Stellus Capital Investment Corp
Form 497
March 14, 2019

**Filed Pursuant to Rule 497**
**Securities Act File No. 333-216138**

The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting offers to buy these securities in any state where such offer or sale is not permitted.

# SUBJECT TO COMPLETION, DATED MARCH 14, 2019

## PRELIMINARY PROSPECTUS SUPPLEMENT
## (to Prospectus dated June 29, 2018)

# 2,750,000 Shares

# Stellus Capital Investment Corporation

# Common Stock

We are offering for sale 2,750,000 shares of our common stock. The underwriters have agreed to purchase shares of our common stock from us at a price of $ per share which will result in approximately $ million of net proceeds, after deducting estimated offering expenses, to us, or $ million assuming full exercise of the underwriters option to purchase additional shares described below. We expect that our expenses for this offering will be approximately $135,000.

The underwriters may also exercise their option to purchase up to an additional 412,500 shares of common stock from us, at the price per share set forth above, for 30 days after the date of this prospectus supplement.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through debt and related equity investments in middle-market companies. The companies in which we invest are typically highly leveraged, and, in most cases, our investments in such companies will not be rated by national rating agencies. If such investments were rated, we believe that they would likely receive a rating below investment grade (i.e., below BBB or Baa), which are often referred to as junk.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the trading symbol SCM. The last sale price, as reported on NYSE on March 13, 2019, was $14.68 per share. The net asset value per share of our common stock at December 31, 2018 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $14.09.

**Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it will likely increase the risk of loss for purchasers in this offering.**

This prospectus supplement and the accompanying prospectus, contain important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus supplement and the accompanying prospectus before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the 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.

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

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

| | Per Share | Total |
|---|---|---|
| Public offering price | | |
| Sales load to be paid by us (1) | | |
| Proceeds to us before expenses (2) | | |

(1) Stellus Capital Management, LLC has agreed to bear $ , or $ per share, of the sales load in connection with the shares of our common stock sold in this offering, which is not reflected in the above table. If the underwriters exercise their option to purchase additional shares in full, Stellus Capital Management, LLC will bear $ , or $ per share.

(2) Before deducting estimated offering expenses payable by us of approximately $135,000.

The underwriters have the option to purchase up to an additional 412,500 shares of common stock at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement. If the option is exercised in full, the total public offering price will be $ , and the total underwriting discount ( %) will be $ . The proceeds to us would be $ , before deducting estimated expenses payable by us of $135,000.

*Joint Bookrunning Managers*

**RAYMOND JAMES** | **Keefe, Bruyette & Woods** ***A Stifel Company*** | **Goldman Sachs & Co. LLC**

The date of this prospectus supplement is March , 2019

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## Prospectus Supplement



## Prospectus

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**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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# ABOUT THIS PROSPECTUS SUPPLEMENT

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

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

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# PROSPECTUS SUPPLEMENT SUMMARY

*This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read the more detailed information set forth under Risk Factors and the other information included in this prospectus 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 (including unitranche), second lien and unsecured debt financing, with corresponding equity co-investments. Unitranche debt is typically structured as first lien loans with certain risk characteristics of unsecured debt. Unsecured 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 that 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 senior investment professionals 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 senior investment professionals have 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, on October 23, 2013, we received an exemptive order (the Prior Order ) from the SEC to co-invest with private 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). On December 18, 2018, we received a new exemptive order (the Order ) that supersedes the Prior Order and permits us greater flexibility to enter into co-investment transactions. The Order expands on the Prior Order and allows us to co-invest with additional types of private funds, other BDCs, and registered investment companies

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managed by Stellus Capital Management or an adviser that is controlled, controlling, or under common control with Stellus Capital Management, subject to the conditions included therein. Pursuant to the Order, 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 co-invest, subject to the conditions included in the Order, with private credit funds managed by Stellus Capital Management that have an investment strategy that is similar to or identical to our investment strategy, and we may co-invest with other BDCs and registered investment companies managed by Stellus Capital Management or an adviser that is controlled, controlling, or under common control with Stellus Capital Management in the future. 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 certain regulatory requirements. Prior to June 28, 2018, we were only allowed to employ leverage to the extent that our asset coverage, as defined in the 1940 Act, was equal to at least 200% after giving effect to such leverage. On March 23, 2018, the Small Business Credit Availability Act (the SBCAA ) was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCAA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement to 150% from 200% under certain circumstances. On April 4, 2018, our board of directors, or the Board , including a required majority (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. The Board also approved the submission of a proposal to approve the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, which was approved by stockholders at our 2018 annual meeting of stockholders. As a result, the asset coverage ratio applicable to the Company was decreased from 200% to 150%, effective as of June 28, 2018. In other words, prior to the enactment of the SBCAA, a BDC could borrow $1.00 for investment purposes for every $1.00 of investor equity. Now, for those BDCs, like the Company, that satisfy the SBCAA s approval and disclosure requirements, the BDC can borrow $2.00 for investment purposes for every $1.00 of investor equity. As of December 31, 2018, our asset coverage ratio was 251%. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing.

We have elected and intend to qualify annually 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 to our stockholders as dividends 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. Current SBA regulations allow an SBIC to obtain leverage by issuing SBA-guaranteed debentures up to a maximum of $175 million under current SBIC regulations, subject to required capitalization of the SBIC subsidiary, SBA approval, and other requirements. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with ten-year maturities. We believe that the SBA-guaranteed 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

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with increased flexibility under the asset coverage test by permitting us to borrow up to $175.0 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 $5.0 million to $30.0 million, and we may also selectively invest in larger positions. 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.

The following table provides a summary of our portfolio investments as of December 31, 2018:

| | | As of December 31, 2018 ($ in millions) | |
|---|---|---|---|
| Number of investments | | 57 | |
| Fair value (a) | | $ 504.5 | |
| Cost | | $ 502.7 | |
| % of portfolio at fair value | first lien debt (b) | 57.9 | % |
| % of portfolio at fair value | second lien debt | 29.7 | % |
| % of portfolio at fair value | unsecured debt | 5.0 | % |
| % of portfolio at fair value | equity | 7.4 | % |
| Weighted-average annual yield (c) | | 10.9 | % |

(a) As of December 31, 2018, $422.3 million of our debt investments at fair value were at floating interest rates, which represented approximately 91% of our total portfolio of debt investments at fair value. As of December 31, 2018, $43.0 million of our debt investments at fair value were at fixed interest rates, which represented approximately 9% of our total portfolio of debt investments at fair value.

(b) Includes unitranche investments, which account for 20.6% of our investment portfolio at fair value.

(c) The weighted average yield on all of our debt investments as of December 31, 2018, was approximately 10.9%, of which approximately 10.2% 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 its current level.

# Leverage

*Credit Facility.* We have entered into a senior secured revolving credit agreement, dated as of October 10, 2017, with ZB, N.A., dba Amegy Bank and various other leaders (the Credit Facility ). The Credit Facility provides for borrowings up to a maximum of $180.0 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 2.50% with no LIBOR floor or (ii) 1.50% 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. 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, 2021. Our obligations to the lenders are secured by a first priority security interest in its portfolio of securities and cash not held at the SBIC subsidiary, but excluding short term investments. As of December 31, 2018, we had approximately $99.6 million outstanding under the Credit Facility.

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*2022 Notes.* On August 21, 2017, we issued $42.5 million in aggregate principal amount of 5.75% notes due 2022, or the 2022 Notes, and received net proceeds of approximately $41.0 million. We issued an additional $6.375 million in aggregate principal amount of the 2022 Notes on September 8, 2017 pursuant to a full exercise of the underwriters overallotment option. The 2022 Notes will mature on September 15, 2022, and may be redeemed in whole or in part at any time or from time to time at our option on or after September 15, 2019 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. The 2022 Notes bear interest at a rate of 5.75% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The Notes are listed on the NYSE under the trading symbol SCA with a par value of $25.00 per share.

*SBA guaranteed debentures.* Due to the SBIC subsidiary s status as a licensed SBIC, we have the ability to issue debentures guaranteed by the SBA at favorable interest rates. As of December 31, 2018, the SBIC subsidiary had $150.0 million of SBA guaranteed debentures outstanding.

## Stellus Capital Management

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

The senior investment professionals of Stellus Capital Management have an average of over 29 years of investing, corporate finance, restructuring, consulting and accounting experience and have worked together at several companies. The Stellus Capital Management senior investment professionals have 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 senior investment professionals continue to provide investment sub-advisory services to the D. E. Shaw & Co., L.P. and its associated investment funds, or the D. E. Shaw group, with respect to an approximately $17.0 million investment portfolio at fair value (as of December 31, 2018) 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 funds, some of which have an investment strategy that is similar or identical to our investment strategy and energy private equity funds. We received the Order from the SEC, which permits us to to co-invest with investment funds managed by Stellus Capital Management or an adviser that is controlled, controlling, or under common control with 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). 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. In addition, we will not co-invest with the D. E. Shaw group funds,

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 (including unitranche), second lien and unsecured debt financing, often with a corresponding equity co-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

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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 2011 through 2013 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.

***Attractive Environment to Lend To Middle-Market Companies.*** We believe the current strength of the U.S. economy provides an attractive environment to lend to middle-market companies. The U.S. services and manufacturing sector continues to show strong growth and profitability, allowing middle market companies to continue to service their debt and prudently borrow to support growth initiatives and mergers and acquisitions activity. This dynamism, coupled with ample capital from private equity firms to support middle market companies, is creating a large population of credit worthy companies looking for debt capital.

***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 senior investment professionals, 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 senior investment professionals, including its senior investment professionals who have an average of over 29 years of investing, corporate finance, restructuring, consulting and accounting experience and have worked together at several companies. The Stellus Capital Management investment professionals have a wide range of experience in middle-market investing, including originating, structuring and managing debt and equity securities through market cycles. We believe the members of Stellus Capital Management s senior investment professionals are proven and experienced, with extensive capabilities in credit investing, having participated in these markets for the predominant portion of their careers. We believe that these characteristics enhance the quantity and quality of investment opportunities available to us.

***Established, Rigorous Investment and Monitoring Process.*** The Stellus Capital Management senior investment professionals have 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

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investment and monitoring process and the depth and experience of its investment professionals 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 and various forms of equity securities.

***Resources of Stellus Capital Management Platform.*** We have access to the resources and capabilities of Stellus Capital Management, which has 17 investment professionals, including Robert T. Ladd, Dean D Angelo, Joshua T. Davis and Todd A. Overbergen, who are supported by eight managing directors, 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 ten finance and operations professionals.

# Risk Factors

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

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

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# 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.

In addition, on October 23, 2013, we received the Prior Order from the SEC to co-invest with private 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). On December 18, 2018, we received the Order that supersedes the Prior Order and permits us greater flexibility to enter into co-investment transactions. The Order expands on the Prior Order and allows us to co-invest with additional types of private funds, other BDCs, and registered investment companies managed by Stellus Capital Management or an adviser that is controlled, controlling, or under common control with Stellus Capital Management, subject to the conditions included therein. Pursuant to the Order, 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

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consistent with our investment objectives and strategies. We co-invest, subject to the conditions included in the Order, with private credit funds managed by Stellus Capital Management that have an investment strategy that is similar to or identical to our investment strategy, and we may co-invest with other BDCs and registered investment companies managed by Stellus Capital Management or an adviser that is controlled, controlling, or under common control with Stellus Capital Management in the future. 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 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, TX 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.

