1.34	$1.33	$0.11
Net increase in net assets resulting from operations	$0.87	$0.61	$1.86	$0.61	$0.83	$1.45	$0.11
Distributions declared	$0.68	$0.68	$1.36	$1.36	$1.36	$1.43	$0.18

(1) Computed using the effective interest rates for all of our debt investments, including accretion of original issue discount.

(2) ASU No. 2015-03 Simplifying the Presentation of Debt Issuance Costs was effective for the quarter ended June 30, 2017. Total assets and total liabilities for the periods prior to the effective date have been modified from their respective filings to conform to this presentation.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We were organized as a Maryland corporation on May 18, 2012, and formally commenced operations on November 7, 2012. Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through debt and related equity investments in middle-market companies.

We are an externally managed, non-diversified, closed-end investment management company that has elected to be regulated as a BDC under the 1940 Act. The Company s investment activities are managed by its investment advisor, Stellus Capital Management, LLC. As a BDC, we are required to comply with certain regulatory requirements.

For instance, as a BDC, we may not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets. Qualifying assets include investments in eligible portfolio companies. Under the relevant SEC rules, the term eligible portfolio company includes private operating companies, operating companies whose securities are not listed on a national securities exchange, and certain public operating companies that have listed their securities on a national securities exchange and have a market capitalization of less than $250 million, in each case organized and with their principal of business in the United States.

We have elected to be treated for U.S. federal tax purposes as a RIC under Subchapter M of the Code. To maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. As of June 30, 2017, we were in compliance with the RIC requirements. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any income we distribute to our stockholders.

Portfolio Composition and Investment Activity

Portfolio Composition

We originate and invest primarily in privately-held 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, often times with a corresponding equity investment.

As of June 30, 2017, we had $337.4 million (at fair value) invested in 46 portfolio companies. As of June 30, 2017, our portfolio included approximately 24% of first lien debt, 46% of second lien debt, 23% of mezzanine debt and 7% of equity investments at fair value. The composition of our investments at cost and fair value as of June 30, 2017 was as follows:

		Cost	Fair Value
Senior Secured	First Lien[(a)]	$ 79,199,390	$ 79,569,800
Senior Secured	Second Lien	155,692,613	155,707,188

Unsecured Debt	77,029,784	77,273,279
Equity	18,349,050	24,820,045
Total Investments	$ 330,270,837	$ 337,370,312

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As of December 31, 2016, we had $365.6 million (at fair value) invested in 45 portfolio companies. As of December 31, 2016, our portfolio included approximately 31% of first lien debt, 45% of second lien debt, 19% of mezzanine debt and 5% of equity investments at fair value. The composition of our investments at cost and fair value as of December 31, 2016 was as follows:

		Cost	Fair Value
Senior Secured	First Lien[a]	$ 113,264,200	$ 113,482,205
Senior Secured	Second Lien	163,112,172	162,486,388
Unsecured Debt		70,919,986	70,725,412
Equity		14,920,893	18,931,886
Total Investments		$ 362,217,251	$ 365,625,891

Our investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require us to provide funding when requested by portfolio companies in accordance with the terms and conditions of the underlying loan agreements. As of June 30, 2017 and December 31, 2016, we had three and two such investments, respectively, with aggregate unfunded commitments of $2.4 million and $1.9 million, respectively.

The following is a summary of geographical concentration of our investment portfolio as of June 30, 2017:

	Cost	Fair Value	% of Total Investments
Texas	79,383,012	79,231,241	23.48 %
New York	49,402,400	49,674,931	14.72 %
Colorado	27,909,605	30,150,000	8.94 %
Massachusetts	22,499,812	22,777,850	6.75 %
California	22,562,866	22,550,357	6.68 %
New Jersey	20,908,609	20,867,420	6.19 %
North Carolina	12,851,355	12,925,000	3.83 %
Tennessee	12,324,273	12,350,000	3.66 %
Ohio	9,938,681	10,443,640	3.10 %
Missouri	9,138,777	9,500,000	2.82 %
Puerto Rico	8,716,485	8,139,833	2.41 %
Pennsylvania	7,834,071	8,040,937	2.38 %
Georgia	5,924,872	7,900,000	2.34 %
Arkansas	7,446,768	7,603,807	2.25 %
Illinois	6,699,238	7,463,750	2.21 %
Canada	6,775,432	6,841,739	2.03 %
Minnesota	5,690,178	5,670,800	1.68 %
Washington	4,165,519	4,332,500	1.28 %
Virginia	4,036,449	4,108,288	1.22 %
Arizona	3,321,055	3,386,969	1.00 %
Alabama	1,206,682	1,850,000	0.55 %
Utah	1,292,394	1,191,250	0.35 %
Florida	242,304	370,000	0.11 %
	$ 330,270,837	$ 337,370,312	100.00 %

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The following is a summary of geographical concentration of our investment portfolio as of December 31, 2016:

	Cost	Fair Value	% of Total Investments
Texas	$ 74,433,626	$ 73,576,277	20.13 %
New York	42,102,392	41,930,666	11.47 %
Colorado	27,855,053	28,979,651	7.93 %
California	28,298,845	28,606,727	7.82 %
Massachusetts	22,467,254	22,944,663	6.28 %
Georgia	20,626,735	22,469,217	6.15 %
New Jersey	20,710,728	20,804,704	5.69 %
Illinois	17,554,821	17,590,281	4.81 %
Alabama	16,191,841	16,584,379	4.54 %
Missouri	14,096,725	14,441,599	3.95 %
Tennessee	12,310,883	12,045,701	3.29 %
Arkansas	9,912,815	10,102,283	2.76 %
Pennsylvania	8,035,182	8,301,104	2.27 %
Puerto Rico	8,712,537	8,229,054	2.25 %
Florida	7,453,847	7,431,820	2.03 %
Canada	6,765,448	6,692,648	1.83 %
Minnesota	6,362,834	6,374,800	1.74 %
North Carolina	4,920,321	5,000,000	1.37 %
Washington	4,158,696	4,211,990	1.15 %
Virginia	4,029,530	4,060,519	1.11 %
Arizona	3,408,099	3,410,583	0.93 %
Utah	1,291,083	1,311,789	0.36 %
Ohio	517,956	525,436	0.14 %
	$ 362,217,251	$ 365,625,891	100.0 %

The following is a summary of industry concentration of our investment portfolio as of June 30, 2017:

	Cost	Fair Value	% of Total Investments
Healthcare & Pharmaceuticals	$ 51,622,001	53,209,273	15.77 %
Finance	45,901,277	47,240,000	14.00 %
Software	36,251,622	36,840,350	10.92 %
Chemicals, Plastics, & Rubber	20,793,627	21,050,480	6.24 %
Construction & Building	20,375,055	20,406,045	6.05 %
Retail	18,802,798	18,612,777	5.52 %
Education	17,342,544	17,375,000	5.15 %
Consumer Goods: Durable	16,549,631	16,780,036	4.97 %
High Tech Industries	16,507,158	15,823,750	4.69 %
Media: Broadcasting & Subscription	14,439,189	15,655,886	4.64 %
Beverage, Food, & Tobacco	11,901,499	11,891,250	3.52 %
Services: Business	9,407,872	11,440,000	3.39 %
Automotive	7,834,071	8,040,937	2.38 %
Telecommunications	7,962,247	7,590,000	2.25 %

Transportation: Cargo	6,775,432	6,841,739	2.03	%
Capital Equipment	6,728,348	6,759,532	2.00	%
Energy: Oil & Gas	6,758,305	6,730,000	1.99	%
FIRE: Insurance	5,403,312	5,475,000	1.62	%
Services: Government	4,036,449	4,108,288	1.22	%
Hotel, Gaming, & Leisure	3,321,055	3,386,969	1.00	%
Environmental Industries	615,042	1,120,000	0.33	%
Services: Consumer	942,304	993,000	0.29	%
	$ 330,270,837	$ 337,370,312	100.00	%

