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

$42,500,000

Stellus Capital Investment Corporation

5.75% Notes due 2022

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

We are offering $42.5 million in aggregate principal amount of 5.75% notes due 2022, which we refer to as the Notes. The Notes will mature on September 15, 2022. We will pay interest on the Notes on March 15, June 15, September 15 and December 15 of each year, beginning December 15, 2017. We may redeem the Notes in whole or in part at any time or from time to time on or after September 15, 2019, at the redemption price of par, plus accrued and unpaid interest, as discussed under the caption Specific Terms of the Notes and the Offering Optional redemption in this prospectus supplement. The Notes will be issued in minimum denominations of $25 and integral multiples of $25 in excess thereof.

The Notes will be our direct unsecured obligations and rank *pari passu* with, which means equal to, all outstanding and future unsecured unsubordinated indebtedness issued by us, including our 6.50% Notes due 2019 (the 6.50% Notes). Because the Notes will not be secured by any of our assets, they will be effectively subordinated to all of our existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness. The Notes will be structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries and financing vehicles, including under our credit facility, since the Notes are obligations exclusively of Stellus Capital Investment Corporation and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Notes and the Notes will not be required to be guaranteed by any subsidiary we may acquire or create in the future. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes, and any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the Notes.

As of the offering date of the Notes, the Notes will rank *pari passu* with, which means equal to, $25.0 million principal amount of our 6.50% Notes, plus accrued and unpaid interest. The Notes will also rank pari passu with, which means equal to, our general liabilities. In total, these general liabilities were approximately $30.3 million as of June 30, 2017. We currently do not have outstanding debt that is subordinated to the Notes and do not currently intend to issue indebtedness that expressly provides that it is subordinated to the Notes. Therefore, the Notes will not be senior to any indebtedness or obligations.

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

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

We are an emerging growth company under the federal securities laws and are subject to reduced public company reporting requirements.

Investing in the Notes involves a high degree of risk. Before buying any Notes, you should read the discussion of the material risks of investing in the Notes in Supplementary Risk Factors beginning on page S-17 in this prospectus supplement and Risk Factors on page 17 of the accompanying prospectus.

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

	Per Note	Total
Public offering price	$25.00	$42,500,000
Underwriting discount (sales load)	$0.75	$1,275,000
Proceeds to us before expenses(1)	$24.25	$41,225,000

(1) Before deducting expenses payable by us related to this offering, estimated at $250,000.

The underwriters may also purchase up to an additional $6,375,000 total aggregate principal amount of Notes offered hereby, to cover over-allotments, if any, within 30 days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be $48,875,000, the total underwriting discount (sales load) paid by us will be $1,446,250, and total proceeds, before expenses, will be $47,408,750.

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

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about August 21, 2017.

Keefe, Bruyette & Woods

A Stifel Company

Janney Montgomery Scott **Ladenburg Thalmann**

BB&T Capital Markets **Oppenheimer & Co.**

The date of this prospectus supplement is August 16, 2017

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of the Notes we are offering and certain other matters relating to us. The second part, the accompanying prospectus, gives more general information about the securities which we may offer from time to time, some of which may not apply to the Notes offered by this prospectus supplement. For information about the Notes, see Summary of the Specific Terms of the Notes and the Offering and Description of the Notes in this prospectus supplement and Description of Our Debt Securities in the accompanying prospectus.

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

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

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SUMMARY OF THE SPECIFIC TERMS OF THE NOTES AND THE OFFERING

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

Issuer	Stellus Capital Investment Corporation
Title of the securities	5.75% Notes due 2022
Initial aggregate principal amount being offered	$42,500,000
Over-allotment option	The underwriters may also purchase from us up to an additional $6,375,000 aggregate principal amount of Notes to cover over-allotments, if any, within 30 days of the date of this prospectus supplement.
Initial public offering price	100% of the aggregate principal amount
Principal payable at maturity	100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Trustee, Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in New York City as we may designate.
Type of Note	Fixed rate note
Listing	We intend to list the Notes on the New York Stock Exchange, or the NYSE, within 30 days of the original issue date under the trading symbol SCA.
Interest Rate	5.75% per year
Day count basis	360-day year of twelve 30-day months
Original issue date	August 21, 2017
Stated maturity date	September 15, 2022
Date interest starts accruing	August 21, 2017
Interest payment dates	Every March 15, June 15, September 15 and December 15 commencing December 15, 2017. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.
Interest periods	