# Recent Developments

## Investment Portfolio

On January 4, 2019, we received full repayment on our first lien term loan to EOS Fitness OPCO Holdings, LLC for total proceeds of $3.1 million. We also received a distribution related to our equity position of $0.1 million.

On January 7, 2019, we received $0.3 million in full realization on the equity of OGS Holdings, Inc., resulting in a realized gain of $0.2 million.

On February 4, 2019, we invested $8.5 million in a first lien term loan to ASC Communications, LLC, an existing portfolio company.

On February 8, 2019, we invested $12.3 million in a first lien term loan to Exacta Land Surveyors LLC, a provider of land surveys and field management services used to facilitate the purchasing, selling, and development of residential real estate in the United States. Additionally, we committed $1.5 million in the unfunded revolver, $4.0 million in the unfunded delayed draw term loan, and we invested $1.0 million in the equity of the company.

On February 15, 2019, we received $0.05 million in full realization on the equity of Glori Energy Production, LLC.

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On February 28, 2019, we invested $1.4 million in a first lien term loan to Convergence Technologies, Inc., an existing portfolio company. Additionally, we funded $5.4 million under the existing delayed draw term loan and an additional $0.1 million in the equity of the company.

## Credit Facility

The outstanding balance under the Credit Facility as of March 13, 2019 was $115.1 million.

## SBA-guaranteed Debentures

The total balance of SBA-guaranteed debentures outstanding as of March 13, 2019 was $150.0 million.

## Dividend Declared

On January 11, 2019, the Board declared a regular monthly dividend for each of January, February and March 2019.

| Declared | Ex-Dividend Date | Record Date | Payment Date | Amount per Share |
|---|---|---|---|---|
| 1/11/2019 | 1/30/2019 | 1/31/2019 | 2/15/2019 | $ 0.1133 |
| 1/11/2019 | 2/27/2019 | 2/28/2019 | 3/15/2019 | $ 0.1133 |
| 1/11/2019 | 3/28/2019 | 3/29/2019 | 4/15/2019 | $ 0.1133 |

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# THE OFFERING

| | |
|---|---|
| Common stock offered by us | 2,750,000 shares |
| Common stock outstanding prior to this offering | 15,953,810 shares |
| Common stock to be outstanding after this offering | 18,703,810 shares (assuming no exercise of the underwriters option to purchase additional shares) |
| Use of proceeds | The net proceeds from this offering (without exercise of the option to purchase additional shares and after deducting estimated expenses payable by us of approximately $135,000) will be $ million. See Use of Proceeds in this prospectus supplement for more information. |
| Distributions | We pay monthly distributions to our stockholders out of assets legally available for distribution. Our monthly distributions, if any, will be determined by our board of directors. Our board of directors has declared a regular monthly dividend of $0.1133 per share payable on April 15, 2019, May 15, 2019 and June 14, 2019 to common stockholders of record on March 29, 2019, April 30, 2019 and May 31, 2019, respectively. |
| Taxation | We have elected to be treated for U.S. federal income tax purposes as a RIC. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders. To maintain our qualification as a RIC and the associated tax benefits, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our net ordinary income and net short-term capital gains, if any, in excess of our net long-term capital losses. See Distributions and Material U.S. Federal Income Tax Considerations in the accompanying prospectus. |
| New York Stock Exchange symbol | SCM |
| Trading at a discount | Shares of closed-end investment companies, including BDCs, frequently trade in the secondary market at a discount to their net asset values. The risk that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value. See Risk Factors beginning on page 17 of the accompanying prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our common stock. |
| Leverage | We expect to continue to use borrowed funds in order to make additional investments. We expect to use this practice, which is known as leverage, when the terms and conditions are favorable to long-term investing and well aligned with our investment strategy and portfolio composition in an effort to |

increase returns to our stockholders, but this strategy involves significant risks. See Risk Factors beginning on page 17 of the accompanying prospectus. At our 2018 annual meeting on June 28, 2018, our stockholders approved a proposal to permit the Company to be subject to 150% Asset Coverage with immediate effect. This approval allows us to incur twice as much debt as we could have without such approval. The amount of leverage that we employ will depend on Stellus Capital Management s and our Board s assessment of market and other factors at the time of any proposed borrowing.

Our current borrowings include:

- Our $195.0 million Credit Facility, of which $115.1 million was outstanding as of March 13, 2019;
- Our SBA Debentures, of which $150.0 million were outstanding as of March 13, 2019; and
- Our 2022 Notes, of which $48.9 million were outstanding as of March 13, 2019.

Risk Factors

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

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# FEES AND EXPENSES

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

| | |
|---|---|
| **Stockholder Transaction Expenses:** | |
| Sales load (as a percentage of offering price) | % (1 ) |
| Offering expenses (as a percentage of offering price) | % (2 ) |
| Dividend reinvestment plan expenses | (3 ) |
| Total Stockholder Transaction Expenses (as a percentage of offering price) | % |
| **Annual Expenses (as percentage of net assets attributable to common stock):** | |
| Base management fees | 3.89% (4 ) |
| Incentive fees payable under the investment advisory agreement | 2.99% (5 ) |
| Interest payments on borrowed funds | 5.44% (6 ) |
| Other expenses | 2.83% (7 ) |
| Total annual expenses | 15.15 % |

(1) Represents the commission with respect to the shares of common stock being sold in this offering not including the portion of the commission borne by Stellus Capital Management. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

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

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

(4) Our base management fee, payable quarterly in arrears, is 1.75% of our gross assets, including assets purchased with borrowed amounts or other forms of leverage (including traditional and effective leverage such as preferred stock, public and private debt issuances, derivative instruments, repurchase agreements and other similar instruments or arrangements) and excluding cash and cash equivalents and is based on the base management fee incurred for the year ended December 31, 2018.

(5) This item represents the incentive fee payable to Stellus Capital Management based on the actual amounts earned on our pre-incentive fee net investment income for the year ended December 31, 2018.

For purposes of this table, we have assumed that these fees will be payable (in the case of the capital gains incentive fee) and that they will remain constant, although they are based on our performance and will not be paid unless we achieve certain goals.

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

The ordinary income component, which is payable quarterly in arrears, equals 20.0% of the excess, if any, of our pre-incentive fee net investment income over a 2.0% quarterly (8.0% annualized) hurdle rate, expressed as a rate of return on the value of our net assets attributable to our common stock, and a catch-up provision, measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our investment adviser receives no incentive fee until our net investment income equals the hurdle rate of 2.0% but then receives, as a catch-up, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5% subject to a total return requirement and deferral of non-cash amounts. The effect of the catch-up provision is that, subject to the total return and deferral provisions discussed below, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, Stellus Capital Management will receive 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply. The ordinary income component of the incentive fee is computed on income that may include interest that is accrued but not yet received in cash. The foregoing ordinary income component of the incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of the Company s pre-incentive fee net investment income is payable except to the extent 20.0% of the cumulative net increase in net assets resulting from operations (as defined below) over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter will be limited to the lesser of (i) 20.0% of the amount by which our pre-incentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (ii) (x) 20.0% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding calendar quarters *minus* (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the sum of pre-incentive fee net investment income, realized gains and losses and unrealized appreciation and depreciation of the Company for the then current and 11 preceding calendar quarters. In addition, the portion of such incentive fee that is attributable to deferred interest (sometimes referred to as PIK or original issue discount, or OID) will be paid to Stellus Capital Management, together with interest thereon from the date of deferral to the date of payment, only if and to the extent we actually receive such interest in cash, and any accrual thereof will be reversed if and to the extent such interest is reversed in connection with any write-off or similar treatment of the investment giving rise to any deferred interest accrual. Any reversal of such accounts would reduce net income for the quarter by the net amount of the reversal (after taking into account the reversal of incentive fees payable) and would result in a reduction and possibly elimination of the incentive fees for such quarter. There is no accumulation of amounts on the hurdle rate from quarter to quarter, and accordingly, there is no clawback of amounts previously paid if subsequent quarters are below the quarterly hurdle, and there is no delay of payment if prior quarters are below the quarterly hurdle.

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

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

(6) In addition to our existing SBA guaranteed debentures, the 2022 Notes and the Credit Facility, we may borrow funds from time to time to make investments to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities or if the economic situation is otherwise conducive to doing so. The costs associated with any borrowings are indirectly borne by our stockholders. As of December 31, 2018, we had $150.0 million of SBA guaranteed debentures outstanding, $48.9 million in aggregate principal amount of 5.75% Notes outstanding, plus accrued interest and approximately $99.6 million outstanding under the Credit Facility. For purposes of this calculation, we have assumed that the December 31, 2018 amounts of SBA Debentures remain outstanding and have computed interest expense using the weighted average interest rate as of December 31, 2018 of 3.20%. For the 2022 Notes, we have used the fixed interest rate of 5.75%. We have also assumed borrowings under the Credit Facility incur interest at a rate equal to 4.70% per annum the weighted average interest rate as of December 31, 2018. We expect our borrowings over the 12 months following the offering will be consistent with the amounts outstanding as of December 31, 2018. See Senior Securities in this prospectus supplement.

(7)

Includes our overhead expenses, including payments under the administration agreement based on our allocable portion of overhead and other expenses incurred by Stellus Capital Management. See Management Agreements Administration Agreement in the accompanying prospectus.

# Example

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

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment, assuming a 5% annual return (excluding incentive fees) | $ | $ | $ | $ |

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While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the investment management agreement, which, assuming a 5% annual return, would either not be payable or would have a de minimis effect, is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. For example, if we assumed that we received our 5.0% annual return completely in the form of net realized capital gains on our investments, which results in a capital gains incentive fee earned, the projected dollar amount of total cumulative expenses set forth in the above illustration and the capital gains incentive fee would be as follows:

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment, assuming a 5% annual return | $ | $ | $ | $ |

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

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

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# SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus supplement and the accompanying prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this 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 BDC; and
- the effect of future changes in laws or regulations (including the interpretation of these laws and regulations by regulatory authorities) and conditions in our operating areas, particularly with respect to BDCs or RICs.

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

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

You should understand that, under Sections 27A(b)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E(b)(2)B of the Securities Exchange Act of 1934, 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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# USE OF PROCEEDS

The net proceeds from the sale of the 2,750,000 shares of common stock in this offering are $ million, and $ million if the underwriter s option to purchase additional shares is exercised in full, after deducting the underwriting discount and estimated offering expenses payable by us.

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

As of March 13, 2019, we had $115.1 million outstanding under the Credit Facility. The Credit Facility has a maturity date of October 10, 2021. Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) LIBOR plus 2.50% (or 2.75% during certain periods in which our asset coverage ratio is equal to or below 1.90 to 1.00) with no LIBOR floor or (ii) 1.50% (or 1.75% during certain periods in which our asset coverage ratio is equal to or below 1.90 to 1.00) plus an alternate base rate based on the highest of the Prime Rate, Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%.