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The following is a summary of industry concentration of our investment portfolio as of December 31, 2016:

	Cost	Fair Value	% of Total Investments
Finance	$ 56,663,586	$ 57,504,930	15.73 %
Software	36,199,915	36,730,618	10.05 %
Media: Broadcasting & Subscription	36,001,876	36,637,803	10.02 %
Healthcare & Pharmaceuticals	35,002,051	35,583,505	9.73 %
Services: Business	24,105,217	25,884,879	7.08 %
Chemicals, Plastics, & Rubber	20,763,612	21,165,542	5.79 %
Consumer goods: Durable	18,957,486	19,146,954	5.24 %
Retail	18,973,041	19,095,787	5.22 %
Education	17,325,046	17,498,701	4.79 %
Telecommunications	16,403,791	16,009,390	4.38 %
High Tech Industries	16,486,738	15,382,000	4.21 %
Consumer Goods: Non-durable	12,437,795	12,700,000	3.47 %
Beverage, Food, & Tobacco	11,881,630	11,991,250	3.28 %
Automotive	8,035,182	8,301,104	2.27 %
Services: Consumer	8,453,847	8,153,879	2.23 %
Transportation: Cargo	6,765,448	6,692,648	1.83 %
Energy: Oil & Gas	7,320,058	6,654,662	1.82 %
Services: Government	4,029,530	4,060,519	1.11 %
Hotel, Gaming, & Leisure	3,408,099	3,410,583	0.93 %
Construction & Building	2,485,347	2,495,701	0.68 %
Environmental Industries	517,956	525,436	0.14 %
	$ 362,217,251	365,625,891	100.00 %

At June 30, 2017, our average portfolio company investment at amortized cost and fair value was approximately $7.2 million and $7.3 million, respectively, and our largest portfolio company investment at amortized cost and fair value was approximately $22.5 million and $22.8 million, respectively. At December 31, 2016, our average portfolio company investment at amortized cost and fair value was approximately $8.0 million and $8.1 million, respectively, and our largest portfolio company investment at amortized cost and fair value was approximately $22.5 million and $22.9 million, respectively.

At June 30, 2017, 69% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 31% bore interest at fixed rates. At December 31, 2016, 77% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 23% bore interest at fixed rates.

The weighted average yield on all of our debt investments as of June 30, 2017 and December 31, 2016 was 11.3% and 11.0%, respectively. The weighted average yield was computed using the effective interest rates for all of our debt investments, including accretion of original issue discount. Approximately 10.8% of our weighted average yield was current cash interest.

As of June 30, 2017 and December 31, 2016, we had cash and cash equivalents of $7.0 million and $9.2 million, respectively.

Investment Activity

During the six months ended June 30, 2017, we made an aggregate of $48.0 million of investments in six new portfolio companies and three existing portfolio companies. During the six months ended June 30, 2017, we received an aggregate of $80.0 million in proceeds from repayments of our investments, including $5.0 million from amortization of certain investments.

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In addition, we realized a $0.8 million loss on conversion of our term loan in Glori Energy Production, Inc. to equity, which has a cost basis of $1.0 million at June 30, 2017.

Our level of investment activity can vary substantially from period to period depending on many factors, including the amount of debt and equity capital required by middle-market companies, the level of merger and acquisition activity, the general economic environment and the competitive environment for the types of investments we make.

Asset Quality

In addition to various risk management and monitoring tools, Stellus Capital uses an investment rating system to characterize and monitor the credit profile and expected level of returns on each investment in our investment portfolio. This investment rating system uses a five-level numeric scale. The following is a description of the conditions associated with each investment category:

Investment Category 1 is used for investments that are performing above expectations, and whose risks remain favorable compared to the expected risk at the time of the original investment.
Investment Category 2 is used for investments that are performing within expectations and whose risks remain neutral compared to the expected risk at the time of the original investment. All new loans are initially rated 2.
Investment Category 3 is used for investments that are performing below expectations and that require closer monitoring, but where no loss of return or principal is expected. Portfolio companies with a rating of 3 may be out of compliance with financial covenants.
Investment Category 4 is used for investments that are performing substantially below expectations and whose risks have increased substantially since the original investment. These investments are often in work out. Investments with a rating of 4 are those for which some loss of return but no loss of principal is expected.
Investment Category 5 is used for investments that are performing substantially below expectations and whose risks have increased substantially since the original investment. These investments are almost always in work out. Investments with a rating of 5 are those for which some loss of return and principal is expected.

	As of June 30, 2017 (dollars in millions)				As of December 31, 2016 (dollars in millions)			
Investment Category	Fair Value	% of Total Portfolio		Number of Portfolio Companies	Fair Value	% of Total Portfolio		Number of Portfolio Companies
1	$ 57.5	17	%	9	$ 73.5	20	%	6
2	236.9	70	%	30	239.8	66	%	32
3	41.4	13	%	5	50.7	14	%	5
4	1.0		%	1	0.9		%	1
5	0.6		%	1	1		%	1
Total	$ 337.4	100	%	46	$ 365.6	100	%	45

Loans and Debt Securities on Non-Accrual Status

We will not accrue interest on loans and debt securities if we have reason to doubt our ability to collect such interest. As of June 30, 2017, we had one loan on non-accrual status which represented approximately 2.1% of our loan portfolio at cost and 1.9% at fair value. As of December 31, 2016, we had two loans on non-accrual status, which represented approximately 0.7% of our loan portfolio at cost and 0.4% at fair value.

Results of Operations

An important measure of our financial performance is net increase (decrease) in net assets resulting from operations, which includes net investment income (loss), net realized gain (loss)

and net unrealized appreciation (depreciation). Net investment income (loss) is the difference between our income from interest, dividends, fees and other investment income and our operating expenses including interest on borrowed funds. Net realized gain (loss) on investments is the difference between the proceeds received from dispositions of portfolio investments and their amortized cost, except for loans booked at a discount to account for origination fees. Net unrealized appreciation (depreciation) on investments is the net change in the fair value of our investment portfolio.

Comparison of the Three Months and Six Months Ended June 30, 2017 and 2016

Revenues

We generate revenue in the form of interest income on debt investments and capital gains and distributions, if any, on investment securities that we may acquire in portfolio companies. Our debt investments typically have a term of five to seven years and bear interest at a fixed or floating rate. Interest on our debt securities is generally payable quarterly. Payments of principal on our debt investments may be amortized over the stated term of the investment, deferred for several years or due entirely at maturity. In some cases, our debt investments may pay payment in-kind, or PIK interest. Any outstanding principal amount of our debt securities and any accrued but unpaid interest will generally become due at the maturity date. The level of interest income we receive is directly related to the balance of interest-bearing investments multiplied by the weighted average yield of our investments. We expect that the total dollar amount of interest and any dividend income that we earn to increase as the size of our investment portfolio increases. In addition, we may generate revenue in the form of prepayment fees, commitment, loan origination, structuring or due diligence fees.

The following shows the breakdown of investment income for the three and six months ended June 30, 2017 and 2016 (in millions).

	Three months ended June 30, (dollars in millions)		Six months ended June 30, (dollars in millions)	
	2017	2016	2017	2016
Interest income	$ 9.5	$ 9.2	$ 19.0	$ 18.6
PIK interest	0.1	0.1	0.2	0.1
Miscellaneous fees	0.8	0.3	1.1	0.4
Total	$ 10.4	$ 9.6	$ 20.3	$ 19.1

The increases in total income from the respective periods were due to the growth in the overall investment portfolio as well as prepayment premiums from the early repayment of certain investments.

Expenses

Our primary operating expenses include the payment of fees to Stellus Capital under the investment advisory agreement, our allocable portion of overhead expenses under the administration agreement and other operating costs described below. We bear all other out-of-pocket costs and expenses of our operations and transactions, which may include:

organization and offering;

calculating our net asset value (including the cost and expenses of any independent valuation firm);

fees and expenses payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for us and in monitoring our investments and performing due diligence on our prospective portfolio companies or otherwise relating to, or associated with, evaluating and making investments;

interest payable on debt, if any, incurred to finance our investments and expenses related to unsuccessful portfolio acquisition efforts;

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offerings of our common stock and other securities;
base management and incentive fees;
administration fees and expenses, if any, payable under the administration agreement (including our allocable portion of Stellus Capital s overhead in performing its obligations under the administration agreement, including rent and the allocable portion of the cost of our chief compliance officer, chief financial officer and their respective staffs);
transfer agent, dividend agent and custodial fees and expenses;
U.S. federal and state registration fees;
all costs of registration and listing our shares on any securities exchange;
U.S. federal, state and local taxes;
independent directors fees and expenses;
costs of preparing and filing reports or other documents required by the SEC or other regulators;
costs of any reports, proxy statements or other notices to stockholders, including printing costs;
costs and fees associated with any fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;
direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs;
proxy voting expenses; and
all other expenses incurred by us or Stellus Capital in connection with administering our business.
The following shows the breakdown of operating expenses for the three and six months ended June 30, 2017 and 2016 (in millions).

	Three months ended June 30, (dollars in millions)		Six months ended June 30, (dollars in millions)	
	2017	2016	2017	2016
Operating Expenses				
Management fees	$ 1.5	$ 1.6	$ 3.1	$ 3.1
Valuation Fees		0.1	0.2	0.2
Administrative services expenses	0.3	0.3	0.6	0.5
Incentive fees	1.2	1.0	2.3	2.0
Professional fees	0.2	0.1	0.5	0.4
Directors fees	0.1	0.1	0.2	0.2
Insurance expense	0.1	0.1	0.2	0.2
Interest expense and other fees	1.9	2.0	3.8	3.9
Deferred offering costs		0.3		0.3
Other general and administrative	0.2	0.1	0.3	0.2
Total Operating Expenses	$ 5.5	$ 5.7	$ 11.2	$ 11.0

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Net Investment Income

For the three months ended June 30, 2017, net investment income was $4.9 million, or $0.32 per common share (based on 15,347,814 weighted-average common shares outstanding at June 30, 2017).

For the three months ended June 30, 2016, net investment income was $3.9 million, or $0.32 per common share (based on 12,479,959 weighted-average common shares outstanding at June 30, 2016).

For the six months ended June 30, 2017, net investment income was $9.1 million, or $0.65 per common share (based on 13,921,808 weighted-average common shares outstanding at June 30, 2017).

For the six months ended June 30, 2016, net investment income was $8.0 million, or $0.64 per common share (based on 12,479,959 weighted-average common shares outstanding at June 30, 2016).

Net Realized Gains and Losses

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale or disposition and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized.

Repayments and sales of investments and amortization of other certain investments for the three months ended June 30, 2017 totaled $40.7 million, there were no realized losses and realized gains were de minimis.

Repayments and sales of investments and amortization of other certain investments for the three months ended June 30, 2016 totaled $15.4 million and net realized gains totaled $1.0 thousand.

Repayments and sales of investments and amortization of other certain investments and a noncash conversion of debt to equity for the six months ended June 30, 2017 totaled $80.0 million, and net realized losses totaled $0.7 million.

Repayments and sales of investments and amortization of other certain investments for the six months ended June 30, 2016 totaled $16.0 million and net realized gains totaled $2 thousand.

Net Change in Unrealized Depreciation of Investments

Net change in unrealized depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded appreciation or depreciation when gains or losses are realized.

Net change in unrealized appreciation on investments and cash equivalents for the three months ended June 30, 2017 and 2016 totaled $1.1 million and $0.9 million, respectively.

Net change in unrealized appreciation (depreciation) on investments and cash equivalents for the six months ended June 30, 2017 and 2016 totaled $3.7 million and ($0.8) million, respectively.

The increase in the change in unrealized appreciation for the three and six months ended June 30, 2017 was due primarily to general tightening of market interest rate spreads. The increase in the change in unrealized appreciation for the three months ended June 30, 2016 was due to general tightening of market interest rate spreads. The increase in the change in unrealized depreciation for the six months ended June 30, 2016 was due primarily to additional depreciation on our one non-accrual loan and additional depreciation due to general widening of market interest rate

spreads.

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Net Increase in Net Assets Resulting from Operations

For the three months ended June 30, 2017, net increase in net assets resulting from operations totaled $6.0 million, or $0.39 per common share (based on 15,347,814 weighted-average common shares outstanding at June 30, 2017).

For the three months ended June 30, 2016, net increase in net assets resulting from operations totaled $5.0 million, or $0.41 per common share (based on 12,479,959 weighted-average common shares outstanding at June 30, 2016).

For the six months ended June 30, 2017, net increase in net assets resulting from operations totaled $12.1 million, or $0.87 per common share (based on 13,921,808 weighted-average common shares outstanding at June 30, 2017).

For the six months ended June 30, 2016, net increase in net assets resulting from operations totaled $7.6 million, or $0.61 per common share (based on 12,479,959 weighted-average common shares outstanding at June 30, 2016).

The increase in net assets resulting from operations was primarily the result of (i) an increase in net investment income and (ii) an increase in the net change in unrealized appreciation of investments.

Financial condition, liquidity and capital resources

Cash Flows from Operating and Financing Activities

Our operating activities provided net cash of $40.9 million for the six months ended June 30, 2017, primarily in connection with the repayment of our investments, some of which was offset by the purchase and origination of new portfolio investments. Our financing activities for the six months ended June 30, 2017 used cash of $43.1 million due to distributions to stockholders and net repayments of our Credit Facility during the period some of which offset by net proceeds from the issuance of common stock.

Our operating activities provided cash of $7.9 million for the six months ended June 30, 2016, primarily in connection with cash interest received and repayments of our investments, which was offset by the purchase and origination of portfolio investments. Our financing activities for the six months ended June 30, 2016 used cash of $8.0 million due to distributions to stockholders during the period.

Liquidity and Capital Resources

Our liquidity and capital resources are derived from the Credit Facility, SBA Debentures, the offering of securities and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and other operating expenses we incur, as well as the payment of dividends to the holders of our common stock. A proposal, approved by our stockholders at our 2017 Annual Meeting of Stockholders, authorizes us to sell shares equal to up to 25% of our outstanding common stock below the then current net asset value per share in one or more offerings. This offer will expire in 2018 on the one year anniversary of our 2017 Annual Meeting of Stockholders. We would need similar future approval from our stockholders to issue shares below the then current net asset value per share any time after the expiration of the current approval. We may use, and expect to continue to use, these capital resources as well as proceeds from turnover within our investment portfolio and from public and private offerings of securities to finance our investment activities.

Although we expect to fund the growth of our investment portfolio through the net proceeds from future public and private equity offerings and issuances of senior securities or future borrowings to the extent permitted by the 1940

Act, our plans to raise capital may not be successful. In this regard, if our common stock trades at a price below our then-current net asset value per share, we may be limited in our ability to raise equity capital given that we cannot sell

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our common stock at a price below net asset value per share unless our stockholders approve such a sale and our board of directors makes certain determinations in connection therewith. In addition, we intend to distribute between 90% and 100% of our taxable income to our stockholders in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings. In addition, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

Also, as a BDC, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200%. This requirement limits the amount that we may borrow. We have received exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the 200% asset coverage test under the 1940 Act. As of June 30, 2017 and December 31, 2016, our asset coverage ratio was 438% and 221%, respectively. At all times during the six months ended June 30, 2017 and year ended December 31, 2016, we were in compliance with the asset coverage requirements. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing, such as the maturity, covenant package and rate structure of the proposed borrowings, our ability to raise funds through the issuance of shares of our common stock and the risks of such borrowings within the context of our investment outlook. Ultimately, we only intend to use leverage if the expected returns from borrowing to make investments will exceed the cost of such borrowing. As of June 30, 2017 and December 31, 2016, we had cash and cash equivalents of $7.0 million and $9.2 million, respectively.

Credit Facility

On November 7, 2012, the Company entered into the Credit Facility with various lenders. SunTrust Bank, one of the lenders, serves as administrative agent under the Credit Facility. The Credit Facility, as amended on November 21, 2014 and August 31, 2016, provides for borrowings in an aggregate amount of $120.0 million on a committed basis with an accordion feature that allows the Company to increase the aggregate commitments up to $195.0 million, subject to new or existing lenders agreeing to participate in the increase and other customary conditions. There can be no assurances that existing lenders will agree to such an increase, or that additional lenders will join the Credit Facility to increase available borrowings.

Borrowings under the Credit Facility bear interest, subject to the Company s election, on a per annum basis equal to (i) LIBOR plus 2.625% with no LIBOR floor or (ii) 1.625% plus an alternate base rate based on the highest of the Prime Rate, Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. The Company pays unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable quarterly in arrears. Any amounts borrowed under the Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on October 1, 2018.

The Company s obligations to the lenders are secured by a first priority security interest in its portfolio of securities and cash not held at the SBIC subsidiary, but excluding short term investments. The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (i) maintaining a minimum liquidity test of at least 85% of adjusted borrowing base, (ii) maintaining an asset coverage ratio of at least 2.0 to 1.0, and (iii) maintaining a minimum shareholder s equity. As of June 30, 2017, the Company was in compliance with these covenants. Additionally, the Credit Facility requires that the Company meet certain conditions in connection with incurring additional indebtedness under the Credit Facility, including that the Company have a minimum asset coverage ratio of

2.20 to 1.0 immediately after giving effect to such borrowing. As of June 30, 2017, the Company s asset coverage ratio was 4.38 to 1.0. As of June 30, 2017, these conditions were met.

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As of June 30, 2017 and December 31, 2016, the outstanding balance under the Credit Facility was $39.0 million and $116.0 million, respectively. The carrying amount of the amount outstanding under the Credit Facility approximates its fair value. The Company incurred total costs of $3.1 million in connection with obtaining, amending, and maintaining the Credit Facility, which are being amortized over the life of the Credit Facility. As of June 30, 2017 and December 31, 2016, $0.6 million and $0.8 million of such prepaid loan structure fees and administration fees had yet to be amortized, respectively. These prepaid loan fees are presented on our consolidated statement of assets and liabilities as a deduction from the debt liability attributable to the Credit Facility as required by ASU No. 2015-3. See Note 1 to the consolidated financial statements for further discussion.

For the three months ended June 30, 2017, the weighted average effective interest rate under the Credit Facility was approximately 3.7% (approximately 5.1% including commitment fees and other loan fees). Interest is paid quarterly in arrears. The Company recorded interest and fee expense on the Credit Facility of $0.7 million for the three months ended June 30, 2017, of which $0.5 million was interest expense, $0.1 million was amortization of loan fees paid on the Credit Facility, and the remainder related to commitment fees on the unused portion of the Credit Facility and loan administration fees. The Company paid $0.7 million in interest expense and unused commitment fees for the three months ended June 30, 2017. The average borrowings under the Credit Facility for the three months ended June 30, 2017 were $58.6 million.

For the six months ended June 30, 2017, the weighted average effective interest rate under the Credit Facility was approximately 3.6% (approximately 4.4% including commitment fees and other loan fees). Interest is paid quarterly in arrears. The Company recorded interest and fee expense on the Credit Facility of $1.8 million for the six months ended June 30, 2017, of which $1.4 million was interest expense, $0.2 million was amortization of loan fees paid on the Credit Facility, and the remainder related to commitment fees on the unused portion of the Credit Facility and loan administration fees. The Company paid $1.6 million in interest expense and unused commitment fees for the six months ended June 30, 2017. The average borrowings under the Credit Facility for the six months ended June 30, 2017 were $81.6 million.

For the three months ended June 30, 2016, the weighted average effective interest rate under the Credit Facility was approximately 3.1% (approximately 3.7% including commitment and other loan fees). Interest is paid quarterly in arrears. The Company recorded interest and fee expense on the Credit Facility of $1.0 million for the three months ended June 30, 2016, of which $0.8 million was interest expense, $0.1 million was amortization of loan fees paid on the Credit Facility, and the remainder related to commitment fees on the unused portion of the Credit Facility and loan administration fees. The Company paid $0.9 million in interest expense and unused commitment fees for the three months ended June 30, 2016. The average borrowings under the Credit Facility for the three months ended June 30, 2016 were $106.6 million.

For the six months ended June 30, 2016, the weighted average effective interest rate under the Credit Facility was approximately 3.1% (approximately 3.7% including commitment and other loan fees). Interest is paid quarterly in arrears. The Company recorded interest and fee expense of $2.0 million for the six months ended June 30, 2016, of which $1.7 million was interest expense, $0.2 million was amortization of loan fees paid on the Credit Facility, and the remainder related to commitment fees on the unused portion of the Credit Facility and loan administration fees. The Company paid $1.7 million in interest expense and unused commitment fees for the six months ended June 30, 2016. The average borrowings under the Credit Facility for the six months ended June 30, 2016 were $108.0 million.

Notes

On May 5, 2014, the Company closed a public offering of $25.0 million in aggregate principal amount of 6.50%

Notes. The 6.50% Notes mature on April 30, 2019, and may be redeemed in whole or in part at any time or from time to time at the Company s option on or after April 30, 2016. The 6.50% Notes bear interest at a rate of 6.50% per year payable quarterly on February 15,

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May 15, August 15 and November 15, of each year. The net proceeds to the Company from the sale of the 6.50% Notes, after underwriting discounts and offering expenses, were approximately $24.1 million. The Company used all of the net proceeds from this offering to repay a portion of the amount outstanding under the Credit Facility. On both June 30, 2017 and December 31, 2016, the carrying amount of the 6.50% Notes was $25.0 million and the fair value of the 6.50% Notes was approximately $26.0 million and $25.2 million, respectively. The 6.50% Notes are listed on New York Stock Exchange under the trading symbol SCQ . The fair value of the 6.50% Notes is based on the closing price of the security, which is a Level 2 input under ASC 820 due to sufficient trading volume.

In connection with the issuance of the 6.50% Notes, we incurred $0.9 million of fees which are being amortized over the term of the 6.50% Notes, of which $0.3 million remains to be amortized. These financing costs are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability as required by ASU No. 2015-3.

For the three months ended June 30, 2017, the Company incurred interest and fee expense on the 6.50% Notes of $0.5 million, of which $0.4 million was interest expense and the remainder was amortization of loan fees paid on the 6.50% Notes and administration fees. The Company paid $0.4 million in interest expense on the 6.50% Notes during the period.

For the six months ended June 30, 2017, the Company incurred interest and fee expense on the 6.50% Notes of $0.9 million, of which $0.8 million was interest expense and the remainder was amortization of loan fees paid on the 6.50% Notes and administration fees. The Company paid $0.8 million in interest expense on the 6.50% Notes during the period.

For the three months ended June 30, 2016, the Company incurred interest and fee expense on the 6.50% Notes of $0.5 million, of which $0.4 million was interest expense and the remainder was amortization of loan fees paid on the 6.50% Notes and administration fees. The Company paid $0.4 million in interest expense on the 6.50% Notes during the period.