The initial interest period will be the period from and including August 21, 2017, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

Regular record dates for interest	Every March 1, June 1, September 1 and December 1 commencing December 1, 2017

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Specified currency

U.S. Dollars

Place of payment

New York City

Ranking of Notes

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

- *pari passu*, or equal, with our future unsecured indebtedness, including our 6.50% Notes, of which $25.0 million in aggregate principal amount was outstanding as of August 14, 2017;

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

- effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our $195.0 million senior secured revolving credit facility, or the Credit Facility, of which $71.5 million was outstanding as of August 14, 2017; and

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

Denominations

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

Business Day

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

Optional redemption

The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after September 15, 2019 upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the Notes to be redeemed plus accrued and unpaid interest payments otherwise payable thereon for the then-current quarterly interest period accrued to the date fixed for redemption. Before redeeming any Notes, we would have to comply with certain requirements under our Credit Facility, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders.

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

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

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

Sinking fund

The Notes will not be subject to any sinking fund.

Repayment at option of holders

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

Defeasance

The Notes are subject to defeasance by us. Defeasance means that, by depositing with a trustee an amount of cash and/or government securities sufficient to pay all principal and interest, if any, on the Notes when due and satisfying any additional conditions required under the indenture relating to the Notes, we will be deemed to have been discharged from our obligations under the Notes.

Covenant Defeasance

The Notes are subject to covenant defeasance by us. In the event of a covenant defeasance, upon depositing such funds and satisfying conditions similar to those for defeasance we would be released from certain covenants under the indenture relating to the Notes. The consequences to the holders of the Notes would be that, while they would no longer benefit from certain covenants under the indenture, and while the Notes could not be accelerated for any reason, the holders of the Notes nonetheless would be guaranteed to receive the principal and interest owed to them.

Form of Notes

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

Trustee, Paying Agent, Registrar and Transfer Agent

U.S. Bank National Association

Other covenants

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

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC. Currently,

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these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings. See Risk Factors Risks Relating to our Business and Structure Pending legislation may allow us to incur additional leverage in the accompanying prospectus.

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by (i) Section 61(a)(1) of the 1940 Act or any successor provisions and (ii) the exception set forth below, despite the fact that we are not currently subject to such provisions of the 1940 Act and will not be subject to such provisions as a result of this offering, except that we will be permitted to declare a cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, but only up to such amount as is necessary in order for us to maintain our status as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986 and, provided that, any such prohibition will not apply until such time as our asset coverage has been below the minimum asset coverage required pursuant to clause (i) above for more than six consecutive months. If Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act were currently applicable to us in connection with this offering, these provisions would generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, were below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase.

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

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Events of default

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

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

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

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

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

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

Further issuances

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

Use of proceeds

We estimate that the net proceeds we will receive from the sale of the $42,500,000 aggregate principal amount of Notes in this offering will be approximately $40,975,000 (or approximately $47,158,750 if the underwriters fully exercise their over-allotment option), in each case assuming a public offering price of 100% of par, after deducting the underwriting discount of $1,275,000 (or approximately $1,466,250 if the underwriters fully exercise their over-allotment option) payable by us and estimated offering expenses of approximately $250,000 payable by us.