We intend to seek to invest the net proceeds received in this offering as promptly as practicable after receipt thereof consistent with our investment objective. We anticipate that substantially all of the net proceeds from 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 stockholders. 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 December 31, 2018:

on an actual basis; and

on an as further adjusted basis giving effect to the assumed sale of 2,750,000 shares of our common stock at a price of $ per share, less commissions and expenses, and the application of the proceeds thereof.

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

| | As of December 31, 2018 | |
|---|---|---|
| | Actual | As Adjusted (1) (Unaudited) |
| **Assets** | | |
| Cash and cash equivalents | $17,467,146 | $17,467,146 |
| Investments, at fair value | $504,483,668 | $504,483,668 |
| Other assets | $4,336,437 | $4,336,437 |
| Total assets | $526,287,251 | $526,287,251 |
| **Liabilities:** | | |
| 5.75% Notes due 2022 | $47,641,797 | $47,641,797 |
| Credit Facility (1) | $98,237,227 | $ |
| SBA-Guaranteed debentures | $146,387,802 | $146,387,802 |
| Other liabilities | $9,175,418 | $9,175,418 |
| Total liabilities | $301,442,244 | $ |
| **Stockholder s equity:** | | |
| Common stock, par value $0.001 per share (100,000,000 shares authorized; 15,953,810 shares issued and outstanding, actual; 18,703,810(2) shares issued and outstanding, as adjusted) | $15,954 | $ |
| Paid-in capital in excess of par value | $228,160,491 | $ |
| Accumulated net realized loss | $(10,786,240 ) | $(10,786,240 ) |
| Accumulated undistributed net investment income | $5,782,736 | $5,782,736 |
| Net unrealized appreciation (depreciation) on investments and cash equivalents | $1,672,066 | $1,672,066 |
| Total stockholders equity | $224,845,007 | $ |
| Total liabilities and stockholders equity | $526,287,251 | $ |
| **Net asset value per share** | $14.09 | $ |

(1) As of March 13, 2019, we had approximately $115.1 million outstanding under our Credit Facility outstanding. This table has not been adjusted to reflect the changes in our outstanding borrowings under the Credit Facility subsequent to December 31, 2018.

(2) Excludes up to 412,500 shares of our common stock issuable upon exercise of the underwriters option to purchase additional shares.

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# SELECTED FINANCIAL AND OTHER DATA

The following selected financial data for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 was derived from our financial statements which have been audited by Grant Thornton, LLP, our independent registered public accounting firm. The data should be read in conjunction with our financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement and the accompanying prospectus.

| Statement of Operations Data | For the year ended December 31, 2018 | For the year ended December 31, 2017 | For the year ended December 31, 2016 | For the year ended December 31, 2015 | For the year ended December 31, 2014 |
|---|---|---|---|---|---|
| Total investment income | $53,266,338 | $39,648,193 | $39,490,197 | $35,158,559 | $32,324,847 |
| Total expenses, net of fee waiver | $30,629,801 | $21,677,433 | $22,177,996 | $18,611,431 | $15,812,750 |
| Net investment income | $22,636,537 | $17,970,760 | $17,312,201 | $16,547,128 | $16,512,097 |
| Net increase in net assets resulting from operations | $26,194,578 | $22,613,257 | $23,199,062 | $7,670,536 | $10,179,142 |
| **Per Share Data:** | | | | | |
| Net asset value | $14.09 | $13.81 | $13.69 | $13.19 | $13.94 |
| Net investment income | $1.42 | $1.21 | $1.39 | $1.33 | $1.34 |
| Net increase in net assets resulting from operations | $1.64 | $1.52 | $1.86 | $0.61 | $0.83 |
| Distributions declared | $1.36 | $1.36 | $1.36 | $1.36 | $1.36 |

| Balance Sheet Data | As of December 31, 2018 | As of December 31, 2017 | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2014 |
|---|---|---|---|---|---|
| Investments at fair value | $504,483,668 | $371,839,772 | $365,625,891 | $349,017,697 | $315,965,434 |
| Cash and cash equivalents | $17,467,146 | $25,110,718 | $9,194,129 | $10,875,790 | $2,046,563 |
| Total assets(2) | $526,287,251 | $400,260,855 | $379,878,729 | $365,368,412 | $323,776,402 |
| Total liabilities(2) | $301,442,244 | $180,013,613 | $208,996,944 | $200,717,308 | $149,826,950 |
| Total net assets | $224,845,007 | $220,247,242 | $170,881,785 | $164,651,104 | $173,949,452 |
| **Other Data:** | | | | | |
| Number of portfolio companies at period end | 57 | 48 | 45 | 39 | 32 |
| Weighted average yield on debt investments at period end(1)(3) | 10.9% | 10.8% | 11.0% | 10.6% | 10.9% |

(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 March 31, 2016. 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.

(3) The weighted average yield of our debt investments is not the same as a return on investment for our stockholders, rather, relates to a portion of our investment portfolio and is calculated before the payment of all of our subsidiaries fees and expenses. The weighted average yield was computed using the effective interest rates for all of 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.

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

*The following discussion should be read in conjunction with our financial statements and notes thereto contained elsewhere in this prospectus supplement.*

*Statements we make in the following discussion which express a belief, expectation or intention, as well as those that are not historical fact, are forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results, performance or achievements, or industry results, could differ materially from those we express in the following discussion as a result of a variety of factors, including the risks and uncertainties we have referred to under the headings Special Note Regarding Forward-Looking Statements in this prospectus supplement and Risk Factors in the accompanying prospectus.*

## Overview

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

We are an externally managed, non-diversified, closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. Our investment activities are managed by our investment adviser, Stellus Capital Management.

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

We have elected to be treated for tax purposes as a RIC under Subchapter M of the Code. To maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. As of December 31, 2018, 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.

As a BDC, we are required to comply with certain regulatory requirements. Prior to June 28, 2018, we were only allowed to employ leverage to the extent that our asset coverage, as defined in the 1940 Act, was equal to at least 200% after giving effect to such leverage. On March 23, 2018, the Small Business Credit Availability Act (the SBCAA ) was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCAA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement to 150% from 200% under certain circumstances.

On April 4, 2018, the Board, including a required majority (as such term is defined in Section 57(o) of the Investment Company Act of 1940, as amended (the 1940 Act )) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. The Board also approved the submission of a proposal to approve the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, which was approved by shareholders at the Company s 2018 annual meeting of stockholders. As a result, the asset coverage ratio applicable to the Company was decreased from 200% to 150%, effective June 28, 2018. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing.

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# Portfolio Composition and Investment Activity

## Portfolio Composition

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

As of December 31, 2018, we had $504.5 million (at fair value) invested in 57 companies. As of December 31, 2018, our portfolio included approximately 58% of first lien debt, 30% of second lien debt, 5% of unsecured debt and 7% of equity investments at fair value. The composition of our investments at cost and fair value as of December 31, 2018 was as follows:

| | Cost | Fair Value |
|---|---|---|
| Senior Secured First Lien[1] | $ 297,965,589 | $ 292,004,982 |
| Senior Secured Second Lien | 155,382,612 | 149,661,220 |
| Unsecured Debt | 25,436,237 | 23,697,466 |
| Equity | 23,959,211 | 39,120,000 |
| Total Investments | $ 502,743,649 | $ 504,483,668 |

(1) Includes unitranche investments, which account for 20.6% of our portfolio at fair value. Unitranche structures may combine characteristics of first lien senior secured as well as second lien and/or subordinated loans and our unitranche loans will expose us to the risks associated with the second lien and subordinated loans to the extent we invest in the last-out tranche.

As of December 31, 2017, we had $371.8 million (at fair value) invested in 48 companies. As of December 31, 2017, our portfolio included approximately 38% of first lien debt, 48% of second lien debt, 7% of unsecured debt and 7% of equity investments at fair value. The composition of our investments at cost and fair value as of December 31, 2017 was as follows:

| | Cost | Fair Value |
|---|---|---|
| Senior Secured First Lien[1] | $ 140,915,106 | $ 141,006,923 |
| Senior Secured Second Lien | 181,164,730 | 178,432,850 |
| Unsecured Debt | 27,903,141 | 27,430,000 |
| Equity | 18,470,229 | 24,969,999 |
| Total Investments | $ 368,453,206 | $ 371,839,772 |

(1) Includes unitranche investments, which account for 13.2% of our portfolio at fair value. Unitranche structures may combine characteristics of first lien senior secured as well as second lien and/or subordinated loans and our unitranche loans will expose us to the risks associated with the second lien and subordinated loans to the extent we invest in the last-out tranche.

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 December 31, 2018 and December 31, 2017, we had unfunded commitments of $21.2 million and $8.7 million, respectively, to provide debt financing for eleven and four portfolio companies, respectively. As of December 31, 2018, the Company had sufficient liquidity to fund such unfunded commitments should the need arise.

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The following is a summary of geographical concentration of our investment portfolio as of December 31, 2018:

| | Cost | Fair Value | % of Total Investments at fair value | |
|---|---|---|---|---|
| Texas | $ 100,229,354 | $ 97,474,226 | 19.32 | % |
| California | 86,550,134 | 85,880,918 | 17.03 | % |
| New Jersey | 43,513,698 | 41,473,072 | 8.22 | % |
| Ohio | 36,209,514 | 36,273,224 | 7.19 | % |
| Illinois | 19,941,053 | 29,880,018 | 5.92 | % |
| Canada | 27,902,537 | 27,935,931 | 5.54 | % |
| Arizona | 21,682,522 | 21,603,741 | 4.28 | % |
| South Carolina | 20,871,587 | 20,385,325 | 4.04 | % |
| New York | 20,446,690 | 20,287,086 | 4.02 | % |
| Tennessee | 20,117,218 | 19,381,134 | 3.84 | % |
| Arkansas | 17,696,537 | 18,013,941 | 3.57 | % |
| Pennsylvania | 17,732,831 | 17,824,372 | 3.53 | % |
| Maryland | 17,237,500 | 17,237,500 | 3.42 | % |
| Wisconsin | 11,437,711 | 10,869,000 | 2.15 | % |
| Colorado | 10,777,822 | 10,777,822 | 2.14 | % |
| Georgia | 5,988,728 | 9,820,000 | 1.95 | % |
| Indiana | 7,363,628 | 7,087,500 | 1.40 | % |
| Puerto Rico | 8,797,954 | 5,029,913 | 1.00 | % |
| North Carolina | 4,946,554 | 4,425,000 | 0.88 | % |
| Massachusetts | 1,317,406 | 1,670,000 | 0.33 | % |
| Missouri | 139,656 | 670,000 | 0.13 | % |
| Virginia | 50,001 | 280,000 | 0.06 | % |
| Florida | 242,304 | 110,000 | 0.02 | % |
| Utah | 1,550,710 | 93,945 | 0.02 | % |
| | $ 502,743,649 | $ 504,483,668 | 100.00 | % |

