

Stellus Capital Investment Corp

Form 497

April 28, 2014

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.

**Filed Pursuant to Rule 497
Securities Act File No. 333-189938**

SUBJECT TO COMPLETION, DATED APRIL 28, 2014

**PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated January 30, 2014)**

\$25,000,000

Stellus Capital Investment Corporation

% Notes due 2019

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, 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 are offering \$25,000,000 in aggregate principal amount of % notes due 2019, which we refer to as the Notes. The Notes will mature on April 30, 2019. We will pay interest on the Notes on February 15, May 15, August 15 and November 15 of each year, beginning August 15, 2014. We may redeem the Notes in whole or in part at any time or from time to time on or after April 30, 2016, at the redemption price of par, plus accrued interest, as discussed under the caption Specific Terms of the Notes and the Offering Optional redemption in this prospectus supplement. The Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof.

The Notes will be our direct senior unsecured obligations and rank *pari passu* with all outstanding and future unsecured unsubordinated indebtedness issued by Stellus Capital Investment Corporation.

We intend to list the Notes on the New York Stock Exchange and we expect trading to commence thereon within 30 days of the original issue date under the trading symbol SCQ. The Notes are expected to trade flat. This means that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not included in the trading price. Currently, there is no public market for the Notes and there can be no assurance that one will develop.

This prospectus supplement and the accompanying prospectus, contain important information you should know before investing in the Notes. 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, TX 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.

Investing in the Notes involves a high degree of risk. Before buying any Notes, you should read the discussion of the material risks of investing in our common stock in Risk Factors beginning on page S-13 in this prospectus supplement and page 18 of the accompanying prospectus.

Neither the Securities and Exchange Commission 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.

	Per Note	Total
Public offering price	100.0 %	\$25,000,000
Underwriting discount (sales load)	2.5 %	\$625,000
Proceeds to us before expenses ⁽¹⁾	97.5 %	\$24,375,000

(1) Before deducting expenses payable by us related to this offering, estimated at \$250,000. The underwriters may also purchase up to an additional \$3,750,000 total aggregate principal amount of Notes offered hereby, to cover over-allotments, if any, within 30 days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be \$28,750,000, the total underwriting discount (sales load) paid by us will be \$718,750, and total proceeds, before expenses, will be \$28,031,250.

THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about , 2014.

Keefe, Bruyette & Woods
A Stifel Company

omery Scott

Oppenheimer & Co.
The date of this prospectus supplement is , 2014

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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 the Notes we are offering and certain other matters relating to us. The second part, the accompanying prospectus, gives more general information about the securities which we may offer from time to time, some of which may not apply to the Notes offered by this preliminary prospectus supplement. For information about the Notes, see Summary of the Specific Terms of the Notes and the Offering and Description of the Notes in this prospectus supplement and Description of Our Debt Securities 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 UNDERWRITERS HAVE 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 UNDERWRITERS ARE 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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SUMMARY OF THE SPECIFIC TERMS OF THE NOTES AND THE OFFERING

This summary sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement and the accompanying prospectus that is attached to the back of this prospectus supplement. This section and the Description of Our Notes section in this prospectus supplement outline the specific legal and financial terms of the Notes. You should read this section and the Description of Our Notes section in this prospectus supplement together with the more general description of the Notes in the accompanying prospectus under the heading Description of Our Debt Securities before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the indenture governing the Notes.

Issuer	Stellus Capital Investment Corporation
Title of the securities	% Notes due April 30, 2019
Initial aggregate principal amount being offered	\$25,000,000
Over-allotment option	The underwriters may also purchase from us up to an additional \$3,750,000 aggregate principal amount of Notes to cover over-allotments, if any, within 30 days of the date of this prospectus supplement.
Initial public offering price	100% of the aggregate principal amount
Principal payable at maturity	100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Trustee, Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in New York City as we may designate.
Type of Note	Fixed rate note
Listing	We intend to list the Notes on the New York Stock Exchange, or the NYSE, within 30 days of the original issue date under the trading symbol SCQ.
Interest Rate	% per year
Day count basis	360-day year of twelve 30-day months
Original issue date	, 2014
Stated maturity date	April 30, 2019
Date interest starts accruing	, 2014
Interest payment dates	Every February 15, May 15, August 15 and November 15 commencing August 15, 2014. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.
Interest periods	

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The initial interest period will be the period from and including _____, 2014, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

Regular record dates for interest

Every February 1, May 1, August 1 and November 1, commencing August 1, 2014

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Specified currency

U.S. Dollars

Place of payment

New York City

Ranking of Notes

The Notes will be our direct unsecured obligations and will rank:

pari passu, or equal, with our future senior unsecured indebtedness;

senior to any of our future indebtedness that expressly provides it is subordinated to the Notes;

effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our \$135.0 million senior secured revolving credit facility, or the Credit Facility, of which \$123.0 million was outstanding as of April 25, 2014; and

structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries.

Denominations

We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.

Business Day

Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.

Optional redemption

The Notes 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 upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the Notes to be redeemed plus accrued and unpaid interest payments otherwise payable thereon for the then-current quarterly interest period accrued to the date fixed for redemption. Before redeeming any Notes, we would have to comply with certain requirements under our Credit Facility, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders.

You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes.

Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act.

If we redeem only some of the Notes, the trustee will determine the method for selection of the particular Notes to be redeemed, in accordance with the indenture and in accordance with the rules of any national securities exchange or quotation system on which the Notes are listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

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Sinking fund

The Notes will not be subject to any sinking fund.

Repayment at option of holders

Holders will not have the option to have the Notes repaid prior to the stated maturity date.

Defeasance

The Notes are subject to defeasance by us.

Covenant Defeasance

The Notes are subject to covenant defeasance by us.

Form of Notes

The Notes will be represented by global securities that will be deposited and registered in the name of The Depository Trust Company, or DTC, or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations that are participants in DTC.

Trustee, Paying Agent, Registrar and Transfer Agent

U.S. Bank National Association

Other covenants

In addition to any covenants described elsewhere in this prospectus supplement or the accompanying prospectus, the following covenants shall apply to the Notes:

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings. See Risk Factors Risks Relating to our Business and Structure Pending legislation may allow us to incur additional leverage in the accompanying prospectus.

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by (i) Section 61(a)(1) of the 1940 Act or any successor provisions and (ii) the exception set forth below, despite the fact that we are not currently subject to such provisions of the 1940 Act and will not be subject to such provisions as a result of this offering, except that we will be permitted to declare a cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, but only up to such amount as is necessary in order for us to maintain our status as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986 and, provided that, any such prohibition will not apply until such time as our asset coverage has been below the minimum asset coverage required pursuant to clause (i) above for more than

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six consecutive months. If Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act were currently applicable to us in connection with this offering, these provisions would generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, were below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase.

If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, or the Exchange Act, to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.

Events of default

You will have rights if an Event of Default occurs with respect to the Notes.
The term "Event of Default" in respect of the Notes means any of the following:

We do not pay the principal of (or premium, if any, on) any Note within five days of its due date.

We do not pay interest on any Note when due, and such default is not cured within 30 days.

We remain in breach of any other covenant with respect to the Notes for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the Trustee or holders of at least 25% of the principal amount of the Notes.

We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and in the case of certain orders or decrees entered against us under any bankruptcy law, such order or decree remains undischarged or unstayed for a period of 60 days.

On the last business day of each of twenty-four consecutive calendar months, the Notes have an asset coverage of less than 100%, after giving effect to any exemptive relief granted to us by the SEC.

Further issuances

We have the ability to issue additional debt securities under the indenture with terms different from the Notes and, without the consent of the holders thereof, to reopen the Notes and issue additional Notes.

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Use of proceeds

We estimate that the net proceeds we will receive from the sale of the \$25,000,000 aggregate principal amount of Notes in this offering will be approximately \$24,125,000 (or approximately \$27,781,250 if the underwriters fully exercise their over-allotment option), in each case assuming a public offering price of 100% of par, after deducting the underwriting discount of \$625,000 (or approximately \$718,750 if the underwriters fully exercise their over-allotment option) payable by us and estimated offering expenses of approximately \$250,000 payable by us. We intend to use all of the net proceeds of this offering to repay a portion of the amount outstanding under the Credit Facility. As of April 25, 2014, we had \$123.0 million outstanding under the Credit Facility. The Credit Facility has a maturity date of November 12, 2016. Borrowings under the Credit Facility currently bear interest on a per annum basis equal to LIBOR plus 3.00% with no LIBOR floor. See Use of Proceeds in this prospectus supplement for more information.

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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 involve risks and uncertainties, including 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;
- 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;
- the potential that we will become subject to corporate-level U.S. federal income tax on all of our income if we are unable to qualify or maintain our qualification as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, which would have a material adverse effect on our financial performance; 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 business development companies 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, anticipate 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. 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 supplement or the accompanying prospectus relate, 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.

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THE COMPANY

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 business development company under the 1940 Act and a RIC for U.S. federal income tax purposes.

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, often times with a corresponding equity investment. Unitranche debt is typically structured as first lien loans with certain risk characteristics of mezzanine debt. Mezzanine debt includes senior unsecured and subordinated loans.

Our investment activities are managed by our investment adviser, Stellus Capital Management, LLC, or Stellus Capital Management, an investment advisory firm led by Robert T. Ladd and other senior investment professionals. We source investments primarily through the extensive network of relationships that the principals 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 below investment grade (i.e., below BBB or Baa), which are 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 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 originating 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 (other than the D. E. Shaw group funds, as defined below) 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 (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

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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 a private credit fund managed by Stellus Capital Management that has an investment strategy that is identical to our investment strategy. We believe that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification.

Portfolio Composition

Our investments generally range in size from \$5 million to \$30 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.

As of December 31, 2013, we had \$277.5 million (at fair value) in portfolio investments under management. Our portfolio was comprised of 37 investments in 26 companies. As of December 31, 2013, our portfolio included approximately 17% of first lien debt, 43% of second lien debt, 38% of mezzanine debt and 2% of equity investments at fair value. As of December 31, 2013, \$114.3 million of our debt investments at fair value were at fixed interest rates, which represented approximately 42% of our total portfolio of debt investments at fair value. As of December 31, 2013, \$158.8 million of our debt investments at fair value were at floating interest rates, which represented approximately 58% of our total portfolio of debt investments at fair value. The weighted average yield on all of our debt investments as of December 31, 2013, was approximately 11.4%, of which approximately 10.8% was current cash interest. The information set forth above regarding our investment portfolio does not include approximately \$10.0 million of United States Treasury securities at fair value that we held at December 31, 2013.

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. Stellus Capital Management is an investment advisory firm led by the former head, Robert T. Ladd, and certain senior investment professionals of the direct capital business of D. E. Shaw & Co., L.P. and its associated investment funds and affiliated entities (collectively, the D. E. Shaw group), which spun out of the D. E. Shaw group in January 2012. The Stellus Capital Management investment team was responsible for helping the D. E. Shaw group build its middle-market direct investment business until it spun out in January 2012. The senior investment professionals of Stellus Capital Management have an average of over 24 years of investing, corporate finance, restructuring, consulting and accounting experience and have worked together at several companies, including the D. E. Shaw group. 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 advisory services to the D. E. Shaw group with respect to an approximately \$430 million investment portfolio (as of December 31, 2013) 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.

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Stellus Capital Management is headquartered in Houston, Texas, and also maintains offices in New York City and Washington, D.C. areas.

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.

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 new international capital and liquidity requirements under the Basel III Accords, or Basel III, 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

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 24 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.

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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.

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. While at the D. E. Shaw group, the Stellus Capital Management investment team invested approximately \$5.4 billion across the entire capital structure in 193 middle-market companies. These investments included secured and unsecured debt and related equity securities. 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, payment-in-kind, or 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 15 investment professionals, including Messrs. Ladd, Dean D Angelo, Joshua T. Davis and Todd A. Overbergen, who are supported by one managing director, six principals, two vice presidents and two 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. W. Todd Huskinson, who serves as our chief financial officer and chief compliance officer, and his staff of five additional mid- and back-office professionals.

SBIC License

We have applied for a license to form a small business investment company, or SBIC, subsidiary; however, the application is subject to approval by the Small Business Administration, or SBA. We can make no assurances that the SBA will approve our application, or of the timeframe in which would receive a license, should one ultimately be granted. The SBIC subsidiary would be allowed to issue SBA-guaranteed debentures up to a maximum of \$150 million under current SBIC regulations, subject to required capitalization of the SBIC subsidiary and other requirements. SBA guaranteed debentures generally have longer maturities and lower interest rates than other forms of debt that may be available to us, and we believe therefore would represent an attractive source of debt capital. In addition, we have applied for exemptive relief from the SEC, to permit us to exclude the debt of an SBIC subsidiary licensed by the SBA guaranteed by the SBA from the 200% asset coverage ratio we are required to maintain under the 1940 Act. We can provide no assurance that the SBA will grant us an SBIC license or that the SEC will grant us relief to exclude the debt of an SBIC subsidiary guaranteed by the SBA from the 200% asset coverage ratio. Pursuant to the 200% asset coverage ratio limitation, we are permitted to borrow one dollar for every dollar we have in assets less all liabilities and indebtedness not represented by debt securities issued by us or loans obtained by us. If the SEC were to grant us exemptive relief and the SBA were to grant us an SBIC license, we would, in effect, be permitted to have a lower asset coverage ratio than the 200% asset coverage ratio limitation under the 1940 Act and, therefore, we could have more debt outstanding than assets to cover such debt.

Recent Developments

Investments

Since December 31, 2013, we made six new investments totaling \$44.6 million and received proceeds from repayments and sales of \$26.0 million resulting in net investment of \$18.6 million. This activity increased our investment portfolio to approximately \$296.1 million and the average investment per company to \$10.2 million as follows:

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On January 31, 2014, we made a \$6.5 million investment in the unsecured term loan of SKOPOS. We also invested \$0.7 million in the company's equity.

On January 31, 2014, we made a \$6.1 million investment in the first lien term loan of T2 Systems.

On January 31, 2014, we made a \$2.5 million investment in the second lien term loan of Vandelay Industries.

On January 31, 2014, we received full repayment on our second lien loan of Ascend Learning at par resulting in total proceeds of \$10.0 million.

On February 25, 2014, we realized our second lien loan of Transaction Network Services (TNS) at 101.5% of par, resulting in total proceeds of \$2.6 million.

On February 28, 2014, we realized \$3.0 million of our \$8.0 million investment in the second lien term loan of Telecommunications Management, LLC. at 101.5% of par, resulting in total proceeds of \$3.0 million.

On February 28, 2014, we realized our second lien loan to Aderant North America, Inc. at 101.5% of par, resulting in total proceeds of \$1.5 million.

On March 10, 2014, we made the following investments in Momentum Telecom, Inc.: (a) a \$21.5 million in the first lien term loan; (b) \$2.5 million in the unfunded revolver; and (c) \$1.0 million in the company's equity.

On March 14, 2014, we made a \$3.0 million investment in the first lien term loan of Glori Energy, Inc.

On March 31, 2014, we sold \$5.0 million of the first lien term loan of Momentum Telecom, Inc. to a third party at our cost of 98% of par, resulting in total proceeds of \$4.9 million. We also sold \$0.6 million of the unfunded revolver of the company.

On each of April 3, 2014 and April 11, 2014, we invested \$33,333 in the equity of SKOPOS.

On April 4, 2014, we sold \$1.9 million of the unfunded revolver of Momentum Telecom, Inc. to a third party and retained a portion of the economics of the revolver.

On April 22, 2014, we made a \$4.0 million investment in the subordinated term loan and \$50,000 in the equity of OG Systems, LLC.

On April 22, 2014, we sold \$4.0 million of the 2nd lien term loan of Atkins Nutritionals, Inc. to a third party at 100.5% of par, resulting in total proceeds of \$4.0 million.

Credit Facility

The outstanding balance under the Credit Facility as of April 25, 2014 was \$123.0 million. In addition, we expect to increase our borrowing capacity under the Credit Facility from \$135.0 million to \$150.0 million subject to notice requirements under the Credit Facility.

Preliminary Estimates of Results for the Three Months Ended March 31, 2014

Set forth below are certain preliminary estimates of our financial condition and results of operations for the three months ended March 31, 2014. These estimates are subject to the completion of our financial closing procedures and are not a comprehensive statement of our financial results for the three months ended March 31, 2014. We advise you that our actual results may differ materially from these estimates as a result of the completion of our financial closing procedures, final adjustments and other developments arising between now and the time that our financial results for the three months ended March 31, 2014 are finalized.

Our total investment income is estimated to have totaled between \$7.6 million and \$8.0 million for the three months ended March 31, 2014.

Our net investment income is estimated to have totaled between \$3.6 million and \$4.0 million, or between \$0.30 and \$0.33 per share, for the three months ended March 31, 2014.

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Our net increase in net assets resulting from operations is estimated to have totaled between \$4.2 million and \$4.6 million, or between \$0.35 and \$0.38 per share, for the three months ended March 31, 2014.

Our net asset value as of March 31, 2014 is estimated to be between \$14.45 and \$14.55 per share.

Subsequent to year end we placed one loan on non-accrual status, which represents approximately 4.7% of the loan portfolio at cost and 4.1% based on valuation as of December 31, 2013.

The preliminary financial data herein have been prepared by, and is the responsibility of, management and have not been approved by our Board of Directors. Grant Thornton LLP, our independent registered public accounting firm, has not audited, reviewed, compiled or performed any procedures with respect to these preliminary estimates. Accordingly, Grant Thornton LLP does not express an opinion or any other form of assurance with respect thereto.

The Company paid a monthly dividend of \$0.1133 per share on February 14, 2014, March 14, 2014 and April 15, 2014 to shareholders of record as of January 31, 2014, February 28, 2014 and March 31, 2014, respectively. Our Board of Directors has also declared a monthly dividend of \$0.1133 per share to be paid on May 15, 2014, June 16, 2014 and July 15, 2014 to shareholders of record as of April 30, 2014, May 30, 2014 and June 30, 2014, respectively.

Management Updates

Subsequent to the date of the accompanying prospectus, the following changes have been made to the biographies of certain of our independent directors:

William C. Repko retired from Evercore Partners in February 2014 where he had served as a senior advisor, senior managing director and was a co-founder of the firm's Restructuring and Debt Capital Markets Group since September 2005.

Paul Keglevic has served as executive vice president and chief financial officer for Energy Future Holdings Corp. (EFH Corp.), a Dallas-based energy company with a portfolio of competitive and regulated businesses, since June 2008. In April 2014, EFH Corp. disclosed that its affiliate breached certain covenants in its debt agreements that, if not remedied, would result in various defaults. Upon the occurrence of an event of default under any of these debt agreements, unless the borrower files for Chapter 11 bankruptcy protection, the lenders or noteholders thereunder could elect to declare all amounts outstanding under such debt agreements to be immediately due and payable. If lenders or noteholders accelerate the repayment of all borrowings, EFH Corp. and its subsidiaries would not have sufficient assets and funds to repay those borrowings. Such occurrence would result in EFH Corp. and its applicable subsidiaries filing for protection under Chapter 11 of the US Bankruptcy Code.

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SUPPLEMENTARY RISK FACTORS

The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.

The Notes will not be secured by any of our assets or any of the assets of any future subsidiaries and will rank equally in right of payment of our future unsubordinated, unsecured senior indebtedness. As a result, the Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of any future subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of April 25, 2014 we had \$123.0 million outstanding under the Credit Facility. The indebtedness under the Credit Facility is effectively senior to the Notes to the extent of the value of the assets securing such indebtedness.

The Notes will be structurally subordinated to the indebtedness and other liabilities of any future subsidiaries.

The Notes are obligations exclusively of Stellus Capital Investment Corporation and not of our subsidiaries. None of our subsidiaries will be a guarantor of the Notes and the Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors of our subsidiaries will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the Notes will be structurally subordinated to all indebtedness, including any future SBA-guaranteed debentures, and other liabilities of any of our subsidiaries and subsidiaries that we may in the future acquire or establish. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

The indenture under which the Notes will be issued contains limited protection for holders of the Notes.

The indenture under which the Notes will be issued offers limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the Notes. In particular, the terms of the indenture and the Notes will not place any restrictions on our or our subsidiaries' ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which

therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries or that would be senior to our equity interests in those entities and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in each case, to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings;

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pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes, including subordinated indebtedness, in each case other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) as modified by (i) Section 61(a)(1) of the 1940 Act or any successor provisions and (ii) the exception set forth below, despite the fact that we are not currently subject to such provisions of the 1940 Act in connection with the offer and sale of the Notes, except that we will be permitted to declare a cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, but only up to such amount as is necessary in order for us to maintain our status as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986 and, provided that, any such prohibition will not apply until such time as our asset coverage has been below the minimum asset coverage required pursuant to clause (i) above for more than six consecutive months. If Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act were currently applicable to us in connection with this offering, these provisions would generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, were below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture will not require us to offer to purchase the Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity other than as described under Description of Our Notes Events of Default.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. For example, the indenture under which the Notes will be issued does not contain cross-default provisions that are contained in the Credit Facility. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

An active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them. Moreover, the Notes are not expected to be rated, which may subject them to greater volatility than rated notes and particularly, greater than similar securities with an investment grade rating.

The Notes are a new issue of debt securities for which there currently is no trading market. We intend to list the Notes

An active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability

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on the NYSE within 30 days of the original issue date under the symbol SCQ. Although we expect the Notes to be listed on the NYSE, we cannot provide any assurances that an active trading market will develop or be maintained for the Notes or that you will be able to sell your Notes. If the Notes are traded

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after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. The Notes are not currently expected to be rated which would impact their trading and subject them to greater price volatility. To the extent they are rated and received a non-investment grade rating, their price and trading activity could be negatively impacted. Moreover, if a rating agency assigns the Notes a non-investment grade rating, the Notes may be subject to greater price volatility than securities of similar maturity without such a non-investment grade rating. Certain of the underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

We may choose to redeem the Notes when prevailing interest rates are relatively low.

On or after April 30, 2016, we may choose to redeem the Notes from time to time, especially when prevailing interest rates are lower than the rate borne by the Notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Notes being redeemed. Our redemption right also may adversely impact your ability to sell the Notes as the optional redemption date or period approaches.

Our amount of debt outstanding will increase as a result of this offering, and if we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.

As of April 25, 2014, we had approximately \$123.0 million of indebtedness outstanding under the Credit Facility. Any default under the agreements governing our indebtedness, including a default under the Credit Facility or other indebtedness to which we may be a party that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness (including the Credit Facility), we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Credit Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. Our ability to generate sufficient cash flow in the future is, to some extent, subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under the Credit Facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Notes and our other debt and to fund other liquidity needs.

If our operating performance declines and we are not able to generate sufficient cash flow to service our debt

obligations, we may in the future need to refinance or restructure our debt, including any Notes sold, sell assets, reduce or delay capital investments, seek to raise additional capital or seek to obtain waivers from the required lenders under the Credit Facility or other debt that we may incur in the future to avoid being in default. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes and our other debt. If we breach our covenants under the Credit Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default under the Credit Facility or other debt, the lenders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations could proceed against the collateral securing the debt. Because the Credit

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Facility has, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under the Notes, the Credit Facility or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

We will be subject to corporate-level U.S. federal income tax if we are unable to maintain our qualification as a RIC under the Code and our effort to maintain such qualification may result in other adverse consequences.

No assurance can be given that we will be able to maintain our qualification as a RIC under the Code.

To maintain our qualification as a RIC under the Code, we must meet the following source-of-income, asset diversification and distribution requirements. The source-of-income requirement will be satisfied if we obtain at least 90% of our gross income for each taxable year from dividends, interest, gains from the sale of stock or securities or certain other sources. The asset diversification requirement will be satisfied if we diversify our holdings so that at the end of each quarter of our taxable year at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other acceptable securities and no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under the Code, by us and that are engaged in the same or similar or related trades or businesses or in the securities of one or more qualified publicly traded partnerships. The annual distribution requirement will be satisfied if we distribute to our stockholders, for each taxable year, at least 90% of our net ordinary taxable income and net realized short-term capital gains in excess of our net realized long-term capital losses, if any.

Our efforts to meet these requirements may result in our having to dispose of certain investments quickly (and because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses), raise additional debt or equity capital or forgo new investment opportunities in order to prevent the loss of our qualification as a RIC under the Code. In addition, we may have difficulty meeting the annual distribution requirement because we include in our taxable income certain amounts that we have not yet received in cash, such as PIK interest or original issue discount and because we are subject to certain asset coverage ratio requirements under the 1940 Act, as well as future financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the annual distribution requirement.

If we fail to qualify for as a RIC under the Code for any reason and/or are or become subject to corporate-level U.S. federal income tax, the resulting corporate taxes could substantially reduce our net assets and the amount of income available for distribution with respect to the Notes or reinvestment. See *Certain U.S. Federal Income Tax Considerations* in this prospectus supplement and *Material U.S. Federal Income Tax Considerations* in the accompanying prospectus.

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USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of the \$25,000,000 aggregate principal amount of Notes in this offering will be approximately \$24,125,000 (or approximately \$27,781,250 if the underwriters fully exercise their over-allotment option), in each case assuming a public offering price of 100% of par, after deducting the underwriting discount of \$625,000 (or approximately \$718,750 if the underwriters fully exercise their over-allotment option) payable by us and estimated offering expenses of approximately \$250,000 payable by us. We may change the size of this offering based on demand and market conditions.

We intend to use all of the net proceeds of this offering to repay a portion of the amount outstanding under the Credit Facility. As of April 25, 2014, we had \$123.0 million outstanding under the Credit Facility. The Credit Facility has a maturity date of November 12, 2016. Borrowings under the Credit Facility currently bear interest on a per annum basis equal to LIBOR plus 3.00% with no LIBOR floor. Affiliates of certain of the underwriters for this offering are lenders under the Credit Facility. See Underwriting Other Relationships. 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. See Regulation Temporary Investments in the accompanying prospectus.

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The following table sets forth our capitalization as of December 31, 2013:

on an actual basis; and

on an as adjusted basis to reflect the sale of \$25,000,000 aggregate principal amount of Notes in this offering (assuming no exercise of the overallotment option), after deducting the underwriting discounts and commissions of \$625,000 payable by us and estimated offering expenses of approximately \$250,000 payable by us.

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 December 31, 2013	
	Actual	As Adjusted ⁽¹⁾
Assets		
Cash and cash equivalents	\$ 13,663,542	\$ 13,663,542
Investments, at fair value	\$ 277,504,510	\$ 277,504,510
Other assets	\$ 6,960,253	\$ 7,835,253
Total assets	\$ 298,128,305	\$ 299,003,305
Liabilities:		
Credit Facility	\$ 110,000,000	\$ 85,875,000
Notes Payable		\$ 25,000,000
Other liabilities	\$ 12,236,791	\$ 12,236,791
Total liabilities	\$ 122,236,791	\$ 123,111,791
Stockholder's equity:		
Common stock, par value \$0.001 per share 100,000,000 authorized, actual; 12,099,022 issued and outstanding, actual	\$ 12,099	\$ 12,099
Paid-in capital in excess of par value	\$ 175,614,738	\$ 175,614,738
Accumulated undistributed net realized gain	\$ 1,027,392	\$ 1,027,392
Distributions in excess of net investment income	\$ (1,262,659)	\$ (1,262,659)
Unrealized appreciation (depreciation) on investments and cash equivalents	\$ 499,944	\$ 499,944
Total stockholders' equity	\$ 175,891,514	\$ 175,891,514
Total liabilities and stockholders' equity	\$ 298,128,305	\$ 298,128,305
Net asset value per share	\$ 14.54	\$ 14.54

(1) Excludes up to \$3,750,000 Notes issuable by us upon exercise of the underwriters' over-allotment option.