We intend to use the net proceeds from this offering to redeem all of the outstanding 6.50% Notes. As of August 14, 2017, we had outstanding 6.50% Notes with an aggregate principal amount of $25.0 million plus accrued and unpaid interest. If there are any remaining net proceeds after redeeming the 6.50% Notes, we will use such remaining net proceeds to repay borrowings under our Credit Facility. As of August 14, 2017, we had $71.5 million outstanding under the Credit Facility. The Credit Facility has a maturity date of October 1, 2018. Borrowings under the Credit Facility currently bear interest on a per annum basis equal to LIBOR plus 2.625% with no LIBOR floor. See Use of Proceeds in this prospectus supplement for more information.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the effect of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with Stellus Capital Management;
- the dependence of our future success on the general economy and its effect on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- the use of borrowed money to finance a portion of our investments;
- 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.

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PROSPECTUS SUMMARY

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

Stellus Capital Investment Corporation

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. We originate and invest primarily in private middle-market companies (typically those with $5.0 million to $50.0 million of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien, second lien, unitranche and mezzanine debt financing, with corresponding equity co-investments. Unitranche debt is typically structured as first lien loans with certain risk characteristics of second lien debt. Mezzanine debt includes senior unsecured and subordinated loans.

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

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

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

In addition, we received exemptive relief from the SEC to co-invest with investment funds managed by Stellus Capital Management where doing so is consistent with our investment strategy as well as applicable law (including the terms and conditions of the exemptive order issued by the SEC). Under the terms of the relief permitting us to co-invest with other funds managed by Stellus Capital Management, a required majority (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objectives and strategies. We intend to co-invest, subject to the conditions included in the exemptive order we received from the SEC, with private credit funds managed by Stellus Capital Management that have an investment strategy that is identical to our investment strategy. We believe that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification.

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

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

SBIC License

Our wholly owned subsidiary holds a license from the Small Business Administration, or SBA, to operate as a small business investment company, or SBIC. Our wholly-owned SBIC subsidiary s SBIC license allows it to obtain leverage by issuing SBA-guaranteed debentures (the SBA Debentures) up to a maximum of $150 million under current SBIC regulations, subject to required capitalization of the SBIC subsidiary and other requirements. As of June 30, 2017, the SBIC subsidiary had $38.0 million of regulatory capital as such term is defined by the SBA, and has received commitments from the SBA of $65.0 million. As of June 30, 2017, the SBIC subsidiary had $65 million of SBA Debentures outstanding. The principal amount of SBA Debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA Debentures is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with ten-year maturities. We believe that the SBA Debentures are an attractive source of debt capital.

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

Portfolio Composition

Our investments generally range in size from $5 million to $30 million, and we may also selectively invest in larger positions, and we generally expect that the size of our positions will increase in proportion to the size of our capital base. Pending such investments, we may reduce our outstanding indebtedness or invest in cash, cash equivalents, U.S. government securities and other high-quality debt investments with a maturity of one year or less. In the future, we may adjust opportunistically the percentage of our assets held in various types of loans, our principal loan sources and the industries to which we have greatest exposure, based on market conditions, the credit cycle, available financing and our desired risk/return profile.

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

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

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

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

Leverage

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

6.50% Notes. On May 5, 2014, we closed a public offering of $25.0 million in aggregate principal amount of 6.50% Notes, or the Notes. The Notes mature on April 30, 2019, and may be redeemed in whole or in part at any time or from time to time at our option on or after April 30, 2016. The Notes bear interest at a rate of 6.50% per year payable quarterly on February 15, May 15, August 15 and November 15, of each year. As of June 30, 2017, we had $25.0 million of the Notes outstanding. We intend to redeem all outstanding 6.50% Notes with the net proceeds of this offering. See Use of Proceeds.

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

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Stellus Capital Management

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

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

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

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

Market Opportunity

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

Robust Demand for Debt Capital. We believe that private equity firms have significant committed but uncalled capital, a large portion of which is still available for investment in the United States. We expect the large amount of uninvested capital commitments will drive buyout activity over the next several years, which should, in turn, create lending opportunities for us. In addition to increased buyout activity, a high volume of senior secured and high yield debt was originated in the calendar years 2004 through 2007 and will come due in the near term and, accordingly, we believe that new financing opportunities will increase as many companies seek to refinance this indebtedness.

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

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

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

Competitive Strengths

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

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

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

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

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

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Risk Factors

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

We are dependent upon key personnel of Stellus Capital Management for our future success. If Stellus Capital Management were to lose any of its key personnel, our ability to achieve our investment objective could be significantly harmed.

Our business model depends to a significant extent upon strong referral relationships. Any inability of Stellus Capital Management to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.

Our financial condition, results of operations and cash flows will depend on our ability to manage our business effectively.

There are significant potential conflicts of interest that could negatively affect our investment returns.

The incentive fee structure we have with Stellus Capital Management may create incentives that are not fully aligned with the interests of our stockholders.

We will be subject to corporate-level income tax and may default under the Credit Facility if we are unable to maintain our qualification as a RIC under Subchapter M of the Code.

Regulations governing our operation as a BDC affect our ability to and the way in which we raise additional capital and, as a BDC, the necessity of raising additional capital may expose us to risks, including the typical risks associated with leverage.

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

Because we use debt to finance our investments, changes in interest rates will affect our cost of capital and net investment income.

Adverse developments in the credit markets may impair our ability to borrow money.

Most of our portfolio investments are recorded at fair value as determined in good faith by our board of directors and, as a result, there may be uncertainty as to the value of our portfolio investments.

Our ability to enter into transactions with our affiliates will be restricted, which may limit the scope of investments available to us.

The involvement of our interested directors in the valuation process may create conflicts of interest.

There are conflicts related to other arrangements with Stellus Capital Management.

If we fail to maintain our status as a BDC, our business and operating flexibility could be significantly reduced.

Pending legislation may allow us to incur additional leverage.

The effect of global climate change may impact the operations of our portfolio companies.

Existing stockholders may incur dilution if, in the future, we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.

The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future and rank *pari passu*, which means equal to, all outstanding and future unsecured unsubordinated indebtedness issued by us or our general liabilities.

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The Notes will be structurally subordinated to the indebtedness and other liabilities of any future subsidiaries.
The indenture under which the Notes will be issued contains limited protection for holders of the Notes.
An active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them. Moreover, the Notes are not expected to be rated, which may subject them to greater volatility than rated notes and particularly, greater than similar securities with an investment grade rating.
We may choose to redeem the Notes when prevailing interest rates are relatively low.
Our amount of debt outstanding will increase as a result of this offering, and if we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.
Until we redeem the 6.50% Notes on or after the date of the closing of this offering, we may invest the proceeds from this offering in temporary investments, which are expected to provide a lower net return than we hope to achieve from our target investments.
Pending legislation may allow us to incur additional leverage.

Conflicts of Interests

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

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

We have received exemptive relief from the SEC to co-invest with investment funds managed by Stellus Capital Management (other than the D. E. Shaw group funds, where doing so is consistent with our investment strategy as well as applicable law (including the terms and conditions of the exemptive order issued by the SEC). Under the terms of the relief permitting us to co-invest with other funds managed by Stellus Capital Management, a required majority (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objectives and strategies. We intend to co-invest, subject to the conditions included in the exemptive order we received from the SEC, with the private credit funds managed by Stellus Capital Management that have an investment strategy that is identical to our investment strategy. We believe that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification.

In the course of our investing activities, we pay management and incentive fees to Stellus Capital Management. We have entered into an investment advisory agreement with Stellus Capital Management that provides that these fees are based on the value of our gross assets. Because these fees are based on the value of our gross assets, Stellus Capital Management will benefit when we incur debt or use leverage. This fee structure may encourage Stellus Capital

Management to cause us to borrow money to finance additional

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investments. Our board of directors is charged with protecting our interests by monitoring how Stellus Capital Management addresses these and other conflicts of interests associated with its management services and compensation. While our board of directors is not expected to review or approve each investment decision, borrowing or incurrence of leverage, our independent directors will periodically review Stellus Capital Management s services and fees as well as its portfolio management decisions and portfolio performance. See Risk Factors The incentive fee structure we have with Stellus Capital Management may create incentives that are not fully aligned with the interests of our stockholders in the accompanying prospectus.

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

Corporate Information

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

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

Recent Developments

Investment Portfolio

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

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

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

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

Credit Facility

The outstanding balance under the Credit Facility as of August 14, 2017 was $71.5 million.

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Dividend Declared

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

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

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

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SUPPLEMENTARY RISK FACTORS

Investing in our securities involves a number of significant risks. Before you invest in our securities, you should be aware of various risks, including those described below and those set forth in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected, and consequently, our ability to repay principal and pay interest on the Notes could be materially affected. In such case, our net asset value and the trading price of our securities could decline, and you may lose all or part of your investment. The risk factors described below, together with those set forth in the accompanying prospectus, are the principal risk factors associated with an investment in us as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure, or trading markets similar to ours.

The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have incurred or may incur in the future and rank pari passu with, which means equal to, all outstanding and future unsecured unsubordinated indebtedness issued by us and our general liabilities.

The Notes will not be secured by any of our assets or any of the assets of any of current subsidiaries or subsidiaries we may form in the future and will rank equally in right of payment of our future unsubordinated, unsecured senior indebtedness. As a result, the Notes are effectively subordinated to any secured indebtedness we or our current subsidiaries or subsidiaries we may form in the future have currently incurred as of the date of this prospectus supplement and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our current subsidiaries or of any future subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of August 14, 2017 we had $71.5 million outstanding under the Credit Facility. The indebtedness under the Credit Facility is effectively senior to the Notes to the extent of the value of the assets securing such indebtedness.

As of the offering date of the Notes, the Notes will rank *pari passu* with, which means equal to, approximately $54.6 million in aggregate principal amount of our 6.50% Notes, plus accrued interest. The Notes will also rank *pari passu* with our general liabilities. In total, these general liabilities were approximately $30.3 million as of June 30, 2017. We currently do not have outstanding debt that is subordinated to the Notes and do not currently intend to issue indebtedness that expressly provides that it is subordinated to the Notes. Therefore, the Notes will not be senior to any indebtedness or obligations.

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

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

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subsidiaries or future subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

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

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

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries or that would be senior to our equity interests in those entities and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in each case, to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings;

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

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

enter into transactions with affiliates;

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

make investments; or

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

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

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

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

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

There is no existing trading market for the Notes, and even if NYSE approves the listing of the Notes, an active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them. Moreover, the Notes are not expected to be rated, which may subject them to greater volatility than rated notes and particularly, greater than similar securities with an investment grade rating.

The Notes are a new issue of debt securities for which there currently is no trading market. We intend to list the Notes on the NYSE within 30 days of the original issue date under the symbol SCA. Although we expect the Notes to be listed on the NYSE, we cannot provide any assurances that the listing will be approved, and even if the listing is approved, that an active trading market will develop or be maintained for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. The Notes are not currently expected to be rated which would impact their trading and subject them to greater price volatility. To the extent they are rated and received a non-investment grade rating, their price and trading activity could be negatively impacted. Moreover, if a rating agency assigns the Notes a non-investment grade rating, the Notes may be subject to greater price volatility than securities of similar maturity with an investment grade rating. Certain of the underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that the Notes will be approved for listing on the NYSE, that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

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

On or after September 15, 2019 we may choose to redeem the Notes from time to time, especially when prevailing interest rates are lower than the rate borne by the Notes. If prevailing rates are lower at the time of redemption, and we were to redeem the Notes, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Notes being redeemed. Our redemption right also may adversely impact your ability to sell the Notes as the optional redemption date or period approaches.

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

As of August 14, 2017, we had approximately $71.5 million of indebtedness outstanding under the Credit Facility. Any default under the agreements governing our indebtedness, including a default under the Credit Facility or other indebtedness to which we may be a party that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness (including the Credit Facility), we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Credit Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. Our ability to generate sufficient cash flow in the future is, to some extent, subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under the Credit Facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Notes and our other debt and to fund other liquidity needs.

If our operating performance declines and we are not able to generate sufficient cash flow to service our debt obligations, we may in the future need to refinance or restructure our debt, including any Notes sold, sell assets, reduce or delay capital investments, seek to raise additional capital or seek to obtain waivers from the required lenders under the Credit Facility or other debt that we may incur in the future to avoid being in default. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes and our other debt. If we breach our covenants under the Credit Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default under the Credit Facility or other debt, the lenders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations could proceed against the collateral securing the debt. Because the Credit Facility has, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under the Notes, the Credit Facility or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

Until we redeem the 6.50% Notes on or after the date of the closing of this offering, we may invest the proceeds from this offering in temporary investments, which are expected to provide a lower net return than we hope to achieve from our target investments.

We expect to use the net proceeds from this offering to redeem all of the outstanding indebtedness under the 6.50% Notes, which, as of August 14, 2017, amounts to $25.0 million plus accrued and unpaid interest. We may invest the proceeds from this offering in temporary investments (including cash, cash equivalents, and U.S. government securities and other high quality debt investments that mature in one year or less) until we redeem the 6.50% Notes. Such temporary investments are expected to provide a lower net return than we hope to achieve from our target investments. The management fee payable by us to our Adviser will not be reduced while our assets are invested in such temporary investments.

Pending legislation may allow us to incur additional leverage.

As a BDC, under the 1940 Act we generally are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets or we may borrow an amount equal to 100% of net assets).

The Financial CHOICE Act of 2017, which was passed by the U.S. House of Representatives in June 2017, would modify this section of the 1940 Act and increase the amount of debt that BDCs may incur by modifying the asset coverage percentage from 200% to 150%. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase.

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USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of the $42,500,000 aggregate principal amount of Notes in this offering will be approximately $40,975,000 (or approximately $47,158,750 if the underwriters fully exercise their over-allotment option), in each case, assuming a public offering price of 100% of par, after deducting the underwriting discount of $1,275,000 (or approximately $1,466,250 if the underwriters fully exercise their over-allotment option) payable by us and estimated offering expenses of approximately $250,000 payable by us. We may change the size of this offering based on demand and market conditions.

We intend to use the net proceeds from this offering to redeem all of the outstanding 6.50% Notes. As of August 14, 2017, we had outstanding 6.50% Notes with an aggregate principal amount of $25.0 million plus accrued and unpaid interest. If there are any remaining net proceeds after redeeming the 6.50% Notes, we will use such remaining net proceeds to repay borrowings under our Credit Facility. As of August 14, 2017, we had $71.5 million outstanding under the Credit Facility. The Credit Facility has a maturity date of October 1, 2018. Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) LIBOR plus 2.625% with no LIBOR floor or (ii) 1.625% plus an alternate base rate based on the highest of the Prime Rate, Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. We pay unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable quarterly in arrears. An affiliate of Keefe, Bruyette & Woods, Inc. is a lender under our Credit Facility. Accordingly, the affiliate of such underwriter will receive a portion of the net proceeds from this offering. See Underwriting. 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 anticipate that substantially all of the net proceeds from this offering of our securities will be used as described above within three to six months, depending on market conditions. 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.

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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2017:

on an actual basis; and

on an as adjusted basis to reflect the sale of $42.5 million aggregate principal amount of Notes in this offering (assuming no exercise of the overallotment option), after deducting the underwriting discounts and commissions of $1,275,000 payable by us and estimated offering expenses of approximately $250,000 payable by us and to reflect the use of proceeds from this offering.

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

	As of June 30, 2017	
	Actual (Unaudited)	As Adjusted
Assets		
Cash and cash equivalents	$6,953,303	$6,953,303
Investments, at fair value	$337,370,312	$337,370,312
Other assets	$4,318,889	$4,318,889
Total assets	$348,642,504	$348,642,504
Liabilities:		
Credit Facility (net of deferred financing costs)(1)	$38,418,389	$22,098,136
6.50% Notes Payable (net of deferred financing costs)	$24,654,747	$
Notes Payable (net of deferred financing costs)(2)	$	$40,975,000
SBA Debentures (net of deferred financing costs)	$63,503,349	$63,503,349
Other liabilities	$5,612,846	$5,612,846
Total liabilities	$132,189,331	$132,189,331
Stockholder s equity:		
Common stock, par value $0.001 per share (200,000,000 shares authorized; 15,642,457 shares issued and outstanding, actual; 12,479,959 shares issued and outstanding, as adjusted)	$15,642	$15,642
Paid-in capital	$224,052,179	$224,052,179
Accumulated net realized loss	$(13,801,668)	$(13,801,668)
Distributions in excess of net investment income	$(912,456)	$(912,456)
Net unrealized appreciation on investments and cash equivalents, net of provision for taxes of $0	$7,099,476	$7,099,476
Total stockholders equity	$216,453,173	$216,453,173
Total liabilities and stockholders equity	$348,642,504	$348,642,504
Net asset value per share	$13.84	$13.84

(1) As of August 14, 2017, we had approximately $71.5 million outstanding under the Credit Facility. This table has not been adjusted to reflect the change in our outstanding borrowings under the Credit Facility subsequent to June 30, 2017.

(2) Excludes up to $6,375,000 Notes issuable by us upon exercise of the underwriters over-allotment option.

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SELECTED FINANCIAL AND OTHER DATA

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

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

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

(2)

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

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RATIOS OF EARNINGS TO FIXED CHARGES

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

	Six Months Ended June 30, 2017	For The Year Ended December 31, 2016	For The Year Ended December 31, 2015	For The Year Ended December 31, 2014	For The Year Ended December 31, 2013	For The Year Ended December 31, 2012
Earning to Fixed Charges(1)	4.1	4.0	2.2	2.8	6.6	5.6

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

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

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

Overview

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

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

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

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

Portfolio Composition and Investment Activity

Portfolio Composition

We originate and invest primarily in privately-held middle-market companies (typically those with $5.0 million to $50.0 million of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien, second lien, unitranche and mezzanine debt financing, often times with a corresponding equity investment.

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

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

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

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

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

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

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

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

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

	Cost	Fair Value	% of Total Investments
Texas	$74,433,626	$73,576,277	20.13 %
New York	42,102,392	41,930,666	11.47 %
Colorado	27,855,053	28,979,651	7.93 %
California	28,298,845	28,606,727	7.82 %
Massachusetts	22,467,254	22,944,663	6.28 %
Georgia	20,626,735	22,469,217	6.15 %
New Jersey	20,710,728	20,804,704	5.69 %
Illinois	17,554,821	17,590,281	4.81 %
Alabama	16,191,841	16,584,379	4.54 %
Missouri	14,096,725	14,441,599	3.95 %
Tennessee	12,310,883	12,045,701	3.29 %
Arkansas	9,912,815	10,102,283	2.76 %
Pennsylvania	8,035,182	8,301,104	2.27 %
Puerto Rico	8,712,537	8,229,054	2.25 %
Florida	7,453,847	7,431,820	2.03 %
Canada	6,765,448	6,692,648	1.83 %
Minnesota	6,362,834	6,374,800	1.74 %
North Carolina	4,920,321	5,000,000	1.37 %
Washington	4,158,696	4,211,990	1.15 %
Virginia	4,029,530	4,060,519	1.11 %
Arizona	3,408,099	3,410,583	0.93 %
Utah	1,291,083	1,311,789	0.36 %
Ohio	517,956	525,436	0.14 %
	$362,217,251	365,625,891	100 %

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

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

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

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

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

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

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

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

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

Investment Activity

During the six months ended June 30, 2017, we made an aggregate of $48.0 million of investments in six new portfolio companies and three existing portfolio companies. During the six months ended June 30, 2017, we received an aggregate of $80.0 million in proceeds from repayments of our investments, including $5.0 million from amortization of certain investments. In addition, we realized a $0.8 million loss on conversion of our term loan in Glori Energy Production, Inc. to equity, which has a cost basis of $1.0 million at June 30, 2017.

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

Asset Quality

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

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

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

Loans and Debt Securities on Non-Accrual Status

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

Results of Operations

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

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

Revenues

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

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