The following is a summary of geographical concentration of our investment portfolio as of December 31, 2017:

| | Cost | Fair Value | % of Total Investments | |
|---|---|---|---|---|
| Texas | $ 109,043,496 | $ 108,445,000 | 29.16 | % |
| New Jersey | 34,531,876 | 34,595,527 | 9.30 | % |
| New York | 28,939,268 | 29,365,000 | 7.90 | % |
| Canada | 26,315,677 | 26,440,000 | 7.11 | % |
| California | 25,519,753 | 25,930,000 | 6.97 | % |
| Illinois | 24,250,169 | 25,700,000 | 6.91 | % |
| Massachusetts | 22,534,191 | 22,247,850 | 5.98 | % |
| Arizona | 13,565,958 | 13,840,000 | 3.72 | % |
| North Carolina | 12,248,770 | 12,499,167 | 3.36 | % |
| Ohio | 10,112,627 | 9,990,000 | 2.69 | % |
| Tennessee | 9,848,614 | 9,950,000 | 2.68 | % |
| Missouri | 9,152,087 | 9,530,000 | 2.56 | % |

| | | | | |
|---|---|---|---|---|
| Georgia | 5,929,223 | 8,329,998 | 2.24 | % |
| Pennsylvania | 7,848,470 | 8,058,746 | 2.17 | % |
| Arkansas | 7,397,881 | 7,618,484 | 2.05 | % |
| Minnesota | 5,421,770 | 5,420,000 | 1.46 | % |
| Puerto Rico | 8,827,864 | 5,080,000 | 1.37 | % |
| Washington | 4,172,743 | 4,520,000 | 1.22 | % |
| Alabama | 1,206,682 | 2,880,000 | 0.77 | % |
| Utah | 1,293,782 | 880,000 | 0.24 | % |
| Florida | 242,304 | 420,000 | 0.11 | % |
| Virginia | 50,001 | 100,000 | 0.03 | % |
| | $ 368,453,206 | $ 371,839,772 | 100.00 | % |

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The following is a summary of industry concentration of our investment portfolio as of December 31, 2018:

| | Cost | Fair Value | % of Total Investments at fair value |
|---|---|---|---|
| Services: Business | $ 60,784,467 | $ 63,810,643 | 12.65 % |
| Healthcare & Pharmaceuticals | 58,682,811 | 54,785,327 | 10.86 % |
| Consumer Goods: Durable | 44,218,515 | 44,049,052 | 8.73 % |
| Finance | 34,208,412 | 41,910,000 | 8.30 % |
| Software | 37,427,547 | 38,026,250 | 7.54 % |
| Media: Broadcasting & Subscription | 38,137,844 | 37,733,004 | 7.48 % |
| Retail | 28,764,221 | 27,525,897 | 5.45 % |
| Education | 26,562,249 | 25,325,000 | 5.02 % |
| High Tech Industries | 21,094,192 | 21,094,192 | 4.18 % |
| Beverage, Food, & Tobacco | 20,709,134 | 18,213,945 | 3.61 % |
| Services: Consumer | 17,952,663 | 17,640,255 | 3.50 % |
| Automotive | 17,457,259 | 17,282,187 | 3.43 % |
| Energy: Oil & Gas | 14,312,328 | 15,542,102 | 3.08 % |
| Consumer goods: non-durable | 14,994,980 | 14,579,375 | 2.89 % |
| Chemicals, Plastics, & Rubber | 11,835,100 | 11,707,835 | 2.32 % |
| Containers, Packaging, & Glass | 11,437,711 | 10,869,000 | 2.15 % |
| Construction & Building | 10,374,827 | 10,280,000 | 2.04 % |
| Utilities: Oil & Gas | 9,853,435 | 9,853,435 | 1.95 % |
| Capital Equipment | 7,535,876 | 7,929,775 | 1.57 % |
| Transportation: Cargo | 6,808,345 | 6,841,739 | 1.36 % |
| Insurance | 5,425,301 | 5,460,000 | 1.08 % |
| Hotel, Gaming, & Leisure | 3,170,307 | 3,414,655 | 0.68 % |
| Environmental Industries | 946,124 | 330,000 | 0.07 % |
| Services: Government | 50,001 | 280,000 | 0.06 % |
| | $ 502,743,649 | $ 504,483,668 | 100.00 % |

The following is a summary of industry concentration of our investment portfolio as of December 31, 2017:

| | Cost | Fair Value | % of Total Investments |
|---|---|---|---|
| Software | $ 48,560,675 | $ 48,997,850 | 13.18 % |
| Healthcare & Pharmaceuticals | 41,192,879 | 37,829,167 | 10.17 % |
| High Tech Industries | 36,058,477 | 35,460,000 | 9.54 % |
| Finance | 26,500,097 | 28,330,000 | 7.62 % |
| Services: Business | 23,386,714 | 25,749,999 | 6.93 % |
| Capital Equipment | 24,300,027 | 24,170,000 | 6.50 % |
| Media: Broadcasting & Subscription | 21,680,239 | 23,665,000 | 6.36 % |
| Chemicals, Plastics, & Rubber | 20,825,458 | 21,145,000 | 5.69 % |
| Services: Consumer | 17,862,616 | 18,070,000 | 4.86 % |
| Construction & Building | 17,913,413 | 17,980,000 | 4.84 % |
| Education | 17,197,396 | 17,335,526 | 4.66 % |
| Consumer Goods: Durable | 16,559,947 | 16,798,484 | 4.52 % |

| | | | | |
|---|---|---|---|---|
| Consumer goods: non-durable | 13,250,000 | 13,250,000 | 3.56 | % |
| Retail | 8,288,083 | 8,280,000 | 2.23 | % |
| Automotive | 7,848,470 | 8,058,746 | 2.17 | % |
| Transportation: Cargo | 6,785,894 | 6,840,000 | 1.84 | % |
| Energy: Oil & Gas | 6,766,968 | 6,700,000 | 1.80 | % |
| Insurance | 5,410,226 | 5,500,000 | 1.48 | % |
| Beverage, Food, & Tobacco | 3,964,242 | 3,580,000 | 0.96 | % |
| Hotel, Gaming, & Leisure | 3,284,942 | 3,420,000 | 0.92 | % |
| Environmental Industries | 766,442 | 580,000 | 0.16 | % |
| Services: Government | 50,001 | 100,000 | 0.03 | % |
| | $ 368,453,206 | $ 371,839,772 | 100.00 | % |

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At December 31, 2018, our average portfolio company investment at amortized cost and fair value was approximately $8.9 million and $8.9 million, respectively, and our largest portfolio company investment at amortized cost and fair value was approximately $21.6 million and $22.3 million, respectively. At December 31, 2017, our average portfolio company investment at amortized cost and fair value was approximately $7.7 million and $7.4 million, respectively, and our largest portfolio company investment at amortized cost and fair value was approximately $22.5 million and $22.2 million, respectively.

At December 31, 2018, 91% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 9% bore interest at fixed rates. At December 31, 2017, 87% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 13% bore interest at fixed rates.

The weighted average yield on all of our debt investments as of December 31, 2018 and December 31, 2017 was approximately 10.9% and 10.8%, respectively. The weighted average yield was computed using the effective interest rates for all of our debt investments, including accretion of original issue discount. 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 subsidiaries fees and expenses.

As of December 31, 2018 and December 31, 2017, we had cash and cash equivalents of $17.5 million and $25.1 million, respectively.

## Investment Activity

During the year ended December 31, 2018, we made $272.9 million of investments in seventeen new portfolio companies and twelve existing portfolio companies. During the year ended December 31, 2018, we received $147.6 million in proceeds principally from prepayments of our investments, including $22.9 million from amortization of certain other investments.

During the year ended December 31, 2017, we made $172.2 million of investments in fourteen new portfolio companies and two existing portfolio companies. During the year ended December 31, 2017, we received $172.3 million in proceeds principally from prepayments of our investments, including $7.2 million from amortization of certain other investments.

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

## Asset Quality

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

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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 December 31, 2018 (dollars in millions) | | | | As of December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| Investment Category | Fair Value | % of Total Portfolio | | Number of Portfolio Companies(1) | Fair Value | % of Total Portfolio | | Number of Portfolio Companies(1) |
| 1 | $ 92.5 | 18 | % | 13 | $ 25.9 | 7 | % | 5 |
| 2 | 372.3 | 74 | % | 37 | 306.7 | 82 | % | 36 |
| 3 | 26.8 | 5 | % | 3 | 37.0 | 10 | % | 5 |
| 4 | 12.8 | 3 | % | 4 | 1.9 | 1 | % | 2 |
| 5 | 0.1 | | % | 1 | 0.4 | | % | 1 |
| Total | $ 504.5 | 100 | % | 58 | $ 371.9 | 100 | % | 49 |

(1) One portfolio company appears in two categories as of December 31, 2018 and December 31, 2017.

# 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 December 31, 2018, we had four loans on non-accrual status, which represented approximately 3.9% of our loan portfolio at cost and 2.8% at fair value. As of December 31, 2017, we had two loans on non-accrual status, which represented approximately 1.2% of our loan portfolio at cost and 0.3% 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. Net unrealized appreciation (depreciation) on investments is the net change in the fair value of our investment portfolio.

## Comparison of the Years ended December 31, 2018, 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 interest in-kind, or PIK. Any outstanding principal amount of our debt securities and any accrued but unpaid interest will generally become due at the maturity date. The level of interest income we receive is directly related to the balance of interest-bearing investments multiplied by the weighted average yield of our investments. We expect that the total dollar amount of interest and any dividend income that

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we earn to increase as the size of our investment portfolio increases. In addition, we may generate revenue in the form of prepayment fees, commitment, loan origination, structuring or due diligence fees, fees for providing significant managerial assistance and consulting fees.

The following shows the breakdown of investment income for the years ended December 31, 2018, 2017, and 2016 (in millions).

| | Year ended December 31, 2018 | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|---|
| Interest Income[(1)] | $ 49.6 | $ 37.6 | $ 38.0 |
| PIK Income | 1.9 | 0.5 | 0.2 |
| Miscellaneous fees[(1)] | 1.8 | 1.6 | 1.3 |
| Total | $ 53.3 | $ 39.7 | $ 39.5 |

(1) For the years ended December 31, 2018, 2017 and 2016, we recognized $3.4 million, $2.5 million and $1.6 million of non-recurring income, respectively. Non-recurring income was mostly related to early repayments and amendments to specific loan positions with the exception of the year ended December 31, 2018 which includes recognition of prior period interest reserve.

The increase in interest income from the respective periods were due primarily to growth in the overall investment portfolio and increased interest rates.

## Expenses

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

organization and offering;

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

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

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

offerings of our common stock and other securities;

base management and incentive fees;

administration fees and expenses, if any, payable under the administration agreement (including our allocable portion of Stellus Capital Management s overhead in performing its obligations under the administration agreement, including rent and the allocable portion of the cost of our chief compliance officer and chief financial officer and his staff);

transfer agent, dividend agent and custodial fees and expenses;

U.S. federal and state registration fees;

all costs of registration and listing our shares on any securities exchange;

U.S. federal, state and local taxes;

independent directors fees and expenses;

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costs of preparing and filing reports or other documents required by the SEC or other regulators;
costs of any reports, proxy statements or other notices to stockholders, including printing costs;
costs and fees associated with any fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;
direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs;
proxy voting expenses; and
all other expenses incurred by us or Stellus Capital Management in connection with administering our business.

The following shows the breakdown of operating expenses for the years ended December 31, 2018, 2017 and 2016 (in millions).

| | Year ended December 31, 2018 | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|---|
| **Operating Expenses** | | | |
| Management Fees | $ 8.2 | $ 6.3 | $ 6.3 |
| Valuation Fees | 0.3 | 0.3 | 0.4 |
| Administrative services expenses | 1.4 | 1.3 | 1.0 |
| Income incentive fees | 5.5 | 2.9 | 4.3 |
| Capital gain incentive fees | 0.1 | | |
| Professional fees | 1.2 | 1.3 | 0.7 |
| Directors fees | 0.3 | 0.3 | 0.3 |
| Insurance expense | 0.3 | 0.4 | 0.5 |
| Interest expense and other fees | 12.3 | 7.9 | 8.0 |
| Income tax expense | 0.3 | | |
| Deferred offering costs | | | 0.3 |
| Other general and administrative | 0.7 | 0.6 | 0.4 |
| **Total Operating Expenses** | $ 30.6 | $ 21.3 | $ 22.2 |
| Loss on extinguishment of debt | | 0.4 | |
| **Total Expenses** | $ 30.6 | $ 21.7 | $ 22.2 |

The increase in operating expenses for the respective periods was primarily due to 1) an increase in management fees directly related to the growth of our portfolio, 2) increased interest expense due to the greater principal amount of the additional 2022 Notes, despite their lower annual interest rate as compared to the 2019 Notes, the higher balance and increased rates on the Credit Facility and SBA-guaranteed debentures outstanding during the period, and 3) higher income incentive fees and capital gains incentive fees due to performance of the portfolio.

## Net Investment Income

Net investment income was $22.6 million, or $1.42 per common share based on 15,953,571 weighted-average common shares outstanding at December 31, 2018. Net investment income was $18.0 million, or $1.21 per common share based on 14,870,981 weighted-average common shares outstanding at December 31, 2017. Net investment income was $17.3 million, or $1.39 per common share based on 12,479,959 weighted-average common shares outstanding at December 31, 2016.

Net investment income for the year ended December 31, 2018 increased compared to the year ended December 31, 2017 as a result of an increase in interest income due to growth in the overall

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investment portfolio and increased interest rates, offset by an increase in management and incentive fees and interest expense incurred related to the portfolio growth.

## Net Realized Gains and Losses

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

Proceeds from repayments of investments and amortization of certain other investments for the year ended December 31, 2018 totaled $147.5 million and net realized gains totaled $5.5 million from the realization of our equity investments in certain portfolio companies. Proceeds from repayments of investments and amortization of certain other investments for the year ended December 31, 2017 totaled $172.3 million and net realized gain totaled $4.7 million from the realization of our equity investments in certain portfolio companies. Proceeds from the sales and repayments of investments and amortization of certain other investments for the year ended December 31, 2016 totaled $55.9 million and net realized loss totaled $13.1 million, $12.2 million of which is related to the realized loss of our term loan to Binder and Binder.

## Provision for Taxes on Realized Gains

In connection with the gain realized from the exit of its equity investment in Eating Recovery Center, LLC, the Company recorded an income tax provision on realized gains of $0.3 million for the year ended December 31, 2018. No income tax provision was recorded on realized gains for the years ended December 31, 2017 and 2016. As of December 31, 2018 and 2017, no tax liability related to the taxes on realized gains were included on the Consolidated Statement of Assets and Liabilities.

## Net Change in Unrealized Appreciation (Depreciation) of Investments

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

Net change in unrealized appreciation (depreciation) on investments and cash equivalents for the year ended December 31, 2018, 2017 and 2016 totaled ($1.6) million, $22.0 thousand, and $18.6 million, respectively.

The change in unrealized depreciation in 2018 was due to a significant widening of spreads right at year end, offset by the write up of a specific equity investment. There was relatively no change in unrealized appreciation in 2017. The change in unrealized appreciation in 2016 was due primarily to two factors: a) the reversal of $8.3 million of unrealized depreciation accrued in prior years resulting from realized losses and b) $10.3 million from tightening interest rate spreads in 2016.

## Provision for Taxes on Unrealized Appreciation on Investments

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

For the year ended December 31, 2018, 2017 and 2016, we recognized a deferred tax benefit (provision) related to unrealized appreciation on certain equity investments for income tax at our Taxable Subsidiaries of $(67.0) thousand, $9.0 thousand and $0.4 million, respectively. As of

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December 31, 2018 and 2017, a deferred tax liability of $67.0 thousand and $0, respectively, were included on the Consolidated Statement of Assets and Liabilities.

### Net Increase in Net Assets Resulting from Operations

Net increase in net assets resulting from operations totaled $26.2 million, or $1.64 per common share based on weighted-average shares of 15,953,571 for the year ended December 31, 2018, as compared to $22.6 million, or $1.52 per common share based on weighted-average shares of 14,870,981 common shares outstanding for the year ended December 31, 2017, as compared to $23.2 million, or $1.86 per common share based on weighted-average shares of 12,479,959 common shares outstanding for the year ended December 31, 2016.

The increase in net assets resulting from operations for the year ended December 31, 2018 as compared to the year ended December 31, 2017 was higher due primarily to a higher net investment income due to the growth of the portfolio, as well as a larger amount of realized gains. The increase in net assets resulting from operations for the year ended December 31, 2017 as compared to the year ended December 31, 2016 was lower due to higher net unrealized gains on the portfolio in 2016, offset by net realized gains and a higher net investment income in 2017.

## Financial Condition, Liquidity and Capital Resources

### Cash Flows from Operating and Financing Activities

Our operating activities used net cash of $102.4 million for the year ended December 31, 2018, primarily in connection with the purchase of portfolio investments, offset by sales and repayments of portfolio investments. Our financing activities for the year ended December 31, 2018 provided cash of $94.8 million primarily from proceeds from SBA-guaranteed debentures and net borrowings on our credit facility.

Our operating activities provided net cash of $18.9 million for the year ended December 31, 2017, primarily in connection with the income earned on portfolio investments, offset by the purchase and origination of portfolio investments. Our financing activities for the year ended December 31, 2017 used cash of $2.9 million primarily from net repayments on our credit facility.

Our operating activities provided net cash of $8.8 million for the year ended December 31, 2016, primarily in connection with the sale and repayment of portfolio investments, offset by the purchase and origination of portfolio investments. Our financing activities for the year ended December 31, 2016 used cash of $10.5 million, primarily from repayments on our credit facility.

### Liquidity and Capital Resources

Our liquidity and capital resources are derived from the Credit Facility, the 2022 Notes, SBA-guaranteed debentures and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and other operating expenses we incur, as well as the payment of dividends to the holders of our common stock. We used, and expect to continue to use, these capital resources as well as proceeds from turnover within our portfolio and from public and private offerings of securities to finance our investment activities.

Although we expect to fund the growth of our investment portfolio through the net proceeds from future public and private equity offerings and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act, our plans to raise capital may not be successful. In this regard, if our common stock trades at a price below our then-current net asset value per share, we may be limited in our ability to raise equity capital given that we cannot sell our common stock at a price below net asset value per share unless our stockholders approve such a sale and our board of directors makes certain determinations in connection therewith. A proposal, approved by our stockholders at our 2018 annual stockholders meeting, authorizes us to sell shares equal to up to 25% of our outstanding common stock of our common stock below the then current net asset value per share of our common stock in one or more offerings. This authorization will expire on June 28, 2019, the one year anniversary of our 2018 annual stockholders meeting. We would need similar future approval from our stockholders to issue shares below the then current net asset value per share any time after the expiration of the current approval. In addition, we intend to distribute between 90% and 100% of our taxable income to our stockholders in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings. In addition, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

Also, as a BDC, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 150% effective June 28, 2018 (at least 200% prior to June 28, 2018). This requirement limits the amount that we may borrow. We have received exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the asset coverage test under the 1940 Act. We were in compliance with the asset coverage ratios at all times. As of December 31, 2018 and December 31, 2017, our asset coverage ratio was 251% and 346%, respectively. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing, such as the maturity, covenant package and rate structure of the proposed borrowings, our ability to raise funds through the issuance of shares of our common stock and the risks of such borrowings within the context of our investment outlook. Ultimately, we only intend to use leverage if the expected returns from borrowing to make investments will exceed the cost of such borrowing. As of December 31, 2018 and December 31, 2017, we had cash and cash equivalents of $17.5 million and $25.1 million, respectively.

## Credit Facility

On November 7, 2012, the Company entered into a revolving credit facility (the Original Facility ) with various lenders. SunTrust Bank, one of the lenders, served as administrative agent under the Original Facility. The Original Facility, as amended on November 21, 2014 and August 31, 2016, provided for borrowings in an aggregate amount of $120.0 million on a committed basis with an accordion feature that allowed the Company to increase the aggregate commitments up to $195.0 million, subject to new or existing lenders agreeing to participate in the increase and other customary conditions. The Company terminated the Original Facility on October 11, 2017, in conjunction with securing and entering into a new senior secured revolving credit agreement, dated as of October 10, 2017, as amended on March 28, 2018 and August 2, 2018, with ZB, N.A., dba Amegy Bank and various other lenders (the Credit Facility ).

The Credit Facility, as amended, provides for borrowings up to a maximum of $180.0 million on a committed basis with an accordion feature that allows the Company to increase the aggregate commitments up to $195.0 million, subject to new or existing lenders agreeing to participate in the increase and other customary conditions.

Borrowings under the Credit Facility bear interest, subject to the Company s election, on a per annum basis equal to (i) LIBOR plus 2.50% (or 2.75% during certain periods in which the Company s asset coverage ratio is equal to or below 1.90 to 1.00) with no LIBOR floor, or (ii) 1.50% (or 1.75% during certain periods in which the Company s asset coverage ratio is equal to or below 1.90 to 1.00) plus an alternate base rate based on the highest of the Prime Rate, Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. The Company pays unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable quarterly in arrears. Any amounts borrowed under the Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on October 10, 2021.

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The Company s obligations to the lenders are secured by a first priority security interest in its portfolio of securities and cash not held at the SBIC subsidiary, but excluding short term investments. The Credit Facility contains certain covenants, including but not limited to: (i) maintaining a minimum liquidity test of at least $10.0 million, including cash, liquid investments and undrawn availability, (ii) maintaining an asset coverage ratio of at least 1.75 to 1.0, and (iii) maintaining a minimum stockholder s equity. As of December 31, 2018, the Company was in compliance with these covenants.