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TABLE OF CONTENTS**RATIOS OF EARNINGS TO FIXED CHARGES**

The following table contains our ratio of earnings to fixed charges for the periods indicated, computed as set forth below. You should read these ratios of earnings to fixed charges in connection with our Consolidated Financial Statements, including the notes to those statements, included in this prospectus.

	For The Year Ended December 31, 2013	For The Year Ended December 31, 2012
Earnings to Fixed Charges ⁽¹⁾	6.6	5.4

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

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TABLE OF CONTENTS**SENIOR SECURITIES**

Information about our senior securities is shown in the following table for the fiscal years ended December 31, 2013 and December 31, 2012. The report of Grant Thornton LLP, our independent registered public accountants, on the senior securities table as of December 31, 2012, is attached as an exhibit to the registration statement of which this prospectus is a part.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities ⁽¹⁾ (Dollars in thousands)	Asset Coverage per Unit ⁽²⁾	Involuntary Liquidating Preference per Unit ⁽³⁾	Average Market Value per Unit ⁽⁴⁾
Credit Facility				
Fiscal 2012	\$ 38,000	\$ 3,090	\$	\$ N/A
Fiscal 2013	\$ 110,000	\$ 2,470	\$	\$ N/A
Short-Term Loan ⁽⁵⁾				
Fiscal 2012	\$ 45,000	\$ 3,090	\$	\$ N/A
Fiscal 2013	\$ 9,000	\$ 2,470	\$	\$ N/A

(1) Total amount of senior securities outstanding at the end of the period presented.

(2) Asset coverage per unit is the ratio of the carrying value of our total assets, less all liabilities and indebtedness not represented by senior securities, in relation to the aggregate amount of senior securities representing indebtedness.

Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.

(4) Not applicable because senior securities are not registered for public trading.

(5) Refers to short-term loans that the Company obtained from Raymond James and repaid in full on January 2, 2013 and October 1, 2013, respectively.

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TABLE OF CONTENTS**SELECTED FINANCIAL AND OTHER DATA**

The following selected financial data for the years ended December 31, 2012 and 2013 set forth below was derived from our financial statements which have been audited by Grant Thornton LLP, our independent registered public accounting firm. 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:	As of and for the year ended December 31, 2013	As of and for the period from Inception (May 18, 2012) through December 31, 2012
Total Investment Income	\$ 29,400,736	\$ 3,696,432
Total expenses, net of fee waiver	\$ 13,389,007	\$ 2,392,076
Net investment income	\$ 16,011,729	\$ 1,304,356
Net increase in net assets resulting from operations	\$ 17,544,997	\$ 1,298,424
Per Share Data:		
Net asset value	\$ 14.54	\$ 14.45
Net investment income	\$ 1.33	\$ 0.11
Net increase in net assets resulting from operations	\$ 1.45	\$ 0.11
Distributions declared	\$ 1.43	\$ 0.18
Balance Sheet Data:	At December 31, 2013	At December 31, 2012
Investments at fair value	\$277,504,510	\$195,451,256
Short-term investments at fair value.	\$9,999,900	\$49,999,500
Cash and cash equivalents	\$13,663,542	\$62,131,686
Total assets	\$298,128,305	\$262,542,977
Total Liabilities	\$122,236,791	\$88,697,022
Total net assets	\$175,891,514	\$173,845,955
Other Data:		
Number of portfolio companies at period end	26	15
Weighted average yield on debt investments at period end	11.4	% 12.5

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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 company that has elected to be regulated as a BDC under the 1940 Act. As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private or thinly traded public U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less.

As a BDC, we must 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 all 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.

In order to expedite the ramp-up of our investment activities and further our ability to meet our investment objectives, on November 7, 2012, we acquired our initial portfolio composed of investments in 11 portfolio companies from a private investment fund to which the D. E. Shaw group serves as investment adviser and Stellus Capital Management, LLC serves as a non-discretionary sub-adviser. The total consideration paid for our initial portfolio was \$194.4 million (excluding accrued interest of approximately \$2.3 million), consisting of \$165.2 million in cash and \$29.2 million in shares of our common stock based on the price of \$15.00 per share.

We financed the cash portion of the acquisition of our initial portfolio by (i) borrowing \$152.5 million under a \$156 million credit facility led by SunTrust Bank (the Bridge Facility) and (ii) using the \$12.7 million of proceeds we received in connection with the sale of shares of our common stock in a private placement transaction to certain purchasers, including persons and entities associated with Stellus Capital Management, at a purchase price of \$15.00 per share.

On November 13, 2012, we completed our IPO and sold 9,200,000 shares (including 1,200,000 shares through the underwriters' exercise of their over-allotment option) of our common stock through a group of underwriters at an initial public offering price of \$15.00 per share. We received \$132.2 million of total net proceeds in connection with the IPO. We used the net proceeds from our IPO and borrowings under the Credit Facility (as defined below) to pay down all amounts outstanding under the Bridge Facility and terminated the Bridge Facility in conjunction with such repayment.

On November 13, 2012, we entered into a senior secured revolving credit facility (the Credit Facility), with various lenders, including SunTrust Bank, which also serves as administrative agent. The Credit Facility provides for

borrowings in an aggregate amount up to \$115 million on a committed basis and an accordion for an additional \$35 million for a total facility size of \$150 million. The exercise of the accordion will require sufficient borrowing base and additional commitments from the existing lender group and/or new lenders. On July 30, 2013, we exercised a portion of the accordion feature to increase our borrowing capacity under the Credit Facility from \$115 million to \$135 million. Borrowings under the Credit Facility bear interest, subject to the Company's election, on a per annum basis equal to (i) LIBOR plus 3.00% with no LIBOR floor or (ii) 2.00% 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

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will be due and payable, on November 12, 2016. As of December 31, 2013, we had \$110 million in borrowings outstanding under the Credit Facility and substantially all our assets were pledged as collateral under the Credit Facility.

The Company incurred costs of \$2.0 million in connection with obtaining the Credit Facility, which the Company has recorded as prepaid loan structure fees on its statement of assets and liabilities and is amortizing these fees over the life of the Credit Facility. The Company incurred costs of \$0.1 million in connection with the \$20 million commitment increase. As of December 31, 2013, \$1.6 million of such prepaid loan structure fees have yet to be amortized.

We have elected to be treated for 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 December 31, 2013, we were in compliance with the RIC requirements. As a RIC, we generally will not have to pay U.S. federal corporate-level 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) through first lien, second lien, unitranche and mezzanine debt financing, often times with a corresponding equity investment.

As of December 31, 2013, we had \$277.5 million (at fair value) invested in 26 companies. As of December 31, 2013, our portfolio included approximately 17% of first lien debt, 43% of second lien debt, 38% of mezzanine debt and 2% of equity investments at fair value. As of December 31, 2012, we had \$195.5 million (at fair value) invested in 15 companies. As of December 31, 2012, our portfolio included approximately 22% of first lien debt, 20% of second lien debt, 57% of mezzanine debt and 1% of equity investments at fair value. In addition, we held approximately \$10.0 million and \$50.0 million of United States Treasury securities at fair value at December 31, 2013 and December 31, 2012, respectively. The United States Treasury securities were purchased and temporarily held in connection with complying with RIC diversification requirements under Subchapter M of the Code.

The composition of our investments as of December 31, 2013 and December 31, 2012 was as follows:

	As of December 31, 2013		As of December 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Senior Secured First Lien	\$ 48,341,121	\$ 48,745,767	\$ 44,014,214	\$ 44,014,214
Senior Secured Second Lien	117,166,001	118,171,725	38,597,293	38,597,622
Unsecured Debt	107,318,517	106,219,596	111,129,878	111,125,134
Equity	4,178,827	4,367,422	1,714,286	1,714,286
Total Investments	\$ 277,004,466	\$ 277,504,510	\$ 195,445,671	\$ 195,451,256

The following is a summary of geographical concentration of our investment portfolio as of December 31, 2013:

	Cost	Fair Value	% of Total Investments
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New York	\$ 41,093,388	\$ 39,601,590	14.27	%
Colorado	36,412,357	37,108,667	13.37	%
Minnesota	34,087,185	34,510,922	12.44	%
Massachusetts	32,305,898	32,305,898	11.64	%
Canada	27,917,648	28,215,795	10.17	%
Texas	17,973,043	18,200,000	6.56	%
Florida	16,910,423	16,910,423	6.09	%
Illinois	14,008,782	14,115,231	5.09	%
Indiana	11,169,118	11,169,118	4.02%	

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	Cost	Fair Value	% of Total Investments	
New Jersey	10,176,677	10,176,677	3.67	%
Pennsylvania	9,669,695	9,738,000	3.51	%
Puerto Rico	8,700,324	8,359,544	3.01	%
Missouri	7,925,241	8,120,000	2.93	%
Kentucky	4,659,651	4,888,373	1.76	%
Virginia	2,514,924	2,584,272	0.93	%
Georgia	1,480,112	1,500,000	0.54	%
	\$ 277,004,466	\$ 277,504,510	100.00	%

The following is a summary of geographical concentration of our investment portfolio as of December 31, 2012:

	Cost	Fair Value	% of Total Investments	
Pennsylvania	\$ 33,708,952	\$ 33,704,209	17.24	%
Canada	20,778,456	20,778,456	10.63	%
Colorado	19,532,633	19,532,633	9.99	%
Kentucky	17,095,646	17,095,646	8.75	%
Florida	16,639,880	16,639,880	8.51	%
South Carolina	15,000,000	15,000,000	7.67	%
New York	13,000,000	13,000,000	6.65	%
Texas	12,119,671	12,120,000	6.20	%
Massachusetts	10,000,000	10,000,000	5.12	%
Utah	9,902,063	9,902,062	5.07	%
New Jersey	9,879,189	9,879,189	5.05	%
Indiana	8,969,955	8,969,955	4.59	%
Connecticut	7,351,604	7,351,604	3.76	%
Georgia	1,477,622	1,477,622	0.77	%
	\$ 195,455,671	\$ 195,451,256	100.00	%

The following is a summary of industry concentration of our investment portfolio as of December 31, 2013:

	Cost	Fair Value	% of Total Investments	
Software	\$ 48,570,692	\$ 48,805,898	17.59	%
Healthcare & Pharmaceuticals	35,707,711	35,874,461	12.93	%
High Tech Industries	35,211,794	35,318,243	12.73	%
Telecommunications	33,269,455	33,491,491	12.07	%
Transportation: Cargo	17,883,754	18,181,901	6.55	%
Beverage, Food, & Tobacco	16,689,794	17,000,000	6.13	%
Services: Business	16,910,423	16,910,423	6.09	%
Media: Broadcasting & Subscription	13,339,965	13,532,500	4.88	%
Finance	12,242,889	12,491,250	4.50	%
Services: Consumer	13,133,228	11,395,293	4.10	%
Retail	10,176,677	10,176,677	3.67	%
Consumer Goods: Non-Durable	9,669,695	9,738,000	3.51	%

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Energy: Oil & Gas	9,538,738	9,700,000	3.49	%
Metals & Mining	4,659,651	4,888,373	1.76	%
	\$ 277,004,466	\$ 277,504,510	100.00	%

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The following is a summary of industry concentration of our investment portfolio as of December 31, 2012⁽¹⁾:

	Cost	Fair Value	% of Total Investments
Consumer Goods: Non-Durable	\$ 33,708,952	\$ 33,704,209	17.24 %
Services: Business	31,117,502	31,117,501	15.93 %
High Tech Industries	30,778,456	30,778,456	15.75 %
Health & Pharmaceuticals	26,884,237	26,884,237	13.75 %
Retail	19,781,252	19,781,252	10.12 %
Media: Broadcasting & Subscription	15,000,000	15,000,000	7.67 %
Automotive	12,345,646	12,345,646	6.32 %
Telecommunications	12,119,671	12,120,000	6.20 %
Transportation: Cargo	8,969,955	8,969,955	4.59 %
Metals & Mining	4,750,000	4,750,000	2.43 %
	\$ 195,455,671	\$ 195,451,256	100.00 %

(1) The Company has changed the industry classification of certain investments to conform to new industry classifications as of December 31, 2013.

At December 31, 2013, our average portfolio company investment at amortized cost and fair value was approximately \$10.7 million and \$10.7 million, respectively, and our largest portfolio company investment by amortized cost and fair value was approximately \$22.3 million and \$22.3 million, respectively. At December 31, 2012, our average portfolio company investment at amortized cost and fair value was approximately \$13.0 million and \$13.0 million, respectively, and our largest portfolio company investment by amortized cost and fair value was approximately \$33.0 million and \$33.0 million, respectively.

At December 31, 2013, 58% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 42% bore interest at fixed rates. At December 31, 2012, 40% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 60% bore interest at fixed rates.

The weighted average yield on all of our debt investments as of December 31, 2013 and December 31, 2012 was approximately 11.4% and 12.5%, respectively. The weighted average yield was computed using the effective interest rates for all of our debt investments, including accretion of original issue discount.

As of December 31, 2013 and December 31, 2012, we had cash of \$3.7 million and \$12.1 million, respectively, and United States Treasury securities of approximately \$10.0 million and \$50.0 million, respectively. The United States Treasury securities were purchased and temporarily held in connection with complying with RIC diversification requirements under Subchapter M of the Code.

Investment Activity

On November 7, 2012, we acquired our initial portfolio composed of investments in 11 portfolio companies from a private investment fund to which the D. E. Shaw group serves as investment adviser and Stellus Capital Management, LLC serves as a non-discretionary sub-adviser. The total consideration paid for our initial portfolio was \$194.4 million in total (excluding accrued interest of approximately \$2.3 million) consisting of \$165.2 million in cash and

\$29.2 million in shares of our common stock based on the price of \$15.00 per share. Our initial portfolio was comprised of a portion of the loans to middle-market companies that were originated over the previous three years by the Stellus Capital Management, LLC investment team during their time with the D. E. Shaw group and were selected for our initial portfolio because they are similar to the type of investments we originate. Our initial portfolio included middle-market loans that had an internal risk rating of 2 or better (i.e., investments that were performing at or above expectations and whose risks were neutral or favorable compared to the expected risk at the time of the original investment). We engaged an independent third-party valuation firm to assist in our determination of the acquisition price of the initial portfolio, which was ultimately approved by our board of directors (which includes a majority of independent directors). The independent third-party valuation firm that we engaged is also the third party

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valuation firm that was engaged by the D. E. Shaw group to value the initial portfolio for the D. E. Shaw group fund in the ordinary course of such fund's operations.

During the year ended December 31, 2013, we made \$176.4 million of investments in 16 new portfolio companies and six to existing portfolio companies. During the year ended December 31, 2013, we received \$97.4 million in proceeds principally from prepayments of our investments, including \$3.5 million from amortization of certain other investments.

Subsequent to November 7, 2012 through December 31, 2012, we made \$67.5 million (\$68.4 million at par) of investments in 7 new portfolio companies and none for existing portfolio companies. During the period from November 7, 2012 through December 31, 2012, we received \$66.5 million in proceeds principally from prepayments of our investments and the paydown and amortization of certain other investments.

Our level of investment activity can vary substantially from period to period depending on many factors, including the amount of debt and equity capital to 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 Management uses an investment rating system to characterize and monitor the credit profile and expected level of returns on each investment in our portfolio.

This investment rating system uses a five-level numeric scale. The following is a description of the conditions associated with each investment rating:

Investment Rating 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 Rating 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 Rating 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 Rating 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 Rating 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.

The following table shows the investment rankings of our investments at fair value as of December 31, 2013 and December 31, 2012:

Investment Rating	Fair Value as of December 31, 2013	% of Portfolio	Number of Portfolio Companies
1	\$ 21,169,118	8 %	2
2	236,580,555	85 %	22
3	8,359,544	3 %	1

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4	11,395,293	4	%	1
5		0	%	
Total	\$ 277,504,510	100	%	26

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