For the six months ended June 30, 2016, the Company incurred interest and fee expense on the 6.50% Notes of $0.9 million, of which $0.8 million was interest expense and the remainder was amortization of loan fees paid on the 6.50% Notes and administration fees. The Company paid $0.8 million in interest expense on the 6.50% Notes during the period.

The indenture and supplements thereto relating to the 6.50% Notes contain certain covenants, including but not limited to (i) a requirement that the Company comply with the asset coverage requirements of the 1940 Act or any successor provisions, and (ii) a requirement to provide financial information to the holders of the notes and the trustee under the indenture if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934, as amended.

SBA Debentures

Due to the SBIC subsidiary s status as a licensed SBIC, we have the ability to issue SBA Debentures at favorable interest rates. Under the regulations applicable to SBIC funds, an SBIC can have outstanding SBA Debentures subject to a regulatory leverage limit, up to two times the amount of regulatory capital. As of both June 30, 2017 and December 31, 2016, the SBIC subsidiary had $38.0 million in regulatory capital, as such term is defined by the SBA.

As a BDC, we are only allowed to employ leverage to the extent that our asset coverage, as defined in the 1940 Act,

equals at least 200% after giving effect to such leverage. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing.

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On August 12, 2014, we obtained exemptive relief from the SEC to permit us to exclude the debt of the SBIC subsidiary guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. The exemptive relief provides us with increased flexibility under the 200% asset coverage test by permitting us to borrow up to $117.0 million more than we would otherwise be able to absent the receipt of this exemptive relief.

On a stand-alone basis, the SBIC subsidiary held $108.3 million and $104.6 million in assets at June 30, 2017 and December 31, 2016, respectively, which accounted for approximately 31.0% and 27.5% of our total consolidated assets, respectively.

SBA Debentures have fixed interest rates that equal prevailing 10-year Treasury Note rates plus a market spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the debentures is not required to be paid before maturity, but may be pre-paid at any time with no prepayment penalty. As of both June 30, 2017 and December 31, 2016, the SBIC subsidiary had $65.0 million of SBA Debentures outstanding, which mature ten years from issuance. The first maturity related to the SBA Debentures does not occur until 2025, and the remaining weighted average duration of all of our outstanding SBA Debentures is approximately 8.4 years as of June 30, 2017.

As of June 30, 2017 and December 31, 2016, the carrying amount of the SBA Debentures approximated their fair value. The fair values of the SBA Debentures are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the SBA Debentures are estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. At June 30, 2017 and December 31, 2016 the SBA Debentures would be deemed to be Level 3, as defined in Note 6 to our consolidated financial statements.

As of June 30, 2017, the Company has incurred $2.2 million in financing costs related to the SBA Debentures. As of June 30, 2017 and December 31, 2016, $1.5 million and $1.7 million of prepaid financing costs had yet to be amortized, respectively. These prepaid loan fees are presented on our consolidated statement of assets and liabilities as a deduction from the debt liability as required by ASU No. 2015-3.

For the three months ended June 30, 2017, the weighted average effective interest rate for the SBA Debentures was approximately 3.1% (approximately 3.6% including loan fees). Interest is paid semi-annually. The Company recorded interest and fee expense on the SBA Debentures of $0.6 million for the three months ended June 30, 2017, of which $0.5 million was interest expense, and the remainder was amortization of loan fees. The Company paid no interest expense during the three months ended June 30, 2017. The average borrowings of SBA Debentures for the three months ended June 30, 2017 were $65.0 million.

For the six months ended June 30, 2017, the weighted average effective interest rate for the SBA Debentures was approximately 3.1% (approximately 3.6% including loan fees). Interest is paid semi-annually. The Company recorded interest and fee expense on the SBA Debentures of $1.1 million for the three months ended June 30, 2017, of which $1.0 million was interest expense, and the remainder was amortization of loan fees. The Company paid $1.0 million of interest expense during the six months ended June 30, 2017. The average borrowings of SBA Debentures for the three months ended June 30, 2017 were $65.0 million.

For the three months ended June 30, 2016, the weighted average effective interest rate for the SBA Debentures was approximately 3.1% (approximately 3.6% including loan fees). Interest is paid semi-annually. The Company recorded interest and fee expense on the SBA Debentures of $0.6 million for the six months ended June 30, 2016, of which $0.5 million was interest expense, and the remainder was amortization of loan fees. The Company paid no interest expense

for the six months ended June 30, 2016. The average borrowings of SBA Debentures for the six months ended June 30, 2016 were $65.0 million.

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For the six months ended June 30, 2016, the weighted average effective interest rate for the SBA Debentures was approximately 2.7% (approximately 3.2% including loan fees). Interest is paid semi-annually. The Company recorded interest and fee expense on the SBA Debentures of $1.0 million for the six months ended June 30, 2016, of which $0.9 million was interest expense, and the remainder was amortization of loan fees. The Company paid $0.6 million of interest expense for the six months ended June 30, 2016. The average borrowings of SBA Debentures for the six months ended June 30, 2016 were $65.0 million.

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of June 30, 2017 and December 31, 2016, our off-balance sheet arrangements consisted of unfunded commitments to provide debt financing to three and two of our portfolio companies respectively totaling $2.4 million and $1.9 million, respectively. The Company maintains sufficient liquidity to fund such unfunded loan commitments (through cash on hand and available borrowings under the Credit Facility) should the need arise.

Regulated Investment Company Status and Dividends

We have elected to be treated as a RIC under Subchapter M of the Code. So long as we maintain our status as a RIC, we will not be taxed on our investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis.

Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation until realized. Dividends declared and paid by us in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income or the distribution of prior year taxable income carried forward into and distributed in the current year. Distributions also may include returns of capital.

To qualify for RIC tax treatment, we must, among other things, distribute, with respect to each taxable year, at least 90% of our investment company net taxable income (i.e., our net ordinary income and our realized net short-term capital gains in excess of realized net long-term capital losses, if any). If we maintain our qualification as a RIC, we must also satisfy certain distribution requirements each calendar year in order to avoid a federal excise tax on or undistributed earnings of a RIC.

We intend to distribute to our stockholders between 90% and 100% of our annual taxable income (which includes our taxable interest and fee income). However, the covenants contained in the Credit Facility may prohibit us from making distributions to our stockholders, and, as a result, could hinder our ability to satisfy the distribution requirement. In addition, we may retain for investment some or all of our net taxable capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) and treat such amounts as deemed distributions to our stockholders. If we do this, our stockholders will be treated as if they received actual distributions of the capital gains we retained and then reinvested the net after-tax proceeds in our common stock. Our stockholders also may be eligible to claim tax credits (or, in certain circumstances, tax refunds) equal to their allocable share of the tax we paid on the capital gains deemed distributed to them. To the extent our taxable earnings for a fiscal taxable year fall below the total amount of our dividends for that fiscal year, a portion of those dividend distributions may be deemed a return of capital to our stockholders.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage test for borrowings applicable to us as a business development company under the 1940 Act and due to provisions in Credit Facility. We cannot assure stockholders that they will receive any distributions or distributions at a particular level.

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In accordance with certain applicable Treasury regulations and published guidance issued by the Internal Revenue Service, a publicly offered RIC may treat a distribution of its own stock as counting towards its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash available to be distributed to all stockholders must be at least 20% of the aggregate declared distribution. If too many stockholders elect to receive cash, the cash available for distribution must be allocated among the shareholders electing to receive cash (with the balance of the distribution paid in stock). In no event will any stockholder electing to receive cash, receive less than the lesser of (a) the portion of the distribution such shareholder has elected to receive in cash or (b) an amount equal to his or her entire distribution times the percentage limitation on cash available for distribution. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock. We have no current intention of paying dividends in shares of our stock in accordance with the Treasury regulations or published guidance.

Recent Accounting Pronouncements

See Note 1 to the consolidated financial statements contained herein for a description of recent accounting pronouncements, if any, including the expected dates of adoption and the anticipated impact on the financial statements.

Critical Accounting Policies

See Note 1 to the consolidated financial statements contained herein for a description of critical accounting policies.

Subsequent Events

Investment Portfolio

On July 3, 2017, the Company invested an additional $0.06 million in the equity of Apex Environmental Resources Holdings LLC.

On July 7, 2017, the Company received full repayment on the second lien term loan of Atkins Nutritionals Holdings II, Inc. for proceeds of $8.0 million.

On July 14, 2017, the Company received full repayment on the unsecured term loan of OG Systems LLC for proceeds of $4.0 million.

On July 26, 2017, the Company invested $22.5 million in the first lien term loan of Resolute Industrial, LLC, a provider of water and air-cooled services and manufacturer. We also committed to fund a $2.5 million revolver and a $5.75 million delayed draw term loan. Additionally, the Company invested $0.75 million in the equity of the company.

On August 16, 2017, we invested $20.0 million in the first lien loan of TechInsights, Inc. a technology company which helps patent owners maximize the value of their patents through portfolio assessment. We also committed to fund a $3.0 million revolver.

SBIC Subsidiary

On July, 25, 2017, the Company contributed additional equity of $20.5 million to the SBIC subsidiary, bringing total regulatory capital contributed to $58.5 million.

Credit Facility

The outstanding balance under the Credit Facility as of August 22, 2017 was $32.0 million.

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Dividend Declared

On July 7, 2017, the Company s board of directors declared a regular monthly dividend for each of July 2017, August 2017 and September 2017 as follows:

Declared	Ex-Dividend Date	Record Date	Payment Date	Amount per Share
7/7/2017	7/27/2017	7/31/2017	8/15/2017	$ 0.1133
7/7/2017	8/29/2017	8/31/2017	9/15/2017	$ 0.1133
7/7/2017	9/28/2017	9/29/2017	10/13/2017	$ 0.1133

On July 10, 2017, the New York Stock Exchange announced a charge beginning with record date September 7, 2017, going forward. Ex-divident dates were changed from two to one business day prior to the record date. Based on this change, the correct ex-divident date for September 29, 2017 record date is September 28, 2017, instead of September 27, 2017 as reported in the Company s July 10, 2017 press release.

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SALE OF COMMON STOCK BELOW NET ASSET VALUE

On May 24, 2017, our stockholders voted to allow us to issue common stock at a price below net asset value per share for the period ending on the earlier of the one year anniversary of the date of our 2017 Annual Meeting of Stockholders and the date of our 2018 Annual Meeting of Stockholders. The latest date the authorization will expire is May 24, 2018. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock, although the number of shares sold in each offering may not exceed 25% of our outstanding common stock immediately prior to such sale. In addition, we cannot issue shares of our common stock below net asset value unless our board of directors determines that it would be in our and our stockholders best interests to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In addition, continuous sales of common stock below net asset value may have a negative impact on total returns and could have a negative impact on the market price of our shares of common stock. For additional information, see Sales of Common Stock Below Net Asset Value in the accompanying prospectus.

We will only sell shares of our common stock at a price below net asset value per share if the following conditions are met:

a majority of our independent directors who have no financial interest in the sale must have approved the sale; and
a majority of such directors, who are not interested persons of the Company, in consultation with the underwriter or underwriters of the offering if it is to be underwritten, must have determined in good faith, and as of a time immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of those shares, less any underwriting commission or discount.

Our net asset value per share as of June 30, 2017 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $13.84.

In making a determination that an offering of common stock below our net asset value per share is in our and our stockholders best interests, our board of directors consider a variety of factors including:

the effect that an offering below net asset value per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
the amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined net asset value per share;
the relationship of recent market prices of our common stock to net asset value per share and the potential impact of the offering on the market price per share of our common stock;
whether the proposed offering price would closely approximate the market value of our shares;
the potential market impact of being able to raise capital during the current financial market difficulties;
the nature of any new investors anticipated to acquire shares in the offering;
the anticipated rate of return on and quality, type and availability of investments to be funded with the proceeds from the offering, if any; and
the leverage available to us, both before and after any offering, and the terms thereof.

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Our board of directors also considered the fact that sales of shares of common stock at a discount will benefit Stellus Capital Management, because it will earn additional investment management fees on the proceeds of such offering, just as it would from the offering of any of our other securities or from the offering of common stock at a premium to net asset value per share.

Sales by us of our common stock at a discount from net asset value per share pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering. Any sale of common stock at a price below net asset value per share will result in an immediate dilution to many of our existing common stockholders even if they participate in such sale. See Risk Factors Existing stockholders may incur dilution if, in the future, we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock. in the accompanying prospectus.

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the NYSE under the symbol SCM. In connection with our initial public offering, our shares of common stock began trading on November 8, 2012, and before that date, there was no established trading market for our common stock.

The following table sets forth, for each fiscal quarter during the last two most recently completed fiscal years and the current fiscal year to date, the range of high and low closing prices of our common stock as reported on the NYSE, the sales price as a percentage of our net asset value.

Fiscal Year Ended	NAV Per Share(1)	Closing Sales Price(2)		Premium or Discount of High Sales to NAV(3)	Premium or Discount of Low Sales to NAV(3)
		High	Low		
December 31, 2017					
Third Quarter (through August 22, 2017)	*	$ 14.30	$ 13.25	*	*
Second Quarter	$ 13.84	$ 14.55	$ 13.25	5.13 %	-4.26 %
First Quarter	$ 13.84	$ 14.57	$ 12.09	5.27 %	-12.64 %
December 31, 2016					
Fourth Quarter	$ 13.69	$ 12.33	$ 10.35	-9.93 %	-24.40 %
Third Quarter	$ 13.57	$ 11.54	$ 10.35	-14.96 %	-23.73 %
Second Quarter	$ 13.12	$ 10.59	$ 9.82	-19.28 %	-25.15 %
First Quarter	$ 13.06	$ 10.22	$ 7.85	-21.75 %	-39.89 %
December 31, 2015					
Fourth Quarter	$ 13.19	$ 10.93	$ 9.53	-17.13 %	-27.75 %
Third Quarter	$ 13.62	$ 11.84	$ 9.87	-13.07 %	-27.53 %
Second Quarter	$ 14.01	$ 12.58	$ 11.36	-10.21 %	-18.92 %
First Quarter	$ 14.03	$ 12.68	$ 11.80	-9.62 %	-15.89 %

(1) Net asset value is determined as of the last date in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.

(2) Closing sales price is determined as the high or low closing sales price noted within the respective quarter, not adjusted for dividends.

(3) Calculated as of the respective high or low sales price divided by the quarter end net asset value.

* Not determinable at the time of filing.

On August 22, 2017, the last reported sales price of our common stock was $13.66 per share. As of August 22, 2017, we had 8 stockholders of record, which did not include stockholders for whom shares are held in nominee or street name.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. Since

they began trading on November 8, 2012, in connection with our initial public offering, our shares of common stock have traded at times at a discount to the net assets attributable to those shares.

To the extent that we have income available, we intend to make monthly distributions to our stockholders. Our monthly stockholder distributions, if any, will be determined by our board of directors. Any stockholder distribution to our stockholders will be declared out of assets legally available for distribution.

We have elected to be treated as a RIC under the Code. To maintain RIC tax treatment, we must distribute at least 90% of our net ordinary income and net short-term capital gains in excess of our

net long-term capital losses, if any, to our stockholders. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of: (a) 98% of our net ordinary income for such calendar year; (b) 98.2% of our capital gain net income for the one-year period ending on October 31 of the calendar year; and (c) any net ordinary income and capital gain net income for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax.

We currently intend to distribute net capital gains (*i.e.*, net long-term capital gains in excess of net short-term capital losses), if any, at least annually out of the assets legally available for such distributions. However, we may decide in the future to retain such capital gains for investment and elect to treat such gains as deemed distributions to you. If this happens, you will be treated for U.S. federal income tax purposes as if you had received an actual distribution of the capital gains that we retain and reinvested the net after tax proceeds in us. In this situation, you would be eligible to claim a tax credit (or in certain circumstances a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. See Material U.S. Federal Income Tax Considerations in this prospectus supplement. We cannot assure you that we will achieve results that will permit us to pay any cash distributions, and if we issue senior securities, we may be prohibited from making distributions if doing so would cause us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if such distributions are limited by the terms of any of our borrowings.

We have adopted an opt out dividend reinvestment plan for our common stockholders. Unless you elect to receive your distributions in cash, we intend to make such distributions in additional shares of our common stock under our dividend reinvestment plan. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. If you hold shares of our common stock in the name of a broker or financial intermediary, you should contact such broker or financial intermediary regarding your election to receive distributions in cash in lieu of shares of our common stock. Any distributions reinvested through the issuance of shares through our dividend reinvestment plan will increase our gross assets on which the base management fee and the incentive fee are determined and paid to Stellus Capital Management. See Dividend Reinvestment Plan beginning on page 121 of the accompanying prospectus.

The following table summarizes our distributions per share that our board of directors has declared on our common stock since our initial public offering:

Date Declared	Record Date	Payment Date	Per Share
December 7, 2012	December 21, 2012	December 27, 2012	$ 0.1812
March 7, 2013	March 21, 2013	March 28, 2013	$ 0.3400
June 7, 2013	June 21, 2013	June 28, 2013	$ 0.3400
August 21, 2013	September 5, 2013	September 27, 2013	$ 0.3400
November 22, 2013	December 9, 2013	December 23, 2013	$ 0.3400
December 27, 2013	January 15, 2014	January 24, 2014	$ 0.0650
January 20, 2014	January 31, 2014	February 14, 2014	$ 0.1133
January 20, 2014	February 28, 2014	March 14, 2014	$ 0.1133
January 20, 2014	March 31, 2014	April 15, 2014	$ 0.1133
April 17, 2014	April 30, 2014	May 15, 2014	$ 0.1133
April 17, 2014	May 30, 2014	June 16, 2014	$ 0.1133
April 17, 2014	June 30, 2014	July 15, 2014	$ 0.1133
July 7, 2014	July 31, 2014	August 15, 2014	$ 0.1133

July 7, 2014	August 29, 2014	September 15, 2014	$ 0.1133
July 7, 2014	September 30, 2014	October 15, 2014	$ 0.1133

Date Declared	Record Date	Payment Date	Per Share
October 15, 2014	October 31, 2014	November 14, 2014	$ 0.1133
October 15, 2014	November 28, 2014	December 15, 2014	$ 0.1133
October 15, 2014	December 31, 2014	January 15, 2015	$ 0.1133
January 22, 2015	February 2, 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 8, 2015	July 31, 2015	August 14, 2015	$ 0.1133
July 8, 2015	August 31, 2015	September 15, 2015	$ 0.1133
July 8, 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
April 15, 2016	May 31, 2016	June 15, 2016	$ 0.1133
April 15, 2016	June 30, 2016	July 15, 2016	$ 0.1133
July 7, 2016	July 29, 2016	August 15, 2016	$ 0.1133
July 7, 2016	August 31, 2016	September 15, 2016	$ 0.1133
July 7, 2016	September 30, 2016	October 14, 2016	$ 0.1133
October 07, 2016	October 31, 2016	November 15, 2016	$ 0.1133
October 07, 2016	November 30, 2016	December 15, 2016	$ 0.1133
October 07, 2016	December 30, 2016	January 13, 2017	$ 0.1133
January 13, 2017	January 31, 2017	February 15, 2017	$ 0.1133
January 13, 2017	February 28, 2017	March 15, 2017	$ 0.1133
January 13, 2017	March 29, 2017	April 14, 2017	$ 0.1133
April 14, 2017	April 28, 2017	May 15, 2017	$ 0.1133
April 14, 2017	May 31, 2017	June 15, 2017	$ 0.1133
April 14, 2017	June 30, 2017	July 14, 2017	$ 0.1133
July 7, 2017	July 31, 2017	August 15, 2017	$ 0.1133
July 7, 2017	August 31, 2017	September 15, 2017	$ 0.1133
July 7, 2017	September 29, 2017	October 13, 2017	$ 0.1133
			$ 6.7048

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LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus will be passed upon for us by Eversheds Sutherland (US) LLP, Washington, DC 20001. Certain legal matters in connection with the offering will be passed upon for the Sales Agent by Morrison & Foerster LLP, New York, NY.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements, financial highlights and senior securities table of Stellus Capital Investment Corporation included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the reports of Grant Thornton LLP, independent registered public accountants, as stated in their reports appearing therein. Grant Thornton LLP s principal business address is 171 N. Clark Street, Chicago, Illinois, 60601.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act with respect to the shares of common stock offered by this prospectus supplement. The registration statement contains additional information about us and the shares of common stock being offered by this prospectus supplement.

We also file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090.

We maintain a website at *www.stelluscapital.com* and make all of our annual, quarterly and current reports, proxy statements and other publicly filed information available, free of charge, on or through our website. Information contained on our website is not incorporated into this prospectus supplement or the accompanying prospectus, and you should not consider information on our website to be part of this prospectus supplement or the accompanying prospectus. You may also obtain such information by contacting us in writing at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027, Attention: Investor Relations. The SEC maintains a website that contains reports, proxy and information statements and other information we file with the SEC at *www.sec.gov*. Copies of these reports, proxy and information statements and other information may also be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC s Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-0102.

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STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Non-controlled, affiliated investments, at fair value (amortized cost of $1,052,185 and $0, respectively)	$980,000	$
Non-controlled, non-affiliated investments, at fair value (amortized cost of $329,218,652 and $362,217,251, respectively)	336,390,312	365,625,891
Cash and cash equivalents	6,953,303	9,194,129
Interest receivable	4,007,830	4,601,742
Accounts receivable	8,343	748
Prepaid expenses	302,716	456,219
Total Assets	$348,642,504	$379,878,729
LIABILITIES		
Notes Payable	$24,654,747	$24,565,891
Credit facility payable	38,418,389	115,171,208
SBA Debentures	63,503,349	63,342,036
Dividends payable	1,772,293	1,413,982
Base management fees payable	1,023,011	1,608,295
Incentive fees payable	1,423,614	1,353,271
Interest payable	888,145	973,812
Unearned revenue	22,288	19,955
Administrative services payable	316,193	272,511
Deferred Tax Liability		8,593
Other accrued expenses and liabilities	167,302	267,390
Total Liabilities	$132,189,331	$208,996,944
Net Assets	$216,453,173	$170,881,785
NET ASSETS		
Common Stock, par value $0.001 per share (200,000,000 shares authorized, 15,642,457 and 12,479,959 shares issued and outstanding, respectively)	$15,642	$12,480
Paid-in capital	224,052,179	180,994,723
Accumulated net realized loss	(13,801,668)	(13,089,671)
Distributions in excess of net investment income	(912,456)	(435,794)
Net unrealized appreciation on investments and cash equivalents, net of provision for taxes of $0 and $8,593, respectively	7,099,476	3,400,047
Net Assets	$216,453,173	$170,881,785
Total Liabilities and Net Assets	$348,642,504	$379,878,729

Net Asset Value Per Share	$13.84	$13.69

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STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended June 30, 2017	For the three months ended June 30, 2016	For the six months ended June 30, 2017	For the six months ended June 30, 2016
INVESTMENT INCOME				
Interest income	$9,642,531	$9,328,416	$19,118,783	$18,703,153
Other income	751,834	294,753	1,139,562	387,849
Total Investment Income	$10,394,365	$9,623,169	$20,258,345	19,091,002
OPERATING EXPENSES				
Management fees	$1,523,010	$1,550,841	$3,087,538	$3,099,214
Valuation fees	23,305	67,701	189,394	200,167
Administrative services expenses	310,860	250,627	619,958	537,927
Incentive fees	1,234,616	986,276	2,255,843	2,011,098
Professional fees	219,487	195,203	447,164	387,314
Directors fees	79,000	86,000	171,000	178,000
Insurance expense	110,466	118,027	219,718	236,053
Interest expense and other fees	1,780,809	2,015,189	3,849,439	3,895,032
Deferred offering costs		261,761		261,761
Other general and administrative expenses	174,353	146,442	336,205	240,044
Total Operating Expenses	5,455,906	5,678,067	11,176,259	11,046,610
Net Investment Income	$4,938,459	$3,945,102	$9,082,086	$8,044,392
Net Realized Gain (Loss) on Investments and Cash Equivalents	$54	$1,486	$(711,997)	$2,380
Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents	$1,106,253	$928,520	$3,690,836	$(815,154)
Benefit for taxes on net realized loss or net unrealized gain on investments at Taxable Subsidiaries	$	$154,812	$8,593	$322,151
Net Increase in Net Assets Resulting from Operations	$6,044,766	$5,029,920	$12,069,518	$7,553,769
Net Investment Income Per Share	$0.32	$0.32	$0.65	$0.64
Net Increase in Net Assets Resulting from Operations Per Share	$0.39	$0.41	$0.87	$0.61
Weighted Average Shares of Common Stock Outstanding	15,347,814	12,479,959	13,921,808	12,479,959
Distributions Per Share	$0.34	$0.34	$0.68	$0.68

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STELLUS CAPITAL INVESTMENT CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (unaudit

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STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Increase in Net Assets Resulting from Operations		
Net investment income	$9,082,086	$8,044,392
Net realized gain (loss) on investments and cash equivalents	(711,997)	2,380
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	3,690,836	(815,154)
Benefit for taxes on net realized loss or net unrealized gain on investments at Taxable Subsidiaries	8,593	322,151
Net Increase in Net Assets Resulting from Operations	12,069,518	7,553,769
Stockholder distributions		
Net investment income	(9,558,748)	(8,484,372)
Total Distributions	(9,558,748)	(8,484,372)
Capital share transactions		
Issuance of common stock[(1)]	44,591,250	
Sales load	(1,296,625)	
Offering costs	(234,007)	
Net increase in net assets resulting from capital share transactions	43,060,618	
Total increase (decrease) in net assets	45,571,388	(930,603)
Net assets at beginning of period	170,881,785	164,651,104
Net assets at end of period (includes $912,456 and $1,219,620 of distributions in excess of net investment income, respectively)	$216,453,173	$163,720,501

(1) See Note 4 of the Notes to the Consolidated Financial Statements

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STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Cash flows from operating activities		
Net increase in net assets resulting from operations	$12,069,518	$7,553,769
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchases of investments	(47,994,614)	(17,899,868)
Proceeds from sales and repayments of investments	79,950,227	15,972,633
Net change in unrealized (appreciation) depreciation on investments	(3,690,836)	815,154
Deferred tax benefit	(8,593)	(322,151)
Increase in investments due to PIK	(145,445)	(109,619)
Amortization of premium and accretion of discount, net	(575,750)	(557,840)
Amortization of loan structure fees	247,181	260,846
Amortization of deferred financing costs	88,856	162,203
Amortization of loan fees on SBIC debentures	161,313	88,709
Net realized loss (gain) on investments	711,997	(2,380)
Deferred offering cost		261,761
Changes in other assets and liabilities		
Decrease in interest receivable	593,912	522,724
Decrease (increase) in accounts receivable	(7,595)	7,684
Decrease in prepaid expenses and fees	153,503	177,750
Increase (decrease) in management fees payable	(585,284)	32,062
Increase in directors fees payable		86,000
Increase in incentive fees payable	70,343	711,073
Increase (decrease) in administrative services payable	43,682	(163,551)
Increase (decrease) in interest payable	(85,667)	272,180
Increase (decrease) in unearned revenue	2,333	(13,284)
Increase (decrease) in other accrued expenses and liabilities	(100,088)	86,921
Net cash provided by operating activities	$40,898,993	$7,942,776
Cash flows from financing activities		
Proceeds from the issuance of common stock	44,591,250	
Sales load for common stock issued	(1,296,625)	
Offering costs paid for common stock issued	(234,007)	
Stockholder distributions paid	(9,200,437)	(8,484,372)
Borrowings under credit facility	18,000,000	18,500,000

Repayments of credit facility	(95,000,000)	(18,000,000)
Net cash used in financing activities	$(43,139,819)	$(7,984,372)
Net decrease in cash and cash equivalents	(2,240,826)	(41,596)
Cash and cash equivalents balance at beginning of period	9,194,129	10,875,790
Cash and cash equivalents balance at end of period	$6,953,303	$10,834,194
Supplemental and non-cash financing activities		
Interest expense paid	$3,432,756	$3,106,094
Excise tax paid	$37,648	$
Conversion from debt to equity	$864,101	$
Increase in Dividend Payable	$358,311	

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Stellus Capital Investment Corporation

Consolidated Schedule of Investments (unaudited)
June 30, 2017

	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Val
	(2)										
								Houston, TX			
	(4)	Equity						Energy: Oil & Gas	1,000 shares	$1,052,185	$98
										1,052,185	98
	(2)										
ts											
								Deer Park, TX			
)	(2)(12)	Second Lien	L+10.50%	1.00%	11.80%		3/5/2020	Chemicals, Plastics, & Rubber	$5,325,237	5,262,113	5,
	(4)	Equity							375,000 units	375,000	27
										5,637,113	5,
								Amsterdam, OH			
	(4)	Equity						Environmental Industries	614 shares	614	1,
	(4)	Equity							614	614,427	1,

								shares	615,041	1,
							Denver, CO			
	(3)	Second Lien	L+8.50 %	1.25%	9.75 %	4/3/2019	Beverage, Food, & Tobacco	$8,000,000	7,942,907	8,(
							Atlanta, GA			
	(4)	Equity					Services: Business	254,250 units	254,250	72
	(4)	Equity						750,000 units	750,000	2,
									1,004,250	2,8
	(7)						Chicago, IL			
)	(2)(12)(14)	First Lien	P+5.25 %	2.00%	9.50 %	6/29/2022	Healthcare & Pharmaceuticals	$7,500,000	7,425,000	7,4
	(2)(4)	Equity						73,529 shares	500,000	50
									7,925,000	7,9
)	(2)(12)	Second Lien	L+10.00%	1.00%	11.30%	9/27/2022	Austin TX FIRE: Insurance	$5,000,000	4,903,312	4,9
	(4)	Equity						500,000 units	500,000	50
									5,403,312	5,4
ty	(8)						Hauppauge, NY			
	(4)	Unsecured					Services: Consumer	$700,000	700,000	62
							Rochester, NY			
	(12)	Second Lien	L+9.50 %	1.00%	10.55%	6/5/2019	Telecommunications	$7,500,000	7,437,247	7,5
	(4)	Equity						8,932 units	525,000	90
									7,962,247	7,5

Stellus Capital Investment Corporation Consolidated Schedule of Investments (unaudited)June 30, 2017

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Stellus Capital Investment Corporation

Consolidated Schedule of Investments (unaudited) June 30, 2017