As of December 31, 2018 and December 31, 2017, the outstanding balance under the Credit Facility was $99.6 million and $40.8 million, respectively. The carrying amount of the amount outstanding under the Credit Facility approximates its fair value. The fair values of the Credit Facility is determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the Credit Facility is estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. The Company had previously incurred total costs of $3.1 million in connection with obtaining, amending, and maintaining the Original Facility. The Company incurred additional costs of $1.5 million in connection with the current Credit Facility, which are being amortized over the life of the facility. Additionally, $0.3 million of costs from the Original Facility will continue to be amortized over the remaining life of the Credit Facility. As of December 31, 2018 and 2017, $1.3 million and $1.4 million of such prepaid loan structure fees and administration fees had yet to be amortized, respectively. These prepaid loan fees are presented on our consolidated statement of assets and liabilities as a deduction from the debt liability attributable to the Credit Facility as required by ASU No. 2015-3.

Interest is paid quarterly in arrears. The following table summarizes the interest expense and amortized loan fees on the Credit Facility for the years ended December 31, 2018, 2017, and 2016 (dollars in millions):

| | For the years ended | | |
|---|---|---|---|
| | December 31, 2018 | December 31, 2017 | December 31, 2016 |
| Interest expense | $ 3.7 | $ 2.2 | $ 3.4 |
| Loan fee amortization | 0.4 | 0.4 | 0.5 |
| Commitment fees on unused portion | 0.4 | 0.3 | 0.1 |
| Administration fees | 0.1 | 0.1 | |
| Total interest and financing expenses | $ 4.6 | $ 3.0 | $ 4.0 |
| Loss on extinguishment of debt | $ | $ 0.1 | $ |
| Weighted average interest rate | 4.7 % | 3.7 % | 3.2 % |
| Effective interest rate (including fee amortization) | 5.7 % | 5.0 % | 3.7 % |
| Average debt outstanding | $ 79.8 | $ 60.1 | $ 106.6 |
| Cash paid for interest and unused fees | $ 4.2 | $ 2.5 | $ 3.4 |

## SBA-guaranteed debentures

Due to the SBIC subsidiary s status as a licensed SBIC, we have the ability to issue debentures guaranteed by the SBA at favorable interest rates. Under the regulations applicable to SBIC funds, a single licensee can have outstanding debentures guaranteed by the SBA subject to a regulatory leverage limit, up to two times the amount of regulatory capital. As of December 31, 2018 and 2017, the SBIC subsidiary had $75.0 million and $67.5 million, respectively, in regulatory capital, as such term is defined by the SBA.

On August 12, 2014, we obtained exemptive relief from the SEC to permit us to exclude the debt of the SBIC subsidiary guaranteed by the SBA from our asset coverage test under the 1940

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Act. The exemptive relief provides us with increased flexibility under the asset coverage test by permitting us to borrow up to $150.0 million more than we would otherwise be able to absent the receipt of this exemptive relief.

On a stand-alone basis, the SBIC subsidiary held $225.5 million and $162.0 million in assets at December 31, 2018 and 2017, respectively, which accounted for approximately 42.9% and 40.4% of our total consolidated assets at December 31, 2018 and 2017, respectively.

Debentures guaranteed by the SBA have fixed interest rates that equal prevailing 10-year Treasury Note rates plus a market spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the debentures is not required to be paid before maturity, but may be pre-paid at any time with no prepayment penalty. As of December 31, 2018 and 2017, the SBIC subsidiary had $150.0 million and $90.0 million of the SBA-guaranteed debentures outstanding, respectively. SBA-guaranteed debentures incur upfront fees of 3.425%, which consists of a 1.00% commitment fee and a 2.425% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. Once pooled, which occurs in March and September each year, the SBA-guaranteed debentures bear interest at a fixed rate that is set to the current 10-year treasury rate plus a spread at each pooling date.

As of December 31, 2018 and 2017, the carrying amount of the SBA-guaranteed debentures approximated their fair value. The fair values of the SBA-guaranteed debentures are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the SBA-guaranteed debentures are estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. At December 31, 2018 and 2017, the SBA-guaranteed debentures would be deemed to be Level 3, as defined in Note 6.

As of December 31, 2018, the Company has incurred $5.1 million in financing costs related to the SBA-guaranteed debentures since receiving our SBIC license, which were recorded as prepaid loan fees. As of December 31, 2018 and 2017, $3.6 million and $2.2 million of prepaid financing costs had yet to be amortized, respectively. These prepaid loan fees are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability as required by ASU No. 2015-3. See Note 1 for further discussion.

The following table summarizes the interest expense and amortized fees on the SBA-guaranteed debentures for the years ended December 31, 2018, 2017 and 2016 (dollars in millions):

| | For the years ended | | |
|---|---|---|---|
| | December 31, 2018 | December 31, 2017 | December 31, 2016 |
| Interest expense | $ 4.0 | $ 2.1 | $ 1.9 |
| Debenture fee amortization | 0.6 | 0.3 | 0.3 |
| Total interest and financing expenses | $ 4.6 | $ 2.4 | $ 2.2 |
| Weighted average interest rate | 3.2 % | 3.1 % | 2.9 % |
| Effective interest rate (including fee amortization) | 3.7 % | 3.6 % | 3.4 % |
| Average debt outstanding | $ 125.4 | $ 67.3 | $ 65.0 |
| Cash paid for interest | $ 3.1 | $ 2.0 | $ 1.5 |

## Notes

On May 5, 2014, the Company closed a public offering of $25.0 million aggregate principal amount of 6.50% notes (the 2019 Notes ) due April 30, 2019. On August 21, 2017, the Company caused notices to be issued to the holders of its 2019 Notes regarding the Company s exercise of its option to redeem all of the issued and outstanding 2019 Notes, pursuant to Section 1101 of the Base Indenture dated as of May 5, 2014, between the Company and U.S. Bank National Association, as trustee, and Section 1.01(h)(i) of the First Supplemental Indenture dated as of May 5, 2014. The

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Company redeemed all $25.0 million in aggregate principal amount of the 2019 Notes on September 20, 2017. The 2019 Notes were redeemed at 100% of their principal amount, plus the accrued and unpaid interest thereon through the redemption date. As a result of the redemption, the Company recognized a loss on the extinguishment of debt of $0.3 million for the year ended December 31, 2017, due to the write off of the remaining deferred financing costs on the 2019 Notes.

The following table summarizes the interest expense and deferred financing costs on the 2019 Notes for the years ended December 31, 2018, 2017, and 2016 (dollars in millions):

| | For the years ended December 31, 2018 | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Interest expense | $ | $ 1.2 | $ 1.6 |
| Deferred financing costs | | 0.1 | 0.2 |
| Total interest and financing expenses | $ | $ 1.3 | $ 1.8 |
| Loss on extinguishment of debt | | 0.3 | |
| Cash paid for interest | $ | $ 1.4 | $ 1.6 |

On August 21, 2017, the Company issued $42.5 million in aggregate principal amount of 5.75% fixed-rate notes due 2022 (the 2022 Notes ). On September 8, 2017, the Company issued an additional $6.4 million in aggregate principal amount of the 2022 Notes pursuant to a full exercise of the underwriters overallotment option. The 2022 Notes will mature on September 15, 2022, and may be redeemed in whole or in part at any time or from time to time at the Company s option on or after September 15, 2019 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. Interest is payable quarterly beginning December 15, 2017.

The Company used all of the net proceeds from the 2022 Notes offering to fully redeem the 2019 Notes and a portion of the amount outstanding under the Original Facility. As of both December 31, 2018 and 2017, the aggregate carrying amount of all Notes was $48.9 million and the fair value of the Notes was approximately $47.6 million and $49.5 million, respectively. The 2022 Notes are listed on New York Stock Exchange under the trading symbol SCA . The fair value of the Notes is based on the closing price of the security, which is a Level 2 input under ASC 820 due to sufficient trading volume.

In connection with the issuance and maintenance of the 2022 Notes, we have incurred $1.7 million of fees that are being amortized over the term of the 2022 Notes, of which $1.2 million and $1.6 million remained to be amortized as of December 31, 2018 and 2017, respectively. These financing costs are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability as required by ASU No. 2015-3.

The following table summarizes the interest expense and deferred financing costs on the 2022 Notes for the years ended December 31, 2018, 2017, 2016 (in millions):

| | For the years ended December 31, 2018 | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Interest expense | $ 2.8 | $ 1.0 | $ |
| Deferred financing costs | 0.3 | 0.1 | |

| | | | |
|---|---|---|---|
| Total interest and financing expenses | $ 3.1 | $ 1.1 | $ |
| Cash paid for interest | $ 2.8 | $ 0.9 | $ |

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# Contractual Obligations

As of December 31, 2018, our future fixed commitments for cash payments on contractual obligations for each of the next five years and thereafter are as follows:

| | Total | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 and thereafter |
|---|---|---|---|---|---|---|---|
| | (dollars in thousands) | | | | | | |
| Credit facility payable | $99,550 | | | $99,550 | | | |
| Notes payable | $48,875 | | | | $48,875 | | |
| SBA-guaranteed debentures | $150,000 | | | | | | $150,000 |
| Total | $298,425 | $ | $ | $99,550 | $48,875 | $ | $150,000 |

# Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of December 31, 2018, our only off-balance sheet arrangements consisted of $21.2 million of unfunded commitments to provide debt financing to eleven of our portfolio companies. As of December 31, 2017, our only off-balance sheet arrangements consisted of a $8.7 million unfunded commitments to provide debt financing to four of our portfolio companies.

# Regulated Investment Company Status and Dividends

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

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

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

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

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

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

# Recent Accounting Pronouncements

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

# Critical Accounting Policies

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

## Valuation of portfolio investments

As a business development company, we generally invest in illiquid loans and securities including debt and equity securities of middle-market companies. Under procedures established by our Board, we value investments for which market quotations are readily available at such market quotations. We obtain these market values from an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by our Board. Such determination of fair values may involve subjective judgments and estimates, although we engage independent valuation providers to review the valuation of each portfolio investment that does not have a readily available market quotation at least once each quarter. Investments purchased within 90 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value. With respect to unquoted securities, our Board, together with our independent valuation advisors, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, our Board uses the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because there is not a readily available market for substantially all of the investments in our portfolio, we value most of our portfolio investments at fair value as determined in good faith by our Board using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of

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investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

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

## Revenue recognition

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

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

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

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

## Capital Gains Incentive Fee

Under GAAP, we calculate the capital gains incentive fee payable to Stellus Capital Management as if we had realized all investments at their fair values as of the reporting date. Accordingly, we accrue a provisional capital gains incentive fee taking into account any unrealized gains or losses. As the provisional incentive fee is subject to the performance of investments until

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there is a realization event, the amount of provisional capital gains incentive fee accrued at a reporting date may vary from the incentive fee that is ultimately realized and the differences could be material.

# Recent Developments

## Investment Portfolio

On January 4, 2019, we received full repayment on the first lien term loan of EOS Fitness OPCO Holdings, LLC for total proceeds of $3.1 million. We also received a distribution related to our equity of $0.1 million.

On January 7, 2019, we received 0.3 million in full realization on the equity of OGS Holdings, Inc., resulting in a realized gain $0.2 million.

On February 4, 2019, we invested $8.5 million in the first lien term loan of ASC Communications, LLC, an existing portfolio company.

On February 8, 2019, we invested $12.3 million in the first lien term loan of Exacta Land Surveyors LLC, a provider of land surveys and field management services used to facilitate the purchasing, selling, and development of residential real estate in the U.S. Additionally, we committed $1.5 million in the unfunded revolver, $4.0 million in the unfunded delayed draw term loan, and we invested $1.0 million in the equity of the company.

On February 15, 2019, we received $0.05 million in full realization on the equity of Glori Energy Production, LLC.

On February 28, 2019, we invested $1.4 million in the first lien term loan of Convergence Technologies, Inc., an existing portfolio company. Additionally, we funded $5.4 million under the existing delayed draw term loan and an additional $0.1 million in the equity of the company.

## Credit Facility

The outstanding balance under the Credit Facility as of March 4, 2019 was $112.8 million.

## SBA-guaranteed Debentures

The total balance of SBA-guaranteed debentures outstanding as of March 4, 2019 was $150.0 million.

## Dividend Declared

On January 11, 2019, the Company s Board declared a regular monthly dividend for each of January, February and March 2019.

| Declared | Ex-Dividend Date | Record Date | Payment Date | Amount per Share |
|---|---|---|---|---|
| 1/11/2019 | 1/30/2019 | 1/31/2019 | 2/15/2019 | $ 0.1133 |
| 1/11/2019 | 2/27/2019 | 2/28/2019 | 3/15/2019 | $ 0.1133 |
| 1/11/2019 | 3/28/2019 | 3/29/2019 | 4/15/2019 | $ 0.1133 |

# Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. For the year ended December 31, 2018 and 2017, 91% and 87% of the loans in our portfolio bore interest at floating rates, respectively. These floating rate loans typically bear interest in reference to LIBOR, which are indexed to 30-day or 90-day LIBOR rates, subject to an interest rate floor. December 31, 2018 and 2017, the weighted average interest rate floor on our floating rate loans was 0.94% and 0.92%, respectively.

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Assuming that the Statement of Assets and Liabilities as of December 31, 2018 were to remain constant and no actions were taken to alter the existing interest rate sensitivity, the following table shows the annual impact on net income of changes in interest rates:

| Change in Basis Points | ($ in millions) Interest Income | Interest Expense | Net Interest Income[(1)] |
|---|---|---|---|
| Up 300 basis points | $ 13.2 | $ (2.5) | $ 10.7 |
| Up 200 basis points | 9.0 | (1.7) | 7.3 |
| Up 100 basis points | 4.8 | (0.8) | 4.0 |
| Down 100 basis points | (3.5) | 0.8 | (2.7) |
| Down 200 basis points | (6.6) | 1.7 | (4.9) |
| Down 300 basis points | (7.8) | 2.5 | (5.3) |

(1) Excludes the impact of incentive fees based on pre-incentive fee net investment income. See Note 2 for more information on the incentive fee.

Although we believe that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase in net assets resulting from operations. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contacts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. For the years ended December 31, 2018 and 2017, we did not engage in hedging activities.

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# SENIOR SECURITIES

Information about our senior securities is shown in the following table for the fiscal years ended December 31, 2018, 2017, 2016, 2015, 2014, 2013 and 2012. The report of Grant Thornton LLP, our independent registered public accounting firm, on the senior securities table as of December 31, 2018, is attached as an exhibit to the registration statement of which this supplement prospectus is a part.

| Class and Year | Total Amount Outstanding Exclusive of Treasury Securities[1] (Dollars in thousands) | Asset Coverage per Unit[2] | Involuntary Liquidating Preference per Unit[3] | Average Market Value per Unit[4] |
|---|---|---|---|---|
| ***SBA Debentures*** | | | | |
| Fiscal 2014 | $ 16,250 | N/A [6] | | N/A |
| Fiscal 2015 | $ 65,000 | N/A [6] | | N/A |
| Fiscal 2016 | $ 65,000 | N/A [6] | | N/A |
| Fiscal 2017 | $ 90,000 | N/A [6] | | N/A |
| Fiscal 2018 | $ 150,000 | N/A [6] | | N/A |
| ***Original Credit Facility***[7] | | | | |
| Fiscal 2012 | $ 38,000 | $ 3,090 | | N/A |
| Fiscal 2013 | $ 110,000 | $ 2,470 | | N/A |
| Fiscal 2014 | $ 106,500 | $ 2,320 [6] | | N/A |
| Fiscal 2015 | $ 109,500 | $ 2,220 [6] | | N/A |
| Fiscal 2016 | $ 116,000 | $ 2,210 [6] | | N/A |
| ***Credit Facility*** | | | | |
| Fiscal 2017 | $ 40,750 | $ 3,460 [6] | | N/A |
| Fiscal 2018 | $ 99,550 | $ 2,520 [6] | | N/A |
| ***5.75% Notes due 2022*** | | | | |
| Fiscal 2017 | $ 48,875 | $ 3,460 [6] | | $ 25.34 |
| Fiscal 2018 | $ 48,875 | $ 2,520 [6] | | $ 25.18 |
| ***6.50% Notes due 2019***[7] | | | | |
| Fiscal 2014 | $ 25,000 | $ 2,320 [6] | | $ 25.41 |
| Fiscal 2015 | $ 25,000 | $ 2,220 [6] | | $ 25.27 |
| Fiscal 2016 | $ 25,000 | $ 2,210 [6] | | $ 25.11 |
| ***Short-Term Loan***[5] | | | | |
| Fiscal 2012 | $ 45,000 | $ 3,090 | | N/A |
| Fiscal 2013 | $ 9,000 | $ 2,470 | | N/A |

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

(2) Asset coverage per unit is the ratio of the carrying value of our total assets, less all liabilities and indebtedness not represented by senior securities, in relation to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per $1,000 of indebtedness.

(3)

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

(4) Average market value per unit for the Notes represents the average of the daily closing prices as reported on the NYSE during the period presented. Average market value per unit for our SBA Debentures and Credit Facility are not applicable because these are not registered for public trading.

(5) Refers to short-term loans that the Company obtained from Raymond James and repaid in full on January 2, 2013 and January 2, 2014, respectively.

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(6) We have excluded our SBA-guaranteed debentures from the asset coverage calculation as of December 31, 2018, 2017, 2016, 2015 and 2014 pursuant to the exemptive relief granted by the SEC in August 2014 that permits us to exclude such debentures from the definition of senior securities in the 200% asset coverage ratio we are required to maintain under the 1940 Act.

(7) Such senior securities were retired during the 2017 fiscal year.

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# PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

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

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

| Fiscal Year Ended | NAV Per Share(1) | Closing Sales Price(2) High | Closing Sales Price(2) Low | Premium or Discount of High Sales to NAV(3) | Premium or Discount of Low Sales to NAV(3) |
|---|---|---|---|---|---|
| ***December 31, 2019*** | | | | | |
| First Quarter (through March 13, 2019) | * | $ 15.20 | $ 13.27 | * | * |
| ***December 31, 2018*** | | | | | |
| Fourth Quarter | $ 14.09 | $ 13.65 | $ 11.91 | -3.12 % | -15.47 % |
| Third Quarter | $ 14.29 | $ 13.98 | $ 12.79 | -2.17 % | -10.50 % |
| Second Quarter | $ 14.07 | $ 13.60 | $ 11.56 | -3.34 % | -17.84 % |
| First Quarter | $ 13.93 | $ 13.00 | $ 11.34 | -6.67 % | -18.59 % |
| ***December 31, 2017*** | | | | | |
| Fourth Quarter | $ 13.81 | $ 14.29 | $ 12.19 | 3.48 % | -11.73 % |
| Third Quarter | $ 13.85 | $ 13.85 | $ 13.30 | | -3.97 % |
| Second Quarter | $ 13.84 | $ 14.55 | $ 13.25 | 5.13 % | -4.26 % |
| First Quarter | $ 13.84 | $ 14.57 | $ 12.09 | 5.27 % | -12.64 % |

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

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

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

* Not determinable at the time of filing.

On March 13, 2019, the last reported sales price of our common stock was $14.68 per share. As of March 13, 2019, we had 8 stockholders of record, which did not include stockholders for whom shares are held in nominee or street name.

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

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

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

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

We have adopted an opt out dividend reinvestment plan for our common stockholders. Unless you elect to receive your distributions in cash, we intend to make such distributions in additional shares of our common stock under our dividend reinvestment plan. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. If you hold shares of our common stock in the name of a broker or financial intermediary, you should contact such broker or financial intermediary regarding your election to receive distributions in cash in lieu of shares of our common stock. Any distributions reinvested through the issuance of shares through our dividend reinvestment plan will increase our gross assets on which the base management fee and the incentive fee are determined and paid to Stellus Capital Management. See Dividend Reinvestment Plan beginning on page 127 of the accompanying prospectus.

The following table summarizes our distributions per share that our board of directors has declared on our common stock since January 1, 2018:

| Date Declared | Record Date | Payment Date | Per Share |
|---|---|---|---|
| **Fiscal 2018** | | | |
| January 11, 2018 | January 31, 2018 | February 15, 2018 | $ 0.1133 |
| January 11, 2018 | February 28, 2018 | March 15, 2018 | $ 0.1133 |
| January 11, 2018 | March 29, 2018 | April 13, 2018 | $ 0.1133 |
| April 16, 2018 | April 30, 2018 | May 15, 2018 | $ 0.1133 |
| April 16, 2018 | May 31, 2018 | June 15, 2018 | $ 0.1133 |
| April 16, 2018 | June 29, 2018 | July 13, 2018 | $ 0.1133 |
| July 12, 2018 | July 31, 2018 | August 15, 2018 | $ 0.1133 |
| July 12, 2018 | August 31, 2018 | September 14, 2018 | $ 0.1133 |
| July 12, 2018 | September 28, 2018 | October 15, 2018 | $ 0.1133 |
| October 16, 2018 | October 31, 2018 | November 15, 2018 | $ 0.1133 |
| October 16, 2018 | November 29, 2018 | December 14, 2018 | $ 0.1133 |
| October 16, 2018 | December 31, 2018 | January 15, 2019 | $ 0.1133 |
| ***Total*** | | | $ 1.3596 |

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# UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated March , 2019, the underwriters named below, for whom Raymond James and Keefe, Bruyette & Woods, Inc. are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them, the number of shares of common stock indicated below:

| Underwriter | Number of Shares |
|---|---|
| Raymond James & Associates, Inc. | |
| Keefe, Bruyette & Woods, Inc. | |
| Goldman Sachs & Co. LLC | |
| **Total** | **2,750,000** |

The underwriting agreement provides that the obligations of the underwriters to pay for and accept delivery of the shares of common stock offered hereby are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are severally obligated to take and pay for all shares of common stock offered hereby (other than those covered by the underwriters option to purchase additional shares described below) if any such shares are taken. The offering of the common stock by the underwriters is subject to receipt and acceptance and subject to the underwriters right to reject any order in whole or in part. We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

Our common stock is listed on the NYSE under the symbol SCM.

The underwriters are purchasing the shares of common stock from us at $ per share (representing approximately $ million aggregate proceeds to us, before we deduct our aggregate out-of-pocket expenses of approximately $ million, or approximately $ million if the underwriters option to purchase additional shares described below is exercised in full). Stellus Capital Management had agreed to bear $ , or $ per share, of the commissions (sales load) to be paid to the underwriters in connection with this offering, or $ if the underwriters option to purchase additional shares is exercised in full.

## Option to Purchase Additional Shares

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an aggregate of additional shares of common stock at the price set forth on the cover page of this prospectus supplement. To the extent such option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares of common stock as the number set forth next to such underwriter s name in the preceding table bears to the total number of shares set forth next to the names of all underwriters in the preceding table.

## Lock-Up Agreements

We, and our executive officers and directors, have agreed, subject to certain exceptions, not to issue, sell, offer to sell, contract or agree to sell, hypothecate, pledge, transfer, grant any option to purchase, establish an open put equivalent position or otherwise dispose of or agree to dispose of directly or indirectly, any shares of our common stock, or any securities convertible into or exercisable or exchangeable for any shares of our common stock or any right to acquire shares of our common stock, for 90 days from the date of this prospectus supplement, subject to extension upon material announcements or earnings releases. The representatives, at any time and without notice, may release all or any portion of the common stock subject to the foregoing lock-up agreements.

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# Price Stabilization, Short Positions and Penalty Bids

In connection with this offering, the underwriters may purchase and sell shares of our common stock in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. An over-allotment involves syndicate sales of shares in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of shares in the open market after the distribution has been completed in order to cover syndicate short positions.

Stabilizing transactions consist of some bids or purchases of shares of our common stock made for the purpose of preventing or slowing a decline in the market price of the shares while the offering is in progress.

In addition, the underwriters may impose penalty bids, under which they may reclaim the selling concession from a syndicate member when the shares of our common stock originally sold by that syndicate member are purchased in a stabilizing transaction or syndicate covering transaction to cover syndicate short positions.

Similar to other purchase transactions, these activities may have the effect of raising or maintaining the market price of the common stock or preventing or slowing a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. Except for the sale of shares of our common stock in this offering, the underwriters may carry out these transactions on the NYSE, in the over-the-counter market or otherwise.

Neither the underwriters nor we make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the shares. In addition, neither the underwriters nor we make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

# Conflicts of Interest

An affiliate of Keefe, Bruyette & Woods, Inc., an underwriter in this offering, acts as a lender and/or agent under the Credit Facility. Certain of the net proceeds from the sale of our common stock, not including underwriting compensation, may be paid to such affiliate of Keefe, Bruyette & Woods, Inc. in connection with the repayment of debt owed under the Credit Facility. As a result, Keefe, Bruyette & Woods, Inc. and/or its affiliate may receive more than 5% of the net proceeds of this offering, not including underwriting compensation.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The underwriters and/or their affiliates from time to time provide and may in the future provide investment banking, commercial banking and financial advisory services to us, for which they have received and may receive customary compensation.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to our assets, securities and/or instruments (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with us. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long

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and/or short positions in such assets, securities and instruments. In addition, the underwriters and/or their affiliates may from time to time refer investment banking clients to us as potential portfolio investments. If we invest in those clients, we may utilize net proceeds from this offering to fund such investments, and the referring underwriter or its affiliate may receive placement fees from its client in connection with such financing, which placement fees may be paid out of the amount funded by us.

The addresses of the underwriters are: Raymond James & Associates, Inc., 880 Carillon Parkway, St. Petersburg, Florida 33716 and Keefe, Bruyette & Woods, Inc. 787 7th Avenue, 4th Floor, New York, NY 10019.

# Selling Restrictions

## European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State ) with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date ) an offer of shares may not be made to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representative of the several underwriters; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares of our common stock shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of shares to the public in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares of our common stock to be offered so as to enable an investor to decide to purchase or subscribe for any shares of our common stock, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

The sellers of shares of our common stock have not authorized and do not authorize the making of any offer of shares of our common stock through any financial intermediary, other than offers made by the underwriters with a view to underwriting the shares of our common stock as contemplated in this prospectus supplement and the accompanying prospectus. Accordingly, no purchaser of shares of our common stock, other than the underwriters, is authorized to make any further offer of shares of our common stock on behalf of the sellers or the underwriters.

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## United Kingdom

Each underwriter has represented and agreed that:

(a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 ( FSMA ) with respect to anything done by it in relation to the shares of common stock in, from or otherwise involving the United Kingdom; and

(b) it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue and sale of such shares of common stock in circumstances in which Section 21(1) of the FSMA does not apply to us.

## Japan

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

## Hong Kong

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

## Singapore

This prospectus supplement and the accompanying prospectus have not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA ), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest in that trust will not be transferable for

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six months after that corporation or that trust has acquired the shares under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A) of the SFA and in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

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# LEGAL MATTERS

Certain legal matters regarding the shares of common stock offered by this prospectus will be passed upon for us by Eversheds Sutherland (US) LLP, Washington, DC 20001. Certain legal matters in connection with the offering will be passed upon for the underwriters by Mayer Brown LLP, New York, NY.

# INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements, financial highlights and senior securities table of Stellus Capital Investment Corporation included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the reports of Grant Thornton LLP. Grant Thornton LLP, located at 171 N. Clark Street, Chicago, Illinois, 60601, serves as the Company s independent registered public accounting firm, providing audit services and review of certain documents to be filed with the SEC.

# AVAILABLE INFORMATION

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

We also file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the SEC s website *www.sec.gov*.

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

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# INDEX TO AUDITED FINANCIAL STATEMENTS



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# Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Stellus Capital Investment Corporation

## Opinion on the financial statements

We have audited the accompanying consolidated statements of assets and liabilities of Stellus Capital Investment Corporation (a Maryland corporation) and subsidiaries (the Company ), including the consolidated schedules of investments, as of December 31, 2018 and 2017, the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes, schedules and financial highlights (collectively referred to as the financial statements ). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, and the financial highlights for each of the five years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ( PCAOB ), the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ), and our report dated March 5, 2019 expressed an unqualified opinion.

## Basis for opinion

These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the Company s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included verification by confirmation of securities as of December 31, 2018 and 2017, by correspondence with the portfolio companies and custodians, or by other appropriate auditing procedures where replies were not received. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company s auditor since 2012.
Dallas, Texas

March 5, 2019

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# Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Stellus Capital Investment Corporation

## Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Stellus Capital Investment Corporation (a Maryland corporation) and subsidiaries (the Company ) as of December 31, 2018, based on criteria established in the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 Internal Control Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ( PCAOB ), the consolidated financial statements of the Company, as of and for the year ended December 31, 2018 and our report dated March 5, 2019, expressed an unqualified opinion on those financial statements.

## Basis for opinion

The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

## Definition and limitations of internal control over financial reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Dallas, Texas
March 5, 2019

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# PART I FINANCIAL INFORMATION STELLUS CAPITAL INVESTMENT CORPORATION

# CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| Non-controlled, affiliated investments, at fair value (amortized cost of $52,185 and $1,052,185, respectively) | $50,000 | $990,000 |
| Non-controlled, non-affiliated investments, at fair value (amortized cost of $502,691,464 and $367,401,021, respectively) | 504,433,668 | 370,849,772 |
| Cash and cash equivalents | 17,467,146 | 25,110,718 |
| Receivable for sales and repayments of investments | 99,213 | 26,891 |
| Interest receivable | 3,788,684 | 2,922,204 |
| Other receivables | 85,246 | |
| Deferred offering costs | 18,673 | |
| Prepaid expenses | 344,621 | 361,270 |
| **Total Assets** | $526,287,251 | $400,260,855 |
| **LIABILITIES** | | |
| Notes payable | $47,641,797 | $47,306,488 |
| Credit facility payable | 98,237,227 | 39,332,479 |
| SBA-guaranteed debentures | 146,387,802 | 87,818,813 |
| Dividends payable | 1,807,570 | 1,806,671 |
| Management fees payable | 2,183,975 | 1,621,592 |
| Income incentive fees payable | 1,936,538 | 371,647 |
| Capital gains incentive fees payable | 81,038 | |
| Interest payable | 1,863,566 | 1,021,173 |
| Unearned revenue | 410,593 | 139,304 |
| Administrative services payable | 392,191 | 327,033 |
| Deferred tax liability | 67,953 | |
| Income tax payable | 316,092 | |
| Other accrued expenses and liabilities | 115,902 | 268,413 |
| **Total Liabilities** | $301,442,244 | $180,013,613 |
| **Commitments and contingencies (Note 7)** | | |
| **Net Assets** | $224,845,007 | $220,247,242 |
| **NET ASSETS** | | |
| Common Stock, par value $0.001 per share (200,000,000 shares and 100,000,000 shares authorized; 15,953,810 and 15,945,879 issued and outstanding, respectively) | $15,954 | $15,946 |
| Paid-in capital | 228,160,491 | 228,066,762 |
| | (10,786,240 ) | (10,786,240 ) |

| | | |
|---|---|---|
| Accumulated net realized loss from investments, net of cumulative dividends of $9,519,362 and $4,246,819, respectively, and tax provision on realized gain of $267,975 and $0, respectively | | |
| Accumulated undistributed net investment income | 5,782,736 | (435,794) |
| Net unrealized appreciation on non-controlled, non-affiliated investments and cash equivalents, net of provision for taxes of $67,953 and $0, respectively (Note 13) | 1,674,251 | 3,448,753 |
| Net unrealized depreciation on non-controlled, affiliated investments | (2,185) | (62,185) |
| **Net Assets** | $224,845,007 | $220,247,242 |
| **Total Liabilities and Net Assets** | $526,287,251 | $400,260,855 |
| **Net Asset Value Per Share** | $14.09 | $13.81 |

See accompanying notes to these consolidated financial statements.

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# STELLUS CAPITAL INVESTMENT CORPORATION

# CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the year ended December 31, 2018 | For the year ended December 31, 2017 | For the year ended December 31, 2016 |
|---|---|---|---|
| **INVESTMENT INCOME** | | | |
| Interest income | $51,463,033 | $38,071,449 | $38,176,617 |
| Other income | 1,803,305 | 1,576,744 | 1,313,580 |
| **Total Investment Income** | $53,266,338 | $39,648,193 | $39,490,197 |
| **OPERATING EXPENSES** | | | |
| Management fees | $8,154,842 | $6,255,911 | $6,281,863 |
| Valuation fees | 307,838 | 336,300 | 397,330 |
| Administrative services expenses | 1,390,375 | 1,245,727 | 1,045,648 |
| Income incentive fees | 5,529,376 | 2,911,392 | 4,275,436 |
| Capital gains incentive fees | 81,038 | | |
| Professional fees | 1,189,071 | 1,274,066 | 712,524 |
| Directors fees | 317,000 | 331,000 | 324,000 |
| Insurance expense | 348,500 | 429,897 | 471,427 |
| Interest expense and other fees | 12,338,755 | 7,855,211 | 7,992,185 |
| Income tax expense | 275,106 | | |
| Deferred offering costs | | | 261,761 |
| Other general and administrative expenses | 697,900 | 621,204 | 415,822 |
| **Total Operating Expenses** | $30,629,801 | $21,260,708 | $22,177,996 |
| Loss on extinguishment of debt | | 416