Stellus Capital Investment Corp
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PROSPECTUS SUPPLEMENT
(to Prospectus dated January 30, 2014)

$50,000,000

Stellus Capital Investment Corporation

Common Stock

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company 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 have entered into separate equity distribution agreements, each dated June 4, 2014, with Raymond James & Associates, Inc. and MLV & Co. LLC, each a Sales Agent and, collectively, the Sales Agents, relating to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. The equity distribution agreements provide that we may offer and sell up to $50,000,000 of our common stock from time to time through the Sales Agents. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices. As of the date of this prospectus supplement, we have not sold any shares of our common stock under the equity distribution agreements.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the trading symbol SCM. The last sale price, as reported on NYSE on June 4, 2014, was $13.88 per share. The net asset value per share of our common stock at March 31, 2014 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $14.49.

Under the terms of the equity distribution agreements, the Sales Agents will receive a commission from us equal to 1.50% of the gross sales price of any shares of our common stock sold through the Sales Agents under the equity distribution agreements. The Sales Agents are not required to sell any specific number or dollar amount of common stock, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the shares of our common stock offered by this prospectus supplement and the accompanying prospectus. See Plan of Distribution beginning on page S-15 of this prospectus supplement.

Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it will likely increase the risk of loss for purchasers in this offering. In this regard, on July 29, 2013, our stockholders voted to allow us to issue common stock at a price below net asset value per share for the period ending on the earlier of the one year anniversary of the date of our 2013 Annual Meeting of Stockholders and the date of our 2014 Annual Meeting of Stockholders, which will take place on June 26, 2014. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock, although the number of shares sold in each offering may not exceed 25% of our outstanding common stock immediately prior to such sale. In addition, we cannot issue shares of our common stock below net asset value unless our board of directors determines that it would be in our and our stockholders best interests to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In addition, continuous sales of common stock below net asset value may have a negative impact on total returns and could have a negative impact on the market price of our shares of common stock. See Sale of Common Stock Below Net Asset Value in this prospectus supplement and Sales of Common Stock Below Net Asset Value in the accompanying prospectus.

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

This prospectus supplement and the accompanying prospectus, contain important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus supplement and the accompanying prospectus before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or SEC. The SEC also maintains a website at *http://www.sec.gov* that contains such information. This information is also available free of charge by contacting us at 4400 Post Oak Parkway, Suite 2200, Houston, 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 our common stock involves a high degree of risk. Before buying any shares, you should read the discussion of the material risks of investing in our common stock in Supplementary Risk Factors beginning on page S-13 in this prospectus supplement and in Risk Factors beginning on 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.

RAYMOND JAMES **MLV & CO.**

The date of this prospectus supplement is June 5, 2014

TABLE OF CONTENTS

Prospectus Supplement

TABLE OF CONTENTS

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS SUPPLEMENT

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

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

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS. WE HAVE NOT, AND RAYMOND JAMES AND MLV & CO. 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 RAYMOND JAMES AND MLV & CO. 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.

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read the more detailed information set forth under Risk Factors and the other information included in this prospectus and any prospectus supplement 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 regulated investment company, or 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

TABLE OF CONTENTS

person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objectives and strategies. We intend to co-invest, subject to the conditions included in the exemptive order we received from the SEC, with 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 $5.0 million to $30.0 million, and we may also selectively invest in larger positions, and we generally expect that the size of our positions will increase in proportion to the size of our capital base. Pending such investments, we may reduce our outstanding indebtedness or invest in cash, cash equivalents, U.S. government securities and other high-quality debt investments with a maturity of one year or less. In the future, we may adjust opportunistically the percentage of our assets held in various types of loans, our principal loan sources and the industries to which we have greatest exposure, based on market conditions, the credit cycle, available financing and our desired risk/return profile.

As of March 31, 2014, we had $296.6 (at fair value) in portfolio investments under management, comprised of 39 investments in 28 companies. As of March 31, 2014, our portfolio included approximately 25% of first lien debt, 35% of second lien debt, 38% of mezzanine debt and 2% of equity investments at fair value. As of March 31, 2014, 57% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 43% bore interest at fixed rates. The weighted average yield on all of our debt investments as of March 31, 2014, was approximately 10.7%.

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 $384 million and $399 million investment portfolio (as of March 31, 2014 and December 31, 2013, respectively) in middle-market companies pursuant to sub-advisory arrangements.

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

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

TABLE OF CONTENTS

Market Opportunity

We originate and invest primarily in private middle-market companies through first lien, second lien, unitranche and mezzanine debt financing, oftentimes 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.

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 Regulations

On May 22, 2014, our wholly-owned subsidiary, Stellus Capital SBIC, LP, received committee approval for a license from the U.S. Small Business Administration (SBA) to operate as a small business investment company (SBIC). An SBIC license requires final action by the SBA Administrator. There can be no assurance regarding when or if the SBIC license will be issued.

Our wholly-owned subsidiary s SBIC license will allow it to obtain leverage by issuing SBA-guaranteed debentures, subject to issuance of a capital commitment from the SBA and customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with 10-year maturities.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $18 million and have average annual fully taxed net income not exceeding $6 million for the two most recent fiscal years. In addition, an SBIC must devote 25% of its investment activity to smaller concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding $6 million and has average annual fully taxed net income not exceeding $2 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services.

S-4

TABLE OF CONTENTS

SBA regulations currently limit the amount that an SBIC subsidiary may borrow to a maximum of $150 million when it has at least $75 million in regulatory capital. Affiliated SBICs are permitted to issue up to a combined maximum amount of $225 million when they have at least $112.5 million in regulatory capital. Our SBIC subsidiary currently has $32.5 million in regulatory capital and no SBA-guaranteed debentures outstanding.

We have submitted an exemptive application the SEC seeking exemptive relief to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the 200% asset coverage test under the 1940 Act. If granted, this relief will allow us increased flexibility under the 200% asset coverage test by allowing us to borrow up to $97.5 million more than we would otherwise be able to borrow absent the receipt of this exemptive relief. There can be no assurance as to when or if the SEC will grant us this exemptive relief.

The SBA restricts the ability of SBICs to repurchase their capital stock. SBA regulations also include restrictions on a change of control or transfer of an SBIC and require that SBICs invest idle funds in accordance with SBA regulations. In addition, our SBIC subsidiary may also be limited in its ability to make distributions to us if it does not have sufficient capital, in accordance with SBA regulations.

Our SBIC subsidiary is subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. Receipt of an SBIC license does not assure that our SBIC subsidiary will receive SBA guaranteed debenture funding, which is dependent upon our SBIC subsidiary continuing to be in compliance with SBA regulations and policies. The SBA, as a creditor, will have a superior claim to our SBIC subsidiary s assets over our stockholders in the event we liquidate our SBIC subsidiary or the SBA exercises its remedies under the SBA-guaranteed debentures issued by our SBIC subsidiary upon an event of default.

Recent Developments

Investments

Since March 31, 2014, we made investments totaling $4.2 million and received proceeds from repayments and sales of $13.8 million. This activity decreased our investment portfolio to $287 million and the average investment per company to $10.2 million as follows:

On each of April 3, 2014 and April 11, 2014, we invested $33,333 in the equity of SKOPOS. We invested an additional $66,667 in equity on April 30, 2014.
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 second lien term loan of Atkins Nutritionals, Inc. to a third party at 100.5% of par, resulting in total proceeds of $4.0 million.
On May 21, 2014, we received full repayment on our first lien loan of Varel International Energy Funding Corp. at par plus a 3.0% prepayment premium resulting in total proceeds of $9.8 million.

Notes Offering

On May 5, 2014 we completed our offering of $25.0 million in aggregate principal amount of 6.50% Notes due 2019 (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.

Credit Facility

The Company is party to a Senior Secured Revolving Credit Agreement (the Credit Facility), dated as of November 13, 2012, by and among the Company, the lenders party thereto, SunTrust Bank, as a lender and the administrative agent, and SunTrust Robinson Humprey, Inc., as sole lead arranger and sole book runner.

S-5

TABLE OF CONTENTS

On May 6, 2014, the Company increased its borrowing capacity under the Credit Facility from $135 million to $150 million and added Frost Bank as a lender. There were no other amendments or material changes to the terms of the Credit Facility.

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. On April 29, 2014, EFH Corp. filed for protection under Chapter 11 of the US Bankruptcy Code. In connection with the restructuring, Mr. Keglevic has been named co-Chief Restructuring Officer.

S-6

TABLE OF CONTENTS

THE OFFERING

Common stock offered by us

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

Mannering of offering

At the market offering that may be made from time to time through Raymond James & Associates, Inc. and MLV & Co. LLC each a Sales Agent and, collectively, Sales Agents, using commercially reasonable efforts. See Plan of Distribution.

Use of proceeds

If we sell shares of our common stock with an aggregate offering price of $50,000,000 at a price of $14.49 per share (the net asset value of our common stock at March 31, 2014), we anticipate that our net proceeds, after deducting the sales agent commissions and estimated expenses payable by us will be approximately $49.1 million. We intend to use the net proceeds from this offering to repay a portion of the amount outstanding under the Credit Facility, for general corporate purposes, which may include investing in debt or equity securities, and other general corporate purposes, including working capital requirements.

As of June 2, 2014, we had $99.6 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.

Distributions

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

Our board of directors has declared a regular monthly dividend of $0.1133 per share payable on May 15, 2014. June 16, 2014 and July 15, 2014 to common shareholders of record on April 30, 2014, May 30, 2014 and June 30, 2014, respectively.

Taxation

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

New York Stock Exchange symbol

SCM

Trading at a discount

Shares of closed-end investment companies, including business development companies, frequently trade in the secondary market at a discount to their net asset values. The risk that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value. See Supplementary Risk Factors beginning on page S-13 in this prospectus supplement and in Risk Factors

S-7

TABLE OF CONTENTS

beginning on page 18 of the accompanying prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our common stock.

Leverage

We expect to continue to use borrowed funds in order to make additional investments. We expect to use this practice, which is known as leverage, when the terms and conditions are favorable to long-term investing and well aligned with our investment strategy and portfolio composition in an effort to increase returns to our stockholders, but this strategy involves significant risks. See Supplementary Risk Factors beginning on page S-13 in this prospectus supplement and and Risk Factors beginning on page S-13 of the accompanying prospectus. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% immediately after each such borrowing. The amount of leverage that we employ will depend on Stellus Capital Management s and our board of directors assessment of market and other factors at the time of any proposed borrowing.

As of June 2, 2014, we had $99.6 million in borrowings outstanding under the Credit Facility. The Company s obligations to the lenders are secured by a first priority security interest in its portfolio of securities and cash, but excluding short term investments. As of June 2, 2014, substantially all of our assets were pledged as collateral under the Credit Facility.

Risk Factors

See Supplementary Risk Factors beginning on page S-13 in this prospectus supplement and Risk Factors beginning on page 18 of the accompanying prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our common stock.

TABLE OF CONTENTS

FEES AND EXPENSES

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

Stockholder Transaction Expenses:		
Sales load (as a percentage of offering price)	1.50	%(1)
Offering expenses (as a percentage of offering price)	0.00	%(2)
Dividend reinvestment plan expenses		(3)
Total Stockholder Transaction Expenses (as a percentage of offering price)	1.50	%
Annual Expenses (as percentage of net assets attributable to common stock):		
Base management fees	2.89	%(4)
Incentive fees payable under the investment advisory agreement	2.36	%(5)
Interest payments on borrowed funds	2.39	%(6)
Other expenses	2.59	%(7)
Total annual expenses	10.23	%

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

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

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

(4) Our base management fee, payable quarterly in arrears, is 1.75% of our gross assets, including assets purchased with borrowed amounts or other forms of leverage (including traditional and effective leverage such as preferred stock, public and private debt issuances, derivative instruments, repurchase agreements and other similar instruments or arrangements) and excluding cash and cash equivalents and is estimated by assuming the base management fee remains consistent with the fees incurred for the three months ended March 31, 2014.

(5) This item represents the incentive fee payable to Stellus Capital Management based on annualizing actual amounts earned on our pre-incentive fee net investment income for the three months ended March 31, 2014, and assumes that the capital gains incentive fees payable at the end of the 2014 calendar year will be based on the actual cumulative realized capital gains net of cumulative realized losses and unrealized capital depreciation as of March 31, 2014.

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

The ordinary income component, which is payable quarterly in arrears, equals 20.0% of the excess, if any, of our pre-incentive fee net investment income over a 2.0% quarterly (8.0% annualized) hurdle rate, expressed as a rate of return on the value of our net assets attributable to our common stock, and a catch-up provision, measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our investment adviser receives no incentive fee until our net investment income equals the hurdle rate of 2.0% but then receives, as a catch-up, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5% subject to a total return requirement and deferral of non-cash amounts. The effect of the catch-up provision is that, subject to the total return and deferral provisions discussed below, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, Stellus Capital Management will receive 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply. The ordinary income component of the incentive fee is computed on income that may include interest that is accrued but not yet received in cash. The foregoing ordinary income component of the incentive fee is subject to a total return requirement, which provides that no incentive fee in respect

TABLE OF CONTENTS

of the Company s pre-incentive fee net investment income is payable except to the extent 20.0% of the cumulative net increase in net assets resulting from operations (as defined below) over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter will be limited to the lesser of (i) 20.0% of the amount by which our pre-incentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (ii) (x) 20.0% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding calendar quarters *minus* (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the sum of pre-incentive fee net investment income, realized gains and losses and unrealized appreciation and depreciation of the Company for the then current and 11 preceding calendar quarters. In addition, the portion of such incentive fee that is attributable to deferred interest (sometimes referred to as payment-in-kind interest, or PIK, or original issue discount, or OID) will be paid to Stellus Capital Management, together with interest thereon from the date of deferral to the date of payment, only if and to the extent we actually receive such interest in cash, and any accrual thereof will be reversed if and to the extent such interest is reversed in connection with any write-off or similar treatment of the investment giving rise to any deferred interest accrual. Any reversal of such accounts would reduce net income for the quarter by the net amount of the reversal (after taking into account the reversal of incentive fees payable) and would result in a reduction and possibly elimination of the incentive fees for such quarter. There is no accumulation of amounts on the hurdle rate from quarter to quarter, and accordingly, there is no clawback of amounts previously paid if subsequent quarters are below the quarterly hurdle, and there is no delay of payment if prior quarters are below the quarterly hurdle.

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

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

(6) Interest payments on borrowed funds represent our estimated annual interest payments based on the actual interest incurred under our Credit Facility for the three months March 31, 2014, as adjusted for the Notes issued in May 2014 and use of the net proceeds under the offering of the Notes. As of March 31, 2014, we had $130.0 million outstanding under the Credit Facility, with capacity to borrow up to an aggregate of $150 million, and for the three months ended March 31, 2014, our interest paid was $0.9 million. On May 6, 2014, we increased our borrowing capacity under the Credit Facility to $150 million. This item is based on our assumption that our average borrowings and our interest costs for the remainder of 2014 will be similar to those for the three months ended March 31, 2014, as adjusted for the issuance of the Notes and use of net proceeds. If, in the future, we issue any debt securities, interest payments on borrowed funds will include estimated annual interest payments for any debt securities we may issue. The amount of leverage that we employ at any particular time will depend on, among other things, our board of directors assessment of market and other factors at the time of any proposed borrowing.

(7) Includes our overhead expenses, including payments under the administration agreement based on our allocable portion of overhead and other expenses incurred by Stellus Capital Management. See Management Agreements Administration Agreement in the accompanying prospectus. Assumes that the amount of our overhead expenses remains consistent with our overhead expenses during the three-month period ended March 31, 2014.

S-10

TABLE OF CONTENTS

Example

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

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 96	$ 251	$ 396	$ 721

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Because the income incentive fee under our investment advisory agreement is unlikely to be significant assuming a 5% annual return, the example assumes that the 5% annual return will be generated entirely through the realization of capital gains on our assets and, as a result, will trigger the payment of a capital gains incentive fee under our investment advisory agreement. The incentive fee under the investment advisory agreement, which, assuming a 5% annual return, would either not be payable or have an immaterial impact on the expense amounts shown above, is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. Further, while the example assumes reinvestment of all distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by (a) 95% of the market price per share of our common stock at the close of trading on the payment date fixed by our board of directors or (b) the average purchase price of all shares of common stock purchased by the administrator of the dividend reinvestment plan in the event shares are purchased in the open market to satisfy the share requirements of the dividend reinvestment plan, which may be at, above or below net asset value.

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

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the effect of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with Stellus Capital Management;
- the dependence of our future success on the general economy and its effect on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- the use of borrowed money to finance a portion of our investments;
- the adequacy of our financing sources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the ability of Stellus Capital Management to locate suitable investments for us and to monitor and administer our investments;
- the ability of Stellus Capital Management to attract and retain highly talented professionals;
- our ability to qualify and maintain our qualification as a RIC and as a business development company; 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, anticipa or similar words.

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

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

SUPPLEMENTARY RISK FACTORS

Any failure to comply with SBA regulations could have an adverse effect on our SBIC subsidiary s operations.

On May 22, 2014, our wholly-owned subsidiary, Stellus Capital SBIC LP, received committee approval for a license from the SBA to operate as an SBIC. An SBIC license requires final action by the SBA Administrator. There can be no assurance regarding when or if the SBIC license will be issued. The SBIC license will allow our SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures. The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in a few prohibited industries. Compliance with SBIC requirements may cause our SBIC subsidiary to forgo attractive investment opportunities that are not permitted under SBA regulations.

Further, SBA regulations require that an SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval, a change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10% or more of a class of capital stock of an SBIC. If our SBIC subsidiary fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit its use of debentures, declare outstanding debentures immediately due and payable, and/or limit it from making new investments. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because our SBIC subsidiary is our wholly-owned subsidiary.

Our wholly-owned SBIC subsidiary may be unable to make distributions to us that will enable us to maintain RIC status, which could result in the imposition of an entity-level tax.

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level taxes, we are required to distribute substantially all of our net taxable income and net capital gain income, including income from certain of our subsidiaries, which includes the income from our SBIC subsidiary. We are partially dependent on our SBIC subsidiary for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiary may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA s restrictions for our SBIC subsidiary to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver and if our SBIC subsidiary is unable to obtain a waiver, compliance with the SBA regulations may result in loss of RIC tax treatment and a consequent imposition of an entity-level tax on us.

Because we finance our investments with borrowed money, the potential for gain or loss on amounts invested in us is magnified and may increase the risk of investing in us.

The use of leverage magnifies the potential for gain or loss on amounts invested. The use of leverage is generally considered a speculative investment technique and increases the risks associated with investing in our securities. If we continue to use leverage to partially finance our investments through banks, insurance companies and other lenders, you will experience increased risks of investing in our common stock. Lenders of these funds have fixed dollar claims on our assets that are superior to the claims of our common stockholders, and we would expect such lenders to seek recovery against our assets in the event of a default. We, through our SBIC subsidiary, intend to issue debt securities guaranteed by the SBA and sold in the capital markets. Upon any such issuance of debt securities and as a result of its guarantee of the debt securities, if any, the SBA would also have fixed dollar claims on the assets of our SBIC subsidiary that are superior to the claims of our common stockholders.

Upon the issuance of any debt securities guaranteed by the SBA, if we are unable to meet the financial obligations under the Notes or Credit Facility, the SBA, as a creditor, would have a superior claim to the assets of our SBIC subsidiary over our stockholders in the event we liquidate or the SBA exercises its remedies under such debentures as the result of a default by us. In addition, under the terms of the Credit Facility and any borrowing facility or other debt instrument we may enter into, we are likely to be required to

Because we finance our investments with borrowed money, the potential forgain or loss on amounts invested in us

TABLE OF CONTENTS

use the net proceeds of any investments that we sell to repay a portion of the amount borrowed under such facility or instrument before applying such net proceeds to any other uses. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged, thereby magnifying losses or eliminating our stake in a leveraged investment. Similarly, any decrease in our revenue or income will cause our net income to decline more sharply than it would have had we not borrowed. Such a decline would also negatively affect our ability to make distributions with respect to our common stock. Our ability to service any debt depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. Moreover, as the base management fee payable to Stellus Capital Management is payable based on the value of our gross assets, including those assets acquired through the use of leverage, Stellus Capital Management will have a financial incentive to incur leverage, which may not be consistent with our stockholders interests. In addition, our common stockholders bear the burden of any increase in our expenses as a result of our use of leverage, including interest expenses and any increase in the base management fee payable to Stellus Capital Management.

As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. If this ratio declines below 200%, we will not be able to incur additional debt until we are able to comply with the 200% asset coverage ratio under the 1940 Act. This could have a material adverse effect on our operations, and we may not be able to make distributions. The amount of leverage that we employ will depend on Stellus Capital Management s and our board of directors assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to obtain credit at all or on terms acceptable to us.

We have applied for exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the 200% asset coverage ratio we are required to maintain under the 1940 Act. If we receive this relief, we would have the ability to incur leverage in excess of the amounts set forth in the 1940 Act. If we incur additional leverage in excess of the amounts set forth in the 1940 Act, our net asset value will decline more sharply if the value of our assets declines than if we had not incurred such additional leverage and the effects of leverage described above will be magnified. While the SEC has granted exemptive relief in substantially similar circumstances in the past, no assurance can be given that an exemptive order will be granted. Delays and costs involved in obtaining necessary approvals may make certain transactions impracticable or impossible to consummate, and there is no assurance that the application for exemptive relief will be granted by the SEC.

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual results may be higher or lower than those appearing below.

Assumed Return on Our Portfolio(1) (net of expenses)

	(10.0)%	(5.0)%	0.0%	5.0%	10.0%
Corresponding net return to common stockholder	(20.5)%	(11.9)%	(2.8)%	6.3 %	14.8 %

(1) Assumes $310.7 million in total assets, $130.0 million in debt outstanding, $175.5 million in net assets, and an average cost of funds of 3.80%. Actual interest payments may be different.

In addition, our debt facilities may impose financial and operating covenants that restrict our business activities, including limitations that hinder our ability to finance additional loans and investments or to make the distributions required to maintain our qualification as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code.

TABLE OF CONTENTS

PLAN OF DISTRIBUTION

We have entered into separate distribution agreements, each dated June 4, 2014, with each of Raymond James & Associates, Inc. and MLV & Co. LLC, under which each will act as our sales agent in connection with the offer and sale of shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Upon written instructions from us, a Sales Agent will use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, our common stock under the terms and subject to the conditions set forth in the respective equity distribution agreement. We will instruct the Sales Agent as to the amount of common stock to be sold by it. We may instruct the Sales Agent not to sell common stock if the sales cannot be effected at or above the price designated by us in any instruction. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less the Sales Agent s commission, may be less than the net asset value per share of our common stock at the time of such sale. We or the Sales Agent may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

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

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

Under the terms of the equity distribution agreements, Raymond James & Associates, Inc. and MLV & Co. LLC will be entitled to compensation equal to 1.50% of the gross sales price of shares of our common stock sold through it as sales agent. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Agents under the terms of each equity distribution agreement, will be approximately $135,000 (including up to $25,000 in reimbursement of each of the Sales Agent s counsel fees).

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

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

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

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

The principal business address of Raymond James & Associates, Inc. is 880 Carillon Parkway, St. Petersburg, FL 33716. The principal business address of MLV & Co. LLC is 1251 Avenue of the Americas, 41st Floor, New York, NY 10020.

TABLE OF CONTENTS

USE OF PROCEEDS

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all $50.0 million of common stock offered under this prospectus supplement and the accompanying prospectus at a price of $14.49 per share (the net asset value of our common stock at March 31, 2014), we estimate that the net proceeds of this offering will be approximately $49.1 million after deducting the estimated sales commission payable to the Sales Agents and our estimated offering expenses.

We intend to use the net proceeds from this offering to repay a portion of the amount outstanding under the Credit Facility, general corporate purposes, which may include investing in debt or equity securities, and other general corporate purposes, including working capital requirements. As of June 2, 2014, we had $99.6 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. 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.

We intend to seek to invest the net proceeds received in this offering as promptly as practicable after receipt thereof consistent with our investment objective. We anticipate that substantially all of the net proceeds from any offering of our securities will be used as described above within three to six months, depending on market conditions. We anticipate that the remainder will be used for working capital and general corporate purposes, including potential payments or distributions to shareholders. Pending such use, we will invest a portion of the net proceeds of this offering in short-term investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of investments in accordance with our investment objective.

TABLE OF CONTENTS

CAPITALIZATION

The equity distribution agreements provide that we may offer and sell up to $50,000,000 of our common stock from time to time through our Sales Agents for the offer and sale of such common stock. The table below assumes that we will sell all of the $50,000,000 of our common stock at a price of $14.49 per share (the net asset value of our common stock at March 31, 2014) but there is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than $14.49, depending on the net asset value and market price of our common stock at the time of any such sale. The following table sets forth our capitalization as of March 31, 2014:

on an actual basis; and

on an as further adjusted basis giving effect to the transactions noted above and the assumed sale of $50,000,000 of our common stock at a price of $14.49 per share (the net asset value of our common stock at March 31, 2014) less commissions and expenses.

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 March 31, 2014	
	Actual	As Adjusted(1)
	(Unaudited)	
Assets		
Cash and cash equivalents	$6,639,754	$55,754,754
Investments, at fair value	$296,600,769	$296,600,769
Other assets	$7,483,645	$7,483,645
Total assets	$310,724,168	$359,839,168
Liabilities:		
Credit Facility	$130,000,000	$130,000,000
Other liabilities	$5,244,120	$5,244,120
Total liabilities	$135,244,120	$135,244,120
Stockholder s equity:		
Common stock, par value $0.001 per share (100,000,000 shares authorized; 12,109,528 shares issued and outstanding, actual; 15,560,183 shares issued and outstanding, as adjusted)	$12,110	$15,561
Paid-in capital in excess of par value	$175,760,700	$224,872,249
Accumulated undistributed net realized gain	$353,028	$353,028
Distributions in excess of net investment income	$(1,616,379)	$(1,616,379)
Unrealized appreciation (depreciation) on investments and cash equivalents	$970,589	$970,589
Total stockholders equity	$175,480,048	$224,595,048
Total liabilities and stockholders equity	$310,724,168	$359,839,168
Net asset value per share	$14.49	$14.43

(1)

In addition to normal course events, the as adjusted column does not reflect the impact of the issuance of $25.0 million of the Notes on May 5, 2014.

TABLE OF CONTENTS

SELECTED FINANCIAL AND OTHER DATA

The following selected financial data at and for the years ended December 31, 2012 and 2013 is derived from our financial statements which have been audited by Grant Thornton LLP, our independent registered public accounting firm, and for the three-months ended March 31, 2014 and 2013 is derived from our unaudited financial statements. 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.

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Year Ended December 31, 2013	For the period from Inception (May 18, 2012) through December 31, 2012
Statement of Operations Data:				
Total Investment Income	$7,849,246	$6,446,440	$29,400,736	$3,696,432
Total expenses, net of fee waiver	$4,088,202	$2,759,058	$13,389,007	$2,392,076
Net investment income	$3,761,044	$3,687,382	$16,011,729	$1,304,356
Net increase in net assets resulting from operations	$4,343,761	$5,532,118	$17,544,997	$1,298,424
Per Share Data:				
Net asset value	$14.49	$14.54	$14.54	$14.45
Net investment income	$0.31	$0.31	$1.33	$0.11
Net increase in net assets resulting from operations	$0.36	$0.46	$1.45	$0.11
Distributions	$0.40	$0.34	$1.36	$0.18

	At March 31, 2014	At March 31, 2013	At December 31, 2013	At December 31, 2012
Balance Sheet Data:				
Investments at fair value	$296,600,769	$203,905,313	$277,504,510	$195,451,256
Short-term investments at fair value		$24,999,781	$9,999,900	$49,999,500
Cash and cash equivalents	$6,639,754	$35,045,836	$13,663,542	$62,131,686
Total assets	$310,724,168	$244,588,698	$298,128,305	$262,542,977
Total Liabilities	$135,244,120	$69,087,826	$122,236,791	$88,697,022
Total net assets	$175,480,048	$175,500,872	$175,891,514	$173,845,955
Other Data:				
Number of portfolio companies at period end	28	19	26	15
	10.7 %	12.0 %	11.4 %	12.5 %

Weighted average yield on debt investments
at period end
S-18

TABLE OF CONTENTS

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.

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 March 31, 2014, we were in compliance with the RIC requirements. As a RIC, we generally will not have to pay 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 March 31, 2014, we had $296.6 million (at fair value) invested in 28 companies. As of March 31, 2014, our portfolio included approximately 25% of first lien debt, 35% of second lien debt, 38% of mezzanine debt and 2% of equity investments at fair value. The composition of our investments as of March 31, 2014 was as follows:

	Cost	Fair Value

Senior Secured	First Lien	$ 73,085,777	$ 73,445,035
Senior Secured	Second Lien	102,728,604	104,342,559
Unsecured Debt		113,916,001	112,915,531
Equity		5,899,798	5,897,644
Total Investments		$ 295,630,180	$ 296,600,769

As of December 31, 2013, we had $277.5 million (at fair value) invested in 26 portfolio 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. The composition of our investments as of December 31, 2013 was as follows:

		Cost	Fair Value
Senior Secured	First Lien	$ 48,341,121	$ 48,745,767
Senior Secured	Second Lien	117,166,001	118,171,725
Unsecured Debt		107,318,517	106,219,596
Equity		4,178,827	4,367,422
Total Investments		$ 277,004,466	$ 277,504,510

S-19

TABLE OF CONTENTS

The Company s investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require the Company to provide funding when requested by portfolio companies in accordance with the terms of the underlying loan agreements. As of March 31, 2014 and December 31, 2013, the Company had five and three such investments with aggregate unfunded commitments of $23.1 million and $20.9 million, respectively.

The following is a summary of geographical concentration of our investment portfolio as of March 31, 2014:

	Cost	Fair Value	% of Total Investments
New York	$ 41,192,322	$ 39,922,237	13.46 %
Colorado	36,434,646	36,921,195	12.45 %
Minnesota	33,995,653	34,480,666	11.63 %
Canada	31,028,274	31,262,955	10.54 %
Texas	27,883,749	28,291,448	9.54 %
Massachusetts	22,317,170	22,736,346	7.67 %
Alabama	17,160,147	17,160,207	5.79 %
Florida	16,910,423	16,910,423	5.70 %
Illinois	14,015,107	14,250,000	4.80 %
Indiana	14,166,461	14,166,596	4.78 %
Pennsylvania	9,680,135	9,850,000	3.32 %
New Jersey	10,091,516	9,769,581	3.29 %
Puerto Rico	8,698,719	8,493,245	2.86 %
Missouri	4,954,543	5,075,000	1.71 %
Kentucky	4,625,608	4,835,163	1.63 %
Georgia	2,475,707	2,475,707	0.83 %
	$ 295,630,180	$ 296,600,769	100.00 %

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

	Cost	Fair Value	% of Total Investments
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 %
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 %

S-20

TABLE OF CONTENTS

The following is a summary of industry concentration of our investment portfolio as of March 31, 2014:

	Cost	Fair Value	% of Total Investments
Software	$ 37,107,864	$ 37,736,346	12.72 %
Healthcare & Pharmaceuticals	35,705,831	35,801,940	12.07 %
High Tech Industries	35,327,667	35,562,560	11.99 %
Telecommunications	30,677,063	31,126,599	10.49 %
Media: Broadcasting and Subscription	27,543,821	27,760,550	9.36 %
Finance	19,348,212	19,594,568	6.61 %
Transportation: Cargo	17,887,354	18,122,035	6.11 %
Beverage, Food, & Tobacco	16,700,472	17,000,000	5.73 %
Services: Business	16,910,423	16,910,423	5.70 %
Energy: Oil & Gas	12,353,332	12,652,595	4.27 %
Services: Consumer	13,200,354	11,407,746	3.85 %
Consumer Goods: Non-Durable	9,680,135	9,850,000	3.32 %
Retail	10,091,516	9,769,581	3.29 %
Transportation & Logistics	5,994,821	5,994,956	2.02 %
Metals & Mining	4,625,608	4,835,163	1.63 %
Construction & Building	2,475,707	2,475,707	0.83 %
	$ 295,630,180	$ 296,600,769	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 %
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 %

At March 31, 2014, our average portfolio company investment at amortized cost and fair value was approximately $10.6 million and $10.6 million, respectively, and our largest portfolio company investment by amortized cost and fair value was approximately $22.3 million and $22.7 million, respectively. 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 March 31, 2014, 57% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 43% bore interest at fixed rates. 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.

TABLE OF CONTENTS

The weighted average yield on all of our debt investments as of March 31, 2014 and December 31, 2013 was approximately 10.7% and 11.4%, 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 March 31, 2014 and December 31, 2013, we had cash of $6.6 million and $3.7 million, respectively, and United States Treasury securities of approximately $0 million and $10.0 million, respectively. The United States Treasury securities were purchased and temporarily held in 2013 in connection with complying with RIC diversification requirements under Subchapter M of the Code.

Investment Activity

During the quarter ended March 31, 2014, we made $40.6 million of investments in five new portfolio companies. During the quarter ended March 31, 2014, we received $22.4 million in proceeds from repayments and sales of our investments, including $0.4 million from amortization of certain other investments.

During the year ended December 31, 2013, we made $176.4 million of investments in 16 new portfolio companies and six existing portfolio companies. During the year ended December 31, 2013, we received $97.4 million in proceeds from repayments and sales of our investments, including $3.5 million from 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.

TABLE OF CONTENTS

Investment Rating	As of March 31, 2014 Fair Value	% of Total Portfolio		Number of Portfolio Companies	As of December 31, 2013 Fair Value	% of Total Portfolio		Number of Portfolio Companies
1	$ 11.2	4	%	1	$ 21.1	8	%	2
2	255.8	86	%	24	236.6	85	%	22
3	18.2	6	%	2	8.4	3	%	1
4	11.4	4	%	1	11.4	4	%	1
5		0	%			0	%	
Total	$ 296.6	100	%	28	$ 277.5	100	%	26

Loans and Debt Securities on Non-Accrual Status

We will not accrue interest on loans and debt securities if we have reason to doubt our ability to collect such interest. As of March 31, 2014, we had one loan on non-accrual status, which represents approximately 4.5% of the loan portfolio at cost and 3.8% at fair value. As of December 31, 2013, we had no loans on non-accrual status.

Results of Operations

An important measure of our financial performance is net increase (decrease) in net assets resulting from operations, which includes net investment income (loss), net realized gain (loss) and net unrealized appreciation (depreciation). Net investment income (loss) is the difference between our income from interest, dividends, fees and other investment income and our operating expenses including interest on borrowed funds. Net realized gain (loss) on investments is the difference between the proceeds received from dispositions of portfolio investments and their amortized cost. Net unrealized appreciation (depreciation) on investments is the net change in the fair value of our investment portfolio.

Comparison of the Three Months ended March 31, 2014 and 2013

Revenues

We generate revenue in the form of interest income on debt investments and capital gains and distributions, if any, on investment securities that we may acquire in portfolio companies. Our debt investments typically have a term of five to seven years and bear interest at a fixed or floating rate. Interest on our debt securities is generally payable quarterly. Payments of principal on our debt investments may be amortized over the stated term of the investment, deferred for several years or due entirely at maturity. In some cases, our debt investments may pay interest in-kind, or PIK. Any outstanding principal amount of our debt securities and any accrued but unpaid interest will generally become due at the maturity date. The level of interest income we receive is directly related to the balance of interest-bearing investments multiplied by the weighted average yield of our investments. We expect that the total dollar amount of interest and any dividend income that we earn to increase as the size of our investment portfolio increases. In addition, we may generate revenue in the form of prepayment fees, commitment, loan origination, structuring or due diligence fees, fees for providing significant managerial assistance and consulting fees. Total investment income for the three months ended March 31, 2014 totaled $7.8 million and was primarily composed of interest income, including $0.2 million of PIK income and $0.2 million of miscellaneous fees. Total investment income for the three months ended March 31, 2013 was $6.4 million including $0.3 million of PIK interest and $0.1 million of miscellaneous fees.

The increases in investment income from the respective periods were due to the growth in the overall investment portfolio.

TABLE OF CONTENTS

Expenses

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

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to making investments, including out-of-pocket fees and expenses (such as travel expenses) associated with performing due diligence and reviews of prospective investments;
- transfer agent and custodial fees;
- out-of-pocket fees and expenses associated with marketing efforts;
- federal and state registration fees and any stock exchange listing fees;
- U.S. federal, state and local taxes;
- independent directors fees and expenses;
- brokerage commissions;
- fidelity bond, directors and officers liability insurance and other insurance premiums;
- direct costs, such as printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits and outside legal costs; and
- other expenses incurred by Stellus Capital Management or us in connection with administering our business, including payments under the administration agreement that are based upon our allocable portion of overhead (subject to the review of our board of directors).

Operating expenses for the three months ended March 31, 2014 totaled $4.1 million. Operating expenses, net of fee waiver totaled $2.8 million for the three months ended March 31, 2013. Operating expenses, net of fee waiver consisted of base management fees, incentive fees, administrative services expenses, fees related to the Credit Facility, professional fees, valuation fees, insurance expenses, directors fees and other general and administrative expenses, partially offset by the waiver of incentive fee.

For the three months ending March 31, 2013, the Advisor agreed to waive its incentive fee to the extent required to support an annualized dividend yield of 9.0% based on the price per share of our common stock in connection with the Offering. The Advisor has entered into no such agreement with the Company for periods subsequent to December 31, 2013. While under no obligation to do so, the Advisor may, in its sole discretion determine to waive incentive fees in future periods. For the three months ended March 31, 2014 and 2013, the Advisor waived incentive fees related to pre-incentive fee net income of $0 and $0.3 million, respectively.

For the three months ended March 31, 2014 and 2013, the Company incurred base management fees payable to the Advisor of $1.3 million and $0.9 million, respectively, as provided for in the investment advisory agreement.

For the three months ended March 31, 2014, the Company incurred incentive fees totaling $0.8 million, as compared to $0.7 million, net of fee waiver, for the three months ended March 31, 2013. The Company records an expense accrual in the statements of operations relating to the realized gains incentive fee payable by the Company to its investment adviser when the unrealized gains on its investments exceed all realized losses on its investments given the fact that a realized gains incentive fee would be owed to the investment adviser if the Company were to liquidate its investment portfolio at such time. The actual incentive fee payable to the Company s investment adviser related to realized gains will be determined and payable in arrears at the end of each fiscal year and will include only realized gains for the period. As of March 31, 2014, $0.0 million of the $0.8 million in accrued incentive fees related to such expense accrual.

S-24

TABLE OF CONTENTS

Borrowings under the Credit Facility were $130.0 million and $110.0 million as of March 31, 2014 and December 31, 2013, respectively.

For the three months ended March 31, 2014, the effective interest rate under the Credit Facility was approximately 3.2% (approximately 3.8% including commitment and other loan fees). Interest is paid quarterly in arrears. The Company recorded interest and fee expense of $1.1 million for the three months ended March 31, 2014, of which $0.9 million was interest expense, $0.1 million was amortization of loan fees paid on the Credit Facility, $27 thousand related to commitment fees on the unused portion of the Credit Facility, and $12 thousand related to loan administration fees. The Company paid $0.9 million in interest expense for the three months ended March 31, 2014. The average borrowings under the Credit Facility for the three months ended March 31, 2014 were $113.4 million.

For the three months ended March 31, 2013, the effective interest rate under the Credit Facility was approximately 3.3% (approximately 5.7% including commitment and other loan fees). Interest is paid quarterly in arrears. The Company recorded interest and fee expense of $0.6 million for the three months ended March 31, 2013, of which $0.3 million was interest expense, $0.1 million was amortization of loan fees paid on the Credit Facility, $0.1 million related to commitment fees on the unused portion of the Credit Facility and $12 thousand related to loan administration fees. The Company paid $0.3 million in interest expense for the three months ended March 31, 2013. The average borrowings under the Credit Facility for the three months ended March 31, 2013 were $40.4 million.

Administrative expenses for the three months ended March 31, 2014 totaled $0.3 million, $0.13 million of which was related to our third party administrator and $0.14 million of which was allocated to us from Stellus Capital. Administrative expenses for the three months ended March 31, 2013 totaled $0.2 million, $0.1 million of which was related to our third party administrator and $0.1 million of which was allocated to us from Stellus Capital. Expenses for valuation, professional fees, insurance expenses, and directors fees and other general and administrative expense for the three months ended March 31, 2014 and 2013 totaled $0.6 million and $0.4 million, respectively.

Net Investment Income

For the three months ended March 31, 2014, net investment income was $3.8 million, or $0.31 per common share (based on 12,103,986 weighted-average common shares outstanding at March 31, 2014). Net investment income includes expense accruals of ($0.1) million of incentive fees related to realized and unrealized gains.

For the three months ended March 31, 2013, net investment income was $3.7 million, or $0.31 per common share (based on 12,035,531 weighted-average common shares outstanding at March 31, 2013). Net investment income includes expense accruals of $0.4 million of incentive fees related to realized and unrealized gains.

Net Realized Gains and Losses

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

Repayments of investments and amortization of other certain investments for the three months ended March 31, 2014 totaled $22.4 million and net realized gains totaled $0.1 million.

Repayments of investments and amortization of other certain investments for the three months ended March 31, 2013 totaled $25.2 million and net realized gains totaled $0.9 million.

Net Change in Unrealized Appreciation of Investments

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

Net change in unrealized appreciation (depreciation) on investments and cash equivalents for the three months ended March 31, 2014 and 2013 totaled $0.5 million and $0.9 million, respectively.

S-25

TABLE OF CONTENTS

Net Increase in Net Assets Resulting from Operations

For the three months ended March 31, 2014, net increase in net assets resulting from operations totaled $4.3 million, or $0.36 per common share (based on 12,103,986 weighted-average common shares outstanding at March 31, 2014.

For the three months ended March 31, 2013, net increase in net assets resulting from operations totaled $5.5 million, or $0.46 per common share (based on 12,035,531 weighted-average common shares outstanding at March 31, 2013.

Financial condition, liquidity and capital resources

Cash Flows from Operating and Financing Activities

Our operating activities used cash of $14.6 million for the three months ended March 31, 2014, primarily in connection with the purchase of investments. Our financing activities for the three months ended March 31, 2014 provided cash of $7.6 million primarily from net borrowings under the Credit Facility.

Our operating activities provided cash of $2.9 million for the three months ended March 31, 2013, primarily in connection with cash interest received and the net repayment of our investments. Our financing activities for the three months ended March 31, 2013 used cash of $30.0 million primarily from net repayments under the Credit Facility.

Our liquidity and capital resources are derived from the Credit Facility and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and other operating expenses we incur, as well as the payment of dividends to the holders of our common stock. We used, and expect to continue to use, these capital resources as well as proceeds from turnover within our portfolio and from public and private offerings of securities to finance our investment activities.

Although we expect to fund the growth of our investment portfolio through the net proceeds from future public and private equity offerings and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act, our plans to raise capital may not be successful. In this regard, if our common stock trades at a price below our then-current net asset value per share, we may be limited in our ability to raise equity capital given that we cannot sell our common stock at a price below net asset value per share unless our stockholders approve such a sale and our board of directors makes certain determinations in connection therewith. A proposal, approved by our stockholders at our 2013 Annual Meeting of Stockholders, authorizes us to sell shares equal to up to 25% of our outstanding common stock of our common stock below the then current net asset value per share of our common stock in one or more offerings for the period ending on the earlier of (i) May 23, 2014, the one year anniversary of our 2013 Annual Meeting of Stockholders, or (ii) the date of our 2014 Annual Meeting of Stockholders. We would need similar future approval from our stockholders to issue shares below the then current net asset value per share any time after the expiration of the current approval. In addition, we intend to distribute between 90% and 100% of our taxable income to our stockholders in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings. In addition, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

Also, as a business development company, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200%. This requirement limits the amount that we may borrow. We were in compliance with the asset coverage at all times. As of March 31, 2014 and 2013 our asset coverage ratio was 235% and 407%, respectively. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing, such as the maturity, covenant package and rate structure of the proposed borrowings, our ability to raise funds through the issuance of shares of our common stock and the risks of such borrowings within the context of our investment outlook. Ultimately, we only intend to use leverage if the expected returns from borrowing to make investments will exceed the cost of such borrowing. As of March 31, 2014 and March 31, 2013, we had cash of $6.6 million and $13.7 million, respectively, and United States Treasury securities of approximately $0 million and $10.0 million, respectively.

Credit Facility

The Credit Facility is a syndicated multi-currency facility and provides for borrowings up to $135 million and matures in November 2016. Borrowings under the Credit Facility generally bear interest at LIBOR plus 3.00%. The Credit Facility size may be increased up to $150 million, subject to certain conditions, with additional new lenders or through an increase in commitments of current lenders. On July 30, 2013, we exercised a portion of the accordian feature to increase our borrowing capacity from $115 million to $135 million. The Credit Facility is a four-year revolving facility secured by substantially all of our investment portfolio assets. The Credit Facility contains affirmative and restrictive covenants, including but not limited to maintenance of a minimum shareholders equity amount and maintenance of a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.0:1.0. In addition to the asset coverage ratio described in the preceding sentence, borrowings under the Credit Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in our portfolio. We have also generally agreed under the terms of the Credit Facility not to incur any additional secured indebtedness. In addition, we have agreed not to incur any additional unsecured indebtedness that has a maturity date prior to the maturity date of the Credit Facility. Furthermore, the Credit Facility contains a covenant requiring us to maintain compliance with RIC provisions at all times, subject to certain remedial provisions. Unless extended, the period during which the Company may make and reinvest borrowings under the Credit Facility will expire on November 13, 2015 and the maturity date of the Credit Facility is November 12, 2016.

As of March 31, 2014 and March 31, 2013, $130 million and $110 million was outstanding under the Credit Facility, respectively. 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. During the year ended December 31, 2013, the Company incurred costs of $113,384 in connection with the $20,000,000 commitment increase. As of March 31, 2014 and March 31, 2013, $1.4 million and $1.6 million of such prepaid loan structure fees had yet to be amortized, respectively. For the three months ended March 31, 2014, the effective interest rate under the Credit Facility was approximately 3.2% (approximately 3.8% including commitment and other loan fees). Interest is paid quarterly in arrears. For the three months ended March 31, 2013, the effective interest rate under the Credit Facility was approximately 3.3% (approximately 5.7% including commitment and other loan fees). Interest is paid quarterly in arrears.

Other

On May 22, 2014, our wholly-owned subsidiary, Stellus Capital SBIC, LP, received committee approval for a license from the SBA to operate as a SBIC. An SBIC license requires final action by the SBA Administrator. There can be no assurance regarding when or if the SBIC license will be issued. The SBIC subsidiary would be allowed to issue SBA-guaranteed debentures up to a maximum of $150 million when it has at least $75 million in regulatory capital. Our SBIC subsidiary currently has $32.5 million in regulatory capital and SBA-guaranteed debentures outstanding. 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.

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of March 31, 2014, our off-balance sheet arrangements consisted of \$23.1 million of unfunded commitments, which was comprised of \$22.9 million to provide debt financing to four of our portfolio companies and \$0.2 million to provide equity financing to one portfolio company. As of December 31, 2013, our off-balance sheet arrangements consisted of \$20.9 million of unfunded commitments, which was comprised of \$20.9 million to provide debt financing to three of our portfolio companies.

S-27

TABLE OF CONTENTS

Regulated Investment Company Status and Dividends

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

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

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

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

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

In accordance with certain applicable Treasury regulations and private letter rulings issued by the Internal Revenue Service, a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 20% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive less than 20% of his or her entire distribution in cash. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock. We have no current intention of paying dividends in shares of our stock in accordance with these Treasury regulations or private letter rulings.

Recent Accounting Pronouncements

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

TABLE OF CONTENTS

Critical Accounting Policies

The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, our significant accounting policies are further described in the notes to the financial statements.

Valuation of portfolio investments

As a business development company, we generally invest in illiquid loans and securities including debt and equity securities of middle-market companies. Under procedures established by our board of directors, we value investments for which market quotations are readily available at such market quotations. We obtain these market values from an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by our board of directors. Such determination of fair values may involve subjective judgments and estimates, although we engage independent valuation providers to review the valuation of each portfolio investment that does not have a readily available market quotation at least twice annually. Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value. With respect to unquoted securities, our board of directors, together with our independent valuation advisors, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, our board of directors uses the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because there is not a readily available market for substantially all of the investments in our portfolio, we value most of our portfolio investments at fair value as determined in good faith by our board of directors using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of Stellus Capital Management responsible for the portfolio investment;
Preliminary valuation conclusions are then documented and discussed with our senior management and Stellus Capital Management;
The audit committee of our board of directors then reviews these preliminary valuations;
At least twice annually, the valuation for each portfolio investment is reviewed by an independent valuation firm; and
The board of directors then discusses valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of Stellus Capital Management, the independent valuation firm and the audit committee.

Revenue recognition

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt securities with contractual PIK interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we do not accrue PIK interest if the portfolio company valuation indicates that such PIK interest is not collectible. We will not accrue interest on loans and debt securities if we have reason to doubt our ability to collect such interest. Loan origination fees, original

TABLE OF CONTENTS

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

Net realized gains or losses and net change in unrealized appreciation or depreciation

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

Unrealized Gains Incentive Fee

Under GAAP, the Company calculates the unrealized gains incentive fee payable to the Advisor as if the Company had realized all investments at their fair values as of the reporting date. Accordingly, the Company accrues a provisional unrealized gains incentive fee taking into account any unrealized gains or losses. As the provisional incentive fee is subject to the performance of investments until there is a realization event, the amount of provisional unrealized gains incentive fee accrued at a reporting date may vary from the incentive fee that is ultimately realized and the differences could be material.

Payment-in-Kind Interest

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

Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. For the three months ended March 31, 2014 and March 31, 2013, 57% and 52%, or 21 and 13 of the loans in our portfolio bore interest at floating rates, respectively. For the three months ended March 31, 2014, 18 of these 21 loans in our portfolio have interest rate floors, which have effectively converted the loans to fixed rate loans in the current interest rate environment. In the future, we expect other loans in our portfolio will have floating rates. Assuming that the Statement of Assets and Liabilities as of March 31, 2014 were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical one percent increase in LIBOR would increase our net income by less than $70,000 due the current floors in place. A hypothetical decrease in LIBOR would not affect our net income, again, due to the aforementioned floors in place. Although we believe that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contacts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. For the three months ended March 31, 2014 and March 31, 2013, we did not engage in hedging activities.

Changes in interest rates will affect our cost of funding. Our interest expense will be affected by changes in the published LIBOR rate in connection with the Credit Facility. As of March 31, 2014, we had not entered into any interest rate hedging arrangements. At March 31, 2014, based on our applicable levels of our Credit Facility, a 1% increase in interest rates would have decreased our net investment income by approximately $278 thousand for the three months ended March 31, 2014.

TABLE OF CONTENTS

SALE OF COMMON STOCK BELOW NET ASSET VALUE

On July 29, 2013, our stockholders voted to allow us to issue common stock at a price below net asset value per share for the period ending on the earlier of the one year anniversary of the date of our 2013 Annual Meeting of Stockholders and the date of our 2014 Annual Meeting of Stockholders, which will be held on June 26, 2014. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock, although the number of shares sold in each offering may not exceed 25% of our outstanding common stock immediately prior to such sale. In addition, we cannot issue shares of our common stock below net asset value unless our board of directors determines that it would be in our and our stockholders best interests to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In addition, continuous sales of common stock below net asset value may have a negative impact on total returns and could have a negative impact on the market price of our shares of common stock. For additional information, see Sales of Common Stock Below Net Asset Value in the accompanying prospectus.

The Company will only sell shares of its common stock at a price below NAV per share if the following conditions are met:

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

Our net asset value per share as of March 31, 2014 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $14.49.

In making a determination that this offering of common stock below its net asset value per share is in our and our stockholders best interests, our Board of Directors considered a variety of factors including:

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

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

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

TABLE OF CONTENTS

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

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

The following table sets forth, for each fiscal quarter since our common stock began trading, the range of high and low closing prices of our common stock as reported on the NYSE, the sales price as a percentage of our net asset value, or NAV, and the dividends declared by us for each fiscal quarter since our initial public offering.

Fiscal Year Ended	NAV Per Share(1)	Closing Sales Price(2) High	Closing Sales Price(2) Low	Premium or Discount of High Sales to NAV(3)	Premium or Discount of Low Sales to NAV(3)
December 31, 2014					
Second Quarter (through June 4, 2014)	*	$ 14.61	$ 13.17	*	*
First Quarter	$ 14.49	$ 15.06	$ 14.17	104 %	97.8 %
December 31, 2013					
Fourth Quarter	$ 14.54	$ 15.44	$ 14.35	106 %	98.7 %
Third Quarter	$ 14.57	$ 15.28	$ 14.74	105 %	101 %
Second Quarter	$ 14.60	$ 15.31	$ 14.29	105 %	97.9 %
First Quarter	$ 14.56	$ 16.73	$ 14.51	115 %	99.7 %
December 31, 2012					
November 8, 2012 to December 31, 2012(4)	$ 14.45	$ 16.38	$ 15.00	113 %	104 %

(1) NAV is determined as of the last date in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.
(2) Closing sales price is determined as the high or low closing sales price noted within the respective quarter, not adjusted for dividends.
(3) Calculated as of the respective high or low sales price divided by the quarter end NAV.
(4) Our stock began trading on November 8, 2012.
* Not determinable at the time of filing.

On June 4, 2014, the last reported sales price of our common stock was $13.88 per share. As of May 29, 2014, we had 22 stockholders of record, which did not include stockholders for whom shares are held in nominee or street name.

Shares of business development companies may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. Since they began trading on November 8, 2012, in connection with our initial public offering, our shares of common stock have traded at times at a discount to the net assets attributable to those shares.

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

We have elected to be treated as a RIC under the Code. To maintain RIC tax treatment, we must distribute at least 90% of our net ordinary income and net short-term capital gains in excess of our net long-term capital losses, if any, to our stockholders. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of: (a) 98% of our net ordinary income for such calendar year; (b) 98.2% of our capital gain net income for the one-year period ending on October 31 of the calendar year; and (c) any net ordinary income and capital gain net income for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax.

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

We have adopted an opt out dividend reinvestment plan for our common stockholders. Unless you elect to receive your distributions in cash, we intend to make such distributions in additional shares of our common stock under our dividend reinvestment plan. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. If you hold shares of our common stock in the name of a broker or financial intermediary, you should contact such broker or financial intermediary regarding your election to receive distributions in cash in lieu of shares of our common stock. Any distributions reinvested through the issuance of shares through our dividend reinvestment plan will increase our gross assets on which the base management fee and the incentive fee are determined and paid to Stellus Capital Management. See Dividend Reinvestment Plan beginning on page 107 of the accompanying prospectus.

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

Date Declared	Record Date	Payment Date	Per Share Amount
Fiscal 2014			
April 17, 2014	June 30, 2014	July 15, 2014	$ 0.1133
April 17, 2014	May 30, 2014	June 16, 2014	$ 0.1133
April 17, 2014	April 30, 2014	May 15, 2014	$ 0.1133
January 20, 2014	March 31, 2014	April 14, 2014	$ 0.1133
January 20, 2014	February 28, 2014	March 14, 2014	$ 0.1133
January 20, 2014	January 31, 2014	February 14, 2014	$ 0.1133
December 27, 2013	January 15, 2014	January 24, 2014	$ 0.0650
Fiscal 2013			
November 25, 2013	December 9, 2013	December 23, 2013	$ 0.3400
August 21, 2013	September 5, 2013	September 27, 2013	$ 0.3400
June 6, 2013	June 21, 2013	June 28, 2013	$ 0.3400
March 7, 2013	March 21, 2013	March 28, 2013	$ 0.3400
Fiscal 2012			
December 7, 2012	December 21, 2012	December 27, 2012	$ 0.1812

$ 2.286

S-34

TABLE OF CONTENTS

LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC 20001. Certain legal matters in connection with the offering will be passed upon for the Sales Agent by Morrison & Foerster LLP, New York, NY and LeClairRyan, A Professional Corporation, New York, NY.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements and financial highlights of Stellus Capital Investment Corporation included herein, in the accompanying prospectus and elsewhere in the registration statement have been so included in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in giving said reports. Grant Thornton LLP s principal business address is 175 W. Jackson Blvd., 20th Floor, Chicago, Illinois, 60604.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act of 1933, as amended, with respect to the shares of common stock offered by this prospectus supplement. The registration statement contains additional information about us and the shares of common stock being offered by this prospectus supplement.

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

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

TABLE OF CONTENTS

Index to Financial Statements

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of $295,630,180 and $277,004,466, respectively)	$296,600,769	$277,504,510
Cash and cash equivalents	6,639,754	13,663,542
Interest receivable	5,408,582	4,713,912
Deferred offering costs	266,250	205,165
Receivable for affiliated transaction	43,450	43,450
Prepaid loan structure fees	1,441,481	1,586,405
Prepaid expenses	323,882	411,321
Total Assets	$310,724,168	$298,128,305
LIABILITIES		
Credit facility payable	130,000,000	110,000,000
Short-term loan		9,000,000
Dividends payable	1,372,009	
Base management fees payable	1,268,404	1,176,730
Incentive fees payable	1,244,518	1,056,942
Accrued offering costs	54,828	
Interest payable	260,857	234,051
Directors' fees payable	86,000	96,000
Unearned revenue	181,233	146,965
Administrative services payable	396,823	263,226
Other accrued expenses and liabilities	379,448	262,877
Total Liabilities	135,244,120	122,236,791
Commitments and contingencies (Note 7)		
Net Assets	$175,480,048	$175,891,514
NET ASSETS		
Common Stock, par value $0.001 per share (100,000,000 shares authorized, 12,109,528 and 12,099,022 shares issued and outstanding, respectively)	$12,110	$12,099
Paid-in capital	175,760,700	175,614,738
Accumulated undistributed net realized gain	353,028	1,027,392
Distributions in excess of net investment income	(1,616,379)	(1,262,659)
Unrealized appreciation on investments and cash equivalents	970,589	499,944
Net Assets	$175,480,048	$175,891,514
Total Liabilities and Net Assets	$310,724,168	$298,128,305

Net Asset Value Per Share	$14.49	$14.54

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
INVESTMENT INCOME		
Interest income	$7,687,334	$6,324,725
Other income	161,912	121,715
Total Investment Income	7,849,246	6,446,440
OPERATING EXPENSES		
Management fees	$1,268,404	$884,003
Valuation fees	151,639	90,000
Administrative services expenses	268,767	171,041
Incentive fees	829,092	986,504
Professional fees	217,989	115,946
Directors' fees	86,000	89,000
Insurance expense	119,083	116,970
Interest expense and other fees	1,078,955	566,540
Other general and administrative expenses	68,273	42,418
Total Operating Expenses	4,088,202	3,062,422
Waiver of Incentive Fees		(303,364)
Total expenses, net of fee waivers	4,088,202	2,759,058
Net Investment Income	3,761,044	3,687,382
Net Realized Gain on Investments and Cash Equivalents	112,072	902,922
Net Change in Unrealized Appreciation on Investments and Cash Equivalents	470,645	941,814
Net Increase in Net Assets Resulting from Operations	$4,343,761	$5,532,118
Net Investment Income Per Share	$0.31	$0.31
Net Increase in Net Assets Resulting from Operations Per Share	$0.36	$0.46
Weighted Average Shares of Common Stock Outstanding	12,103,986	12,035,531
Dividends Declared Per Share	$0.40	$0.34

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
Increase in Net Assets Resulting from Operations		
Net investment income	$3,761,044	$3,687,382
Net realized gain on investments and cash equivalents	112,072	902,922
Net change in unrealized appreciation on investments and cash equivalents	470,645	941,814
Net Increase in Net Assets Resulting from Operations	4,343,761	5,532,118
Stockholder distributions	(4,901,200)	(4,091,908)
Capital share transactions		
Reinvestments of stockholder distributions	145,973	214,707
Net increase in net assets resulting from capital share transactions	145,973	214,707
Total increase (decrease) in net assets	(411,466)	1,654,917
Net assets at beginning of period	175,891,514	173,845,955
Net assets at end of period (includes $1,616,379 and $1,279,512 of distributions in excess of net investment income)	$175,480,048	$175,500,872

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
Cash flows from operating activities		
Net increase in net assets resulting from operations	$4,343,761	$5,532,118
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchases of investments	(40,550,138)	(31,486,000)
Proceeds from sales and repayments of investments	22,404,877	25,227,431
Net change in unrealized (appreciation) depreciation on investments	(470,545)	(940,288)
Increase in investments due to PIK	(215,228)	(265,426)
Amortization of premium and accretion of discount, net	(153,075)	(84,027)
Amortization of loan structure fees	144,924	124,152
Net realized gain on investments	(112,150)	(905,747)
Changes in other assets and liabilities		
Increase in interest receivable	(694,670)	(895,643)
Decrease in prepaid expenses and fees	87,439	93,977
Increase in payable for investments purchased		5,050,000
Increase in management fees payable	91,674	356,969
Decrease in directors' fees payable	(10,000)	
Increase in incentive fees payable	187,576	683,140
Increase in administrative services payable	133,597	108,324
Increase in interest payable	26,806	100,955
Increase in unearned revenue	34,268	
Increase in other accrued expenses and liabilities	116,571	239,682
Net cash provided by (used in) operating activities	(14,634,313)	2,939,617
Cash flows from financing activities		
Offering costs paid	(6,257)	(147,123)
Stockholder distributions paid	(3,383,218)	(3,877,201)
Borrowings under credit facility	44,000,000	27,000,000
Repayments of credit facility	(24,000,000)	(30,000,000)
Borrowings under short-term loan		26,999,726
Repayments of short-term loan	(9,000,000)	(50,000,869)
Net cash provided by (used in) financing activities	7,610,525	(30,025,467)
Net decrease in cash and cash equivalents	(7,023,788)	(27,085,850)
Cash and cash equivalents balance at beginning of period	13,663,542	62,131,686
Cash and cash equivalents balance at end of period	$6,639,754	$35,045,836

Supplemental and non-cash financing activities		
Accrued deferred offering costs	54,828	
Shares issued pursuant to Dividend Reinvestment Plan	145,973	214,707
Interest expense paid	905,350	322,854

See Notes to Unaudited Consolidated Financial Statements.

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) MARCH 31, 2014

Investments	Headquarters/Industry	Principal Amount/Shares	Amortized Cost	Fair Value[1]	% of Net Assets
Non-controlled, non-affiliated investments[2]					
Atkins Nutritionals Holdings II, Inc.					
Term Loan-Second Lien, L + 8.50%, LIBOR floor 1.25%, due 4/3/2019[3]	Denver, CO Beverage, Food, & Tobacco	$17,000,000	$16,700,472	$17,000,000	9.69 %
ATX Networks					
Term Loan-Unsecured, 12.00% cash, 2.00% PIK, due 5/12/2016[4][5]	West Ajax, Ontario High Tech Industries	$21,312,560	21,312,560	21,312,560	12.15 %
Binder and Binder					
Term Loan-Unsecured, 13.00% cash, 2.00% PIK, 2.00% Default Rate, due 2/27/2016[4][6][7]	Hauppauge, NY Services: Consumer	$13,200,354	13,200,354	11,407,746	6.50 %
Blackhawk Mining, LLC					
Term Loan-First Lien, 12.50%, due 10/9/2016	Lexington, KY Metals & Mining	$4,743,571	4,411,322	4,530,585	2.58 %
Common Shares, Class B[7]		36 shares	214,286	304,578	0.17 %
Total			4,625,608	4,835,163	2.75 %
Calero Software, LLC					
Term Loan-Second Lien, L + 9.50%, LIBOR floor 1.00%, due 6/5/2019[3]	Rochester, NY Telecommunications	$10,000,000	9,809,193	10,000,000	5.70 %
Managed Mobility Holdings, LLC Partnership[7]		8,507 shares	500,000	489,148	0.28 %
Total			10,309,193	10,489,148	5.98 %
Colford Capital Holdings, LLC					
Term Loan-Unsecured, 12.25%, due 5/31/2018[5][8]	New York, NY Finance	$12,500,000	12,253,644	12,500,000	7.12 %
ConvergeOne Holdings Corp.					
Term Loan-First Lien, L + 8.00%, LIBOR floor 1.25%, due 5/8/2019[3]	Eagan, MN Telecommunications	$12,093,166	11,932,021	12,093,166	6.89 %
Digital Payment Technologies	Burnaby, British	$3,041,667	2,997,478	2,997,478	1.71 %

Corp. Term Loan-First Lien, L+8.50%, LIBOR floor 1.00%, due 1/31/2019[(3)(5)]	Columbia Transportation & Logistics				
Eating Recovery Center, LLC Mezzanine Term Loan-Unsecured, 12.00% cash, 1.00% PIK, due 6/28/2018[(4)]	Denver, CO Healthcare & Pharmaceuticals	$18,400,000	18,087,039	18,400,000	10.49 %
ERC Group Holdings LLC Common Shares, Class A[(7)]		17,528 shares	1,647,135	1,521,195	0.87 %
Total			19,734,174	19,921,195	11.36 %
Empirix Inc.[(9)] Term Loan-Second Lien, L + 9.50%, LIBOR floor 1.00%, due 5/1/2020[(3)]	Billerica, MA Software	$21,407,850	20,999,764	21,407,850	12.20 %
Empirix Holdings I, Inc. Common Shares, Class A[(7)]		1,304 shares	1,304,232	1,315,211	0.75 %
Common Shares, Class B[(7)]		1,317,406 shares	13,174	13,285	0.01 %
Total			22,317,170	22,736,346	12.96 %
Glori Energy Production Inc. Term Loan-First Lien, L+ 10.00%, LIBOR floor 1.00%, due 3/14/2017[(3)]	Houston, TX Energy: Oil & Gas	$3,000,000	2,940,920	2,940,920	1.68 %
Grupo HIMA San Pablo, Inc. Term Loan-First Lien, L + 7.00%, LIBOR floor 1.50%, due 1/31/2018[(3)]	San Juan, PR Healthcare & Pharmaceuticals	$4,950,000	4,869,680	4,856,445	2.77 %
Term Loan-Second Lien, 13.75%, due 7/31/2018		$4,000,000	3,829,039	3,636,800	2.07 %
Total			8,698,719	8,493,245	4.84 %
Help/Systems, LLC Term Loan-Second Lien, L + 8.50%, LIBOR floor 1.00%, due 6/28/2020[(3)]	Eden Prairie, MN Software	$15,000,000	14,790,694	15,000,000	8.55 %
Hostway Corp. Term Loan-Second Lien, L + 8.75%, LIBOR floor 1.25%, due 12/13/2020[(3)]	Chicago, Il High Tech Industries	$6,750,000	6,618,558	6,750,000	3.85 %
Livingston International, Inc. Term Loan-Second Lien, L + 7.75%, LIBOR floor 1.25%, due 4/18/2020[(3)(5)]	Toronto, Ontario Transportation: Cargo	$6,841,739	6,718,236	6,952,917	3.96%

See Notes to Unaudited Consolidated Financial Statements.

nvestments	Headquarters/Industry	Principal Amount/Shares	Amortized Cost	Fair Value[1]	% of Net Assets	
Momentum Telecom Inc.[10]						
'erm Loan-First Lien, L+8.50%, .IBOR floor 1.00%, due /10/2019[3]	Birmingham, AL Media: Broadcasting & Subscription	$16,500,000	$16,160,147	$16,160,207	9.21	%
1BS Holdings, Inc.[7]		2,774,695 shares	1,000,000	1,000,000	0.57	%
'otal			17,160,147	17,160,207	9.78	%
Refac Optical Group						
'erm A Loan-First Lien, L + .50%, ue 9/30/2018[12]	Blackwood, NJ Retail	$2,823,194	2,823,194	2,754,873	1.57	%
'erm B Loan-First Lien, L + .50% cash, 1.75% PIK, due /30/2018[4][12]		$6,168,322	6,168,322	5,941,328	3.39	%
Revolver-First Lien, L + 7.50%, ue 9/30/2018[11][12]		$1,100,000	1,100,000	1,073,380	0.61	%
'otal			10,091,516	9,769,581	5.57	%
ecurus Technologies Holdings						
'erm Loan-Second Lien, L + .75%, LIBOR floor 1.25%, due /30/2021[3]	Dallas, TX Telecommunications	$8,500,000	8,435,849	8,544,285	4.87	%
kopos Financial, LLC[5]						
'erm Loan-Unsecured, 12.00%, ue 1/31/2019	Irving, TX Finance	$6,500,000	6,373,597	6,373,597	3.63	%
Common Shares, Class A[7][13]		970,159 shares	720,971	720,971	0.41	%
'otal			7,094,568	7,094,568	4.04	%
nowman Holdings, LLC						
'erm Loan-Unsecured, 12.50%, ue 2/15/2019	Lebanon, IN Transportation: Cargo	$11,169,118	11,169,118	11,169,118	6.36	%
PM Capital, LLC						
'erm Loan-First Lien, L + 5.50%, .IBOR floor 1.50%, due 0/31/2017[3]	Bloomington, MN Healthcare & Pharmaceuticals	$7,387,500	7,272,938	7,387,500	4.21	%
QAD, LLC						
'erm Loan-Unsecured, 11.00% ash, 1.25% PIK, due /30/2019[4]	Tarrytown, NY Media: Broadcasting & Subscription	$5,011,632	4,929,131	4,992,087	2.84	%
QAD, Holdco, Inc.						
Common Shares[7]		5,000 shares	50,000	53,326	0.03	%
'referred Shares, Series A[7]		4,500 shares	450,000	479,930	0.27	%
'otal			5,429,131	5,525,343	3.14	%
		$16,910,423	16,910,423	16,910,423	9.64	%

tuder Group, LLC (The) erm Loan-Unsecured, 12.00%, ue 1/31/2019	Gulf Breeze, FL Services: Business				
2 Systems, Inc. erm Loan-First Lien, L+8.50%, IBOR floor 1.00%, due /31/2019(3)	Indianapolis, IN Transportation & Logistics	$3,041,667	2,997,343	2,997,478	1.71 %
elecommunications Management, LLC erm Loan-Second Lien, L + .00%, LIBOR floor 1.00%, due 0/30/2020(3)	Sikeston, MO Media: Broadcasting & Subscription	$5,000,000	4,954,543	5,075,000	2.89 %
elular Corp. erm Loan-Second Lien, Euro + .00%, Euro floor 1.25%, due /24/2020(3)	Chicago, IL High Tech Industries	$7,500,000	7,396,549	7,500,000	4.27 %
andelay Industries erm Loan-Second Lien, 10.75% ash, 1.00% PIK, due 1/12/2019(4)	La Vergne, TN Construction & Building	$2,500,000	2,475,707	2,475,707	1.41 %
arel International Energy unding Corp. erm Loan-First Lien, L + 7.75%, IBOR floor 1.50%, due /17/2017(3)	Carrollton, TX Energy: Oil & Gas	$9,562,500	9,412,412	9,711,675	5.53 %
oodstream Corp. enior Subordinated ote-Unsecured, 11.50%, due /28/2017	Lititz, PA Consumer Goods: Non-Durable	$9,137,721	8,832,629	9,000,655	5.13 %
oodstream Group, Inc. enior Subordinated ebt-Unsecured, 11.50%, due /28/2017	Lititz, PA Consumer Goods: Non-Durable	$862,279	847,506	849,345	0.48 %
otal Non-controlled, on-affiliated investments			$295,630,180	$296,600,769	169.02 %
IABILITIES IN EXCESS OF THER ASSETS				**(121,120,721)**	**(69.02)%**
ET ASSETS				**$175,480,048**	**100.00%**

See Notes to Unaudited Consolidated Financial Statements.

TABLE OF CONTENTS

(1) See Note 1 of the Notes to Financial Statements for a discussion of the methodologies used to value securities in the portfolio.

(2) The Company s obligations to the lenders of the Credit Facility are secured by a first priority security interest in all non-controlled non-affiliated investments and cash, but exclude cash equivalents.

(3) These loans have LIBOR Floors which are higher than the current applicable LIBOR Rates, therefore the LIBOR Floor is in effect.

(4) Represents a payment-in-kind security. At the option of the issuer, interest can be paid in cash or cash and PIK. The percentage of PIK shown is the maximum PIK that can be elected by the company.

(5) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended.

(6) Investment has been on non-accrual status since January 1, 2014.

(7) Security is non-income producing.

(8) Excluded from the investment above is an undrawn commitment in an amount not to exceed $12,500,000, an interest rate of 12.25% and a maturity of May 31, 2018. This investment is accruing an unused commitment fee of 0.50% per annum.

(9) Excluded from the investment above is a delayed draw term loan commitment in an amount not to exceed $7,542,150, an interest rate of LIBOR plus 9.50%, LIBOR floor 1.00%, and a maturity of May 1, 2020. This investment is accruing an unused commitment fee of 0.50% per annum.

(10) Excluded from the investment above is an undrawn revolving loan commitment in an amount not to exceed $1,918,605, an interest rate of LIBOR plus 8.50%, LIBOR floor 1.00%, and a maturity of March 10, 2019. This investment is accruing an unused commitment fee of 0.50% per annum.

(11) Excluded from the investment above is an undrawn commitment in an amount not to exceed $900,000, an interest rate of LIBOR plus 7.50%, and a maturity of September 30, 2018. This investment is accruing an unused commitment fee of 0.50% per annum.

(12) On March 31, 2014, the interest rate on these loans was one month LIBOR of 0.15% plus the applicable spread.

(13) This investment also includes an unfunded equity commitment in an amount not to exceed $279,029.

Abbreviation Legend

Euro	Euro Dollar
L	LIBOR
PIK	Payment-In-Kind

See Notes to Unaudited Consolidated Financial Statements.

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS
DECEMBER 31, 2013

See Notes to Unaudited Consolidated Financial Statements.

(1) See Note 1 of the Notes to Financial Statements for a discussion of the methodologies used to value securities in the portfolio.

(2) The Company s obligations to the lenders of the Credit Facility are secured by a first priority security interest in all non-controlled non-affiliated investments and cash, but exclude Cash Equivalents.

(3) Represents a payment-in-kind security. At the option of the issuer, interest can be paid in cash or cash and PIK. The percentage of PIK shown is the maximum PIK that can be elected by the company.

(4) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended.

(5) Security is non-income producing.

(6) Excluded from the investment above is an unfunded term loan commitment in an amount not to exceed $12,500,000, an interest rate of 12.25% and a maturity of May 31, 2018. This investment is accruing an unused commitment fee of 0.50% per annum.

See Notes to Unaudited Consolidated Financial Statements.

TABLE OF CONTENTS

(7) Excluded from the investment above is a delayed draw term loan commitment in an amount not to exceed $7,542,150, an interest rate of LIBOR plus 9.50%, LIBOR floor 1.00%, and a maturity of May 1, 2020. This investment is accruing an unused commitment fee of 0.50% per annum.

(8) Excluded from the investment above is an undrawn revolving loan commitment in an amount not to exceed $900,000. This investment is accruing an unused commitment fee of 0.50% per annum. This investment amended its maturity to 9/30/18 on 9/30/13.

(9) This investment amended its maturity to 2/15/19 on 8/15/13. The interest rate was amended from 11% cash pay plus 2% PIK to 12.5% cash pay.

(10) This investment amended its maturity to 1/31/19 on 7/23/13. The interest rate was amended from 12% cash pay plus 2% PIK to 12% cash pay.

(11) Amended maturity to 2/18/17 on 3/4/13. Amended rate to 11.5% fixed on 12/6/13.

Abbreviation Legend

PIK	Payment-In-Kind
L	LIBOR
Euro	Euro Dollar

See Notes to Unaudited Consolidated Financial Statements.

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

On November 7, 2012, the Company priced its initial public offering (the Offering), at a price of $15.00 per share. Through its initial public offering the Company sold 9,200,000 shares (including 1,200,000 shares through the underwriters exercise of the overallotment option) for gross proceeds of $138,000,000. Including the Offering, the Company has raised $180,409,145 including (i) $500,010 of seed capital contributed by Stellus Capital, (ii) $12,749,990 in a private placement to certain purchasers, including persons and entities associated with Stellus Capital, and (iii) $29,159,145 in connection with the acquisition of the Company s initial portfolio. The Company has not raised additional equity since the offering. The Company s shares are currently listed on the New York Stock Exchange under the symbol SCM .

Immediately prior to the pricing of the Offering the Company acquired its initial portfolio of assets for $165,235,169 in cash and $29,159,145 in shares of the Company s common stock, or $194,394,314 in total. The cash portion of the acquisition of the initial portfolio was financed by (i) borrowing $152,485,179 under a credit facility (Bridge Facility) with Sun Trust and (ii) using the $12,749,990 of proceeds received in connection with the private placement. The Bridge Facility had a maturity date of not more than 7 days after the pricing date of the Offering. Borrowings under the Bridge Facility bore interest at the highest of (i) a prime rate, (ii) the Federal Funds Rate plus 0.50% and (iii) Libor plus 1.00%. The Company used the net proceeds from the Offering together with borrowings under the Company s Credit Facility (see Note 9) to repay in full the outstanding indebtedness under the Bridge Facility, at which point the Bridge Facility terminated.

The Company has established wholly owned subsidiaries SCIC ERC Blocker 1, Inc. and SCIC SKP Blocker I, Inc., which are structured as Delaware entities, to hold equity or equity-like investments in portfolio companies organized as limited liability companies, or LLC s (or other forms of pass-through entities) (Taxable Subsidiaries). The Taxable

Subsidiaries are consolidated for U.S. GAAP reporting purposes, and the portfolio investments held by them are included in the consolidated financial statements.

Stellus Capital SBIC LP, and its general partner, Stellus Capital SBIC GP, LLC., were organized in Delaware on June 14, 2013. The Company has applied for a license 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 we 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.

The Company s investment objective is to maximize the total return to its stockholders in the form of current income and capital appreciation through debt and related equity investments in middle-market companies. The Company seeks to achieve its investment objective by originating and investing primarily in private U.S. middle-market companies (typically those with $5.0 million to $50.0 million of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien, second lien, unitranche and mezzanine debt financing, with corresponding equity co-investments. It sources investments primarily through

S-47

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS March 31, 2014 (Unaudited)

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

the extensive network of relationships that the principals of its investment adviser have developed with financial sponsor firms, financial institutions, middle-market companies, management teams and other professional intermediaries.

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with U.S. GAAP are omitted. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. The results of operations for the three months ended March 31, 2014 and March 31, 2013 are not necessarily indicative of the operating results to be expected for the full year. Also, the unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2013. Certain reclassifications have been made to certain prior period balances to conform with current presentation.

In accordance with Regulation S-X under the Securities Act of 1933 and Securities Exchange Act of 1934, the Company does not consolidate portfolio company investments.

The accounting records of the Company are maintained in U.S. dollars.

Portfolio Investment Classification

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

Cash and Cash Equivalents

At March 31, 2014, cash balances totaling $6,389,754 exceeded FDIC insurance protection levels, subjecting the Company to risk related to the uninsured balance. All of the Company s cash deposits are held at large established high credit quality financial institutions and management believes that risk of loss associated with any uninsured balances is remote.

Cash consists of bank demand deposits. We deem certain U.S. Treasury Bills and other high-quality, short-term debt securities as cash equivalents. At the end of each fiscal quarter, we may take proactive steps to ensure we are in compliance with the RIC diversification requirements under Subchapter M of the Internal Revenue Code, which are dependent upon the composition of our total assets at quarter end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out positions after quarter-end or temporarily drawing down on the Credit Facility (see Note 9).

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS March 31, 2014 (Unaudited)

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

On March 31, 2014, we held no U.S. Treasury Bills. On December 31, 2013, we held approximately $10 million of U.S. Treasury Bills with a 25 day maturity purchased using $1 million in margin cash and the proceeds from a $9 million short term loan from Raymond James. The loan had an effective annual interest rate of approximately 6.25%. On January 2, 2014, we sold the Treasury Bills, repaid the remainder of the loan from Raymond James and received back the $1 million margin payment (net of fees and expenses of $1,875).

Use of Estimates

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

Deferred Financing Costs

Deferred financing costs consist of fees and expenses paid in connection with the closing of credit facilities and are capitalized at the time of payment. Deferred financing costs are amortized using the straight line method over the term of the credit facility.

Deferred Offering Costs

Deferred offering costs consist of fees and expenses incurred in connection with the offer and sale of the Company s common stock, including legal, accounting, printing fees and other related expenses, as well as costs incurred in connection with the filing of a shelf registration statement. These costs are capitalized when incurred and recognized as a reduction of offering proceeds when the offering becomes effective.

Investments

As a business development company, the Company will generally invest in illiquid loans and securities including debt and equity securities of middle-market companies. Under procedures established by the board of directors, the

Company intends to value investments for which market quotations are readily available at such market quotations. The Company will obtain these market values from an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). Debt and equity securities that are not publicly traded or whose market prices are not readily available will be valued at fair value as determined in good faith by our board of directors. Such determination of fair values may involve subjective judgments and estimates. The Company will also engage independent valuation providers to review the valuation of each portfolio investment that does not have a readily available market quotation at least twice annually. Investments purchased within 60 days of maturity will be valued at cost plus accreted discount, or minus amortized premium, which approximates value. With respect to unquoted securities, our board of directors, together with our independent valuation providers, will value each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the board will use the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because the Company expects that there will not be a readily available market for many of the investments in our portfolio, the Company expects to value most of our portfolio investments at fair value as determined in good faith by the board of directors using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- available current market data, including relevant and applicable market trading and transaction comparables;
- applicable market yields and multiples;
- security covenants;
- call protection provisions;
- information rights;
- the nature and realizable value of any collateral;
- the portfolio company s ability to make payments, its earnings and discounted cash flows and the markets in which it does business;
- comparisons of financial ratios of peer companies that are public;
- comparable merger and acquisition transactions; and
- the principal market and enterprise values.

Revenue Recognition

We record interest income on an accrual basis to the extent such interest is deemed collectible. For loans and debt securities with contractual payment-in-kind (PIK) interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we do not accrue PIK interest if the portfolio company valuation indicates that such PIK interest is not collectible. We will not accrue interest on loans and debt securities if we have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount and market discount or premium are capitalized, and we then accrete or amortize such amounts using the effective interest method as interest income. Upon the prepayment of a loan or debt security, any unamortized loan origination fee is recorded as interest income. We record prepayment premiums on loans and debt securities as interest income. Dividend income, if any, will be recognized on the ex-dividend date.

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

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

Payment-in-Kind Interest

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

Investment Transaction Costs

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

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS March 31, 2014 (Unaudited)

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Payable for Unsettled Securities Transaction

The Company records all investments on a trade date basis.

U.S. Federal Income Taxes

The Company has elected to be treated as a RIC under subchapter M of the Internal Revenue Code of 1986, as amended, and to operate in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. So long as the Company maintains its status as a RIC, it generally will not pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that it distributes at least annually to its stockholders as dividends. Rather, any tax liability related to income earned by the Company represents obligations of the Company s investors and will not be reflected in the consolidated financial statements of the Company.

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

As of March 31, 2014 and December 31, 2013, the Company had $133,634 and $945,186, respectively, of undistributed ordinary income. The Company had no capital gains as of March 31, 2014 and December 31, 2013. The character of the Company s distributions is determined annually, based upon its taxable income for the full year and based upon distributions made for the full year. A determination of the character of distributions made on an interim basis may not be representative of the final determination based upon taxable income computed for the full year.

As of March 31, 2014 and December 31, 2013, the Company had not recorded a liability for any unrecognized tax positions. Management s evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. The Company s policy is to include interest and penalties related to income taxes, if applicable, in general and administrative expenses. There were no such expenses for the three months ended March 31, 2014 and March 31, 2013, respectively.

The Company has direct wholly owned subsidiaries that have elected to be taxable entities. The Taxable Subsidiaries permit the Company to hold equity investments in portfolio companies which are pass through entities for tax purposes and continue to comply with the source income requirements contained in RIC tax provisions of the Code. The Taxable Subsidiaries are not consolidated with the Company for income tax purposes and may generate income tax expense, benefit, and the related tax assets and liabilities, as a result of their ownership of certain portfolio investments. The income tax expense, or benefit, if any, and related tax assets and liabilities are reflected in the Company s consolidated financial statements.

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

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS March 31, 2014 (Unaudited)

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

There was no such tax expense or benefit for the three months ended March 31, 2014 and March 31, 2013, respectively. In addition, there were no such tax assets or liabilities as of March 31, 2014 and March 31, 2013, respectively.

Earnings per Share

Basic per share calculations are computed utilizing the weighted average number of shares of common stock outstanding for the period. The Company has no common stock equivalents. As a result, there is no difference between diluted earnings per share and basic per share amounts.

Paid In Capital

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

Recently Issued Accounting Standards

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standards setting bodies that are adopted by the Company as of the specified effective date. ASU No. 2013-08, *Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements* was effective for an entity s interim and annual reporting periods in fiscal years beginning after December 15, 2013. Accordingly, the Company has adopted the updated guidance and believes that impact is limited to our disclosure requirements. The Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial statements upon adoption.

NOTE 2   RELATED PARTY ARRANGEMENTS

Investment Advisory Agreement

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

For the three months ended March 31, 2014 and March 31, 2013, the Company recorded an expense for base management fees of $1,268,404 and $884,003, respectively. As of March 31, 2014 and December 31, 2013, respectively, $1,268,404 and $1,176,730, were payable to Stellus Capital.

The annual incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of the pre-incentive fee net investment income (as defined in the agreement) for the immediately preceding quarter, subject to a hurdle rate of 2.0% per quarter (8.0% annualized) and a catch-up feature. The net pre-incentive fee investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 1.75% base management fee. For the three months ended March 31, 2014, the Company incurred $918,027 of incentive fees related to pre-incentive fee net investment income, net of amounts waived as discussed below. As of March 31, 2014, $887,832 of such incentive fees are currently payable to the Advisor, and $30,195 of pre-incentive fee net investment income incentive fees incurred by the Company were generated from deferred interest (i.e. PIK and certain discount accretion) and are not payable until such amounts are received in cash.

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS March 31, 2014 (Unaudited)

NOTE 2 RELATED PARTY ARRANGEMENTS (continued)

For the three months ended March 31, 2013, the Company incurred $315,379 of incentive fees related to pre-incentive fee net investment income, net of amounts waived as discussed below. As of December 31, 2013, $1,056,942 of such incentive fees were payable to the Advisor, and $109,957 of pre-incentive fee net investment income incentive fees incurred by the Company were generated from deferred interest (i.e. PIK and certain discount accretion) and are not payable until such amounts are received in cash.

The second part of the annual incentive fee is calculated and payable in arrears as of the end of each calendar year (or, upon termination of the investment advisory agreement, as of the termination date) and equals 20.0% of the aggregate cumulative realized gains from inception through the end of each calendar year, computed net of aggregate cumulative realized losses and aggregate cumulative unrealized depreciation through the end of such year, less the aggregate amount of any previously paid realized gain incentive fees. For the three months ended March 31, 2014 and March 31, 2013, the Company adjusted its realized gains incentive fee accrual by $0 and $180,584, respectively.

With respect to the incentive fee expense accrual relating to the unrealized gains incentive fee, GAAP requires that the realized gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a realized gains incentive fee would be payable if such unrealized appreciation were realized, even though such unrealized appreciation is not permitted to be considered in calculating the fee actually payable under the investment management agreement. For accounting purposes in accordance with GAAP only, in order to reflect the potential realized gains incentive fee that would be payable for a given period as if all unrealized gains were realized, the Company s accrual for unrealized gains incentive fees includes an amount related to unrealized capital appreciation of $216,532 and $187,176 as of March 31, 2014 and March 31, 2013, respectively. There can be no assurance that such unrealized capital appreciation will be realized in the future. Accordingly, such fee, as calculated and accrued would not necessarily be payable under the investment management agreement, and may never be paid based upon the computation of capital gains incentive fees in subsequent periods.

For the years ending December 31, 2012 and December 31, 2013, the Advisor agreed to waive its incentive fee to the extent required to support an annualized dividend yield of 9.0% (to be paid on a quarterly basis) based on the price per share of our common stock in connection with the Offering. The Advisor has entered into no such agreement with the Company for periods after December 31, 2013. While under no obligation to do so, the Advisor may, in its sole discretion, determine to waive incentive fees in future periods. For the three months ended March 31, 2014 and March 31, 2013, the Adviser waived incentive fees related to pre-incentive fee net investment income of $0 and $303,364, respectively.

As of March 31, 2014 and December 31, 2013, the Company was due $43,450 and $43,450, respectively, from a Stellus Capital related party for reimbursement of expenses paid for by the Company that were the responsibility of Stellus Capital. The amount due to the Company is included in the Consolidated Statements of Assets and Liabilities.

For the three months ended March 31, 2014 and March 31, 2013 the Company recorded an expense of $86,000 and $89,000, respectively. As of March 31, 2014 and December 31, 2013, $86,000 and $96,000, respectively, were payable relating to director fees.

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

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS March 31, 2014 (Unaudited)

NOTE 2 RELATED PARTY ARRANGEMENTS (continued)

and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objectives and strategies. We intend to co-invest, subject to the conditions included in the exemptive order we received from the SEC, with 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.

License Agreement

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

Administration Agreement

The Company entered into an administration agreement with Stellus Capital Management pursuant to which Stellus Capital Management will furnish the Company with office facilities and equipment and will provide the Company with the clerical, bookkeeping, recordkeeping and other administrative services necessary to conduct day-to-day operations. Under this administration agreement, Stellus Capital Management will perform, or oversee the performance of, its required administrative services, which includes, among other things, being responsible for the financial records which it is required to maintain and preparing reports to its stockholders and reports filed with the SEC. For the three months ended March 31, 2014 and March 31, 2013 the Company recorded an expense of $140,385 and $71,431, of which $140,385 and $135,170 were payable at March 31, 2014 and December 31, 2013, respectively relating to the Administration Agreement.

Indemnifications

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

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

NOTE 3 DISTRIBUTIONS

Distributions are generally declared by the Company s board of directors each calendar quarter and recognized as distribution liabilities on the ex-dividend date. The distribution frequency was changed from quarterly to monthly as of January 20, 2014. The Company intends to continue to declare and make monthly distributions of available net investment income to its stockholders. The Company intends to distribute net realized gains (*i.e.*, net capital gains in excess of net capital losses), if any, at least annually. The stockholder distributions, if any, will be determined by the board of directors. Any distribution to stockholders will be declared out of assets legally available for distribution.

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

Date Declared	Record Date	Payment Date	Amount Per Share
December 7, 2012[(1)]	December 21, 2012	December 27, 2012	$ 0.1800
March 7, 2013	March 21, 2013	March 28, 2013	$ 0.3400
June 7, 2013	June 21, 2013	June 28, 2013	$ 0.3400
August 21, 2013	September 5, 2013	September 27, 2013	$ 0.3400
November 22, 2013	December 9, 2013	December 23, 2013	$ 0.3400
December 27, 2013	January 15, 2014	January 24, 2014	$ 0.0650
January 20, 2014	January 31, 2014	February 14, 2014	$ 0.1133
January 20, 2014	February 28, 2014	March 14, 2014	$ 0.1133
January 20, 2014	March 31, 2014	April 15, 2014	$ 0.1133
April 17, 2014	April 30, 2014	May 15, 2014	$ 0.1133
April 17, 2014	May 30, 2014	June 16, 2014	$ 0.1133
April 17, 2014	June 30, 2014	July 15, 2014	$ 0.1133

(1) The amount of the initial distribution was equal to an annualized dividend yield of 9.0% based on the price per share of our common stock in connection with the Offering and is proportionately reduced to reflect the number of days remaining in the quarter after completion of the Offering.

Unless the stockholder elects to receive its distributions in cash, the Company intends to make such distributions in additional shares of the Company s common stock under the Company s dividend reinvestment plan. Although distributions paid in the form of additional shares of the Company s common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in the Company s dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. If a stockholder holds shares of the Company s common stock in the name of a broker or financial intermediary, the stockholder should contact such broker or financial intermediary regarding their election to receive distributions in cash in lieu of shares of the Company s common stock. Any distributions reinvested through the issuance of shares through the Company s dividend reinvestment plan will increase the Company s gross assets on which the base management fee and the incentive fee are determined and paid to Stellus Capital. Of the total distributions of $4,901,200 made to shareholders through March 31, 2014, $3,383,218 was made in cash, $145,973 in 10,506 shares and the remainder of $1,372,009 is accrued as of March 31, 2014.

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS March 31, 2014 (Unaudited)

NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE

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

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

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

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

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

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

At March 31, 2014, the Company had investments in 28 portfolio companies. The total cost and fair value of the investments were $295,630,180 and $296,600,769, respectively. The composition of our investments as of March 31, 2014 is as follows:

	Cost	Fair Value
Senior Secured First Lien	$ 73,085,777	$ 73,445,035

Senior Secured	Second Lien	102,728,604	104,342,559
Unsecured Debt		113,916,001	112,915,531
Equity		5,899,798	5,897,644
Total Investments		$ 295,630,180	$ 296,600,769

At December 31, 2013, the Company had investments in 26 portfolio companies. The total cost and fair value of the investments were $277,004,466 and $277,504,510, respectively. The composition of our investments as of December 31, 2013 is as follows:

		Cost	Fair Value
Senior Secured	First Lien	$ 48,341,121	$ 48,745,767
Senior Secured	Second Lien	117,166,001	118,171,725
Unsecured Debt		107,318,517	106,219,596
Equity		4,178,827	4,367,422
Total Investments		$ 277,004,466	$ 277,504,510

S-56

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS March 31, 2014 (Unaudited)

NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE (continued)

The Company s investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require the Company to provide funding when requested by portfolio companies in accordance with the terms of the underlying loan agreements. As of March 31, 2014 and December 31, 2013, the Company had five and three such investments with aggregate unfunded commitments of $23,139,784 and $20,942,150, respectively. The Company maintains sufficient liquidity to fund such unfunded loan commitments should the need arise.

The fair values of our investments disaggregated into the three levels of the fair value hierarchy based upon the lowest level of significant input used in the valuation as of March 31, 2014 are as follows:

		Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Senior Secured	First Lien	$	$	$ 73,445,035	$ 73,445,035
Senior Secured	Second Lien		8,544,285	95,798,274	104,342,559
Unsecured Debt				112,915,531	112,915,531
Equity				5,897,644	5,897,644
Total Investments		$	$ 8,544,285	$ 288,056,484	$ 296,600,769

The fair values of our investments disaggregated into the three levels of the fair value hierarchy based upon the lowest level of significant input used in the valuation as of December 31, 2013 are as follows:

		Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Senior Secured	First Lien	$	$ 12,104,672	$ 36,641,095	$ 48,745,767

Senior Secured Second Lien		21,084,272	97,087,453	118,171,725
Unsecured Debt			106,219,596	106,219,596
Equity			4,367,422	4,367,422
Total Investments	$	$ 33,188,944	$ 244,315,566	$ 277,504,510

S-57

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS March 31, 2014 (Unaudited)

NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE (continued)

The aggregate values of Level 3 portfolio investments changed during the three months ended March 31, 2014 are as follows:

	Senior Secured Loans First Lien	Senior Secured Loans Second Lien	Unsecured Debt	Equity	Total
Fair value at beginning of period	$36,641,095	$97,087,453	$106,219,596	$4,367,422	$244,315,566
Purchases of investments	29,984,167	2,475,000	6,370,000	1,720,971	40,550,138
Payment-in-kind interest	26,923		188,305		215,228
Sales and Redemptions	(5,324,493)	(4,567,500)			(9,891,993)
Realized Gains	(301)	114,773	(2,222)		112,250
Change in unrealized depreciation included in earnings	(45,389)	634,838	98,452	(190,749)	497,152
Amortization of premium and accretion of discount, net	58,361	53,710	41,400		153,471
Transfer from Level 2	12,104,672				12,104,672
Transfer to Level 2					
Fair value at end of period	$73,445,035	$95,798,274	$112,915,531	$5,897,644	$288,056,484
Change in unrealized depreciation on Level 3 investments still held as of March 31, 2014	$(41,641)	$869,346	$98,452	$(190,749)	$735,408

During the three months ended March 31, 2014, there was one transfer from Level 2 to Level 3 due to the decrease in the availability of observable inputs in determining the fair value of this investment.

During the three months ended March 31, 2014, there were no transfers from Level 3 to Level 2.

Transfers are reflected at the value of the securities at the beginning of the period.

The aggregate values of Level 3 portfolio investments changed during the three months ended March 31, 2013 are as follows:

	Senior Secured Loans First Lien	Senior Secured Loans Second Lien	Unsecured Debt	Equity	Total
Fair value at beginning of period	$44,014,214	$26,477,622	$111,125,134	$1,714,286	$183,331,256
Purchases of investments	14,700,000	16,555,000			31,255,000
Payment-in-kind interest	26,678		238,748		265,426
Sales and Redemptions	(227,431)		(25,000,000)		(25,227,431)
Realized gains	2,425		903,322		905,747
Change in unrealized appreciation (depreciation) included in earnings	236,130	326,634	364,438		927,202
Amortization of premium and accretion of discount, net	44,622	5,292	38,199		88,113
Transfer to Level 2		(10,043,800)			(10,043,800)
Fair value at end of period	$58,796,638	$33,320,748	$87,669,841	$1,714,286	$181,501,513
Change in unrealized appreciation (depreciation) on Level 3 Investments still held as of March 31, 2013	$236,130	$282,834	$364,438	$	$883,402

S-58

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS March 31, 2014 (Unaudited)

NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE (continued)

During the three months ended March 31, 2013, there were no transfers from Level 2 to Level 3.

During the three months ended March 31, 2013, there was one transfer from Level 3 to Level 2 due to an increase in the number of quoted prices available for the financial instrument.

Transfers are reflected at the value of the securities at the beginning of the period.

The following is a summary of geographical concentration of our investment portfolio as of March 31, 2014:

	Cost	Fair Value	% of Total Investments
New York	$ 41,192,322	$ 39,922,237	13.46 %
Colorado	36,434,646	36,921,195	12.45 %
Minnesota	33,995,653	34,480,666	11.63 %
Canada	31,028,274	31,262,955	10.54 %
Texas	27,883,749	28,291,448	9.54 %
Massachusetts	22,317,170	22,736,346	7.67 %
Alabama	17,160,147	17,160,207	5.79 %
Florida	16,910,423	16,910,423	5.70 %
Illinois	14,015,107	14,250,000	4.80 %
Indiana	14,166,461	14,166,596	4.78 %
Pennsylvania	9,680,135	9,850,000	3.32 %
New Jersey	10,091,516	9,769,581	3.29 %
Puerto Rico	8,698,719	8,493,245	2.86 %
Missouri	4,954,543	5,075,000	1.71 %
Kentucky	4,625,608	4,835,163	1.63 %
Tennessee	2,475,707	2,475,707	0.83 %
	$ 295,630,180	$ 296,600,769	100.00 %

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

	Cost	Fair Value	% of Total Investments
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 %
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 %

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE (continued)

The following is a summary of industry concentration of our investment portfolio as of March 31, 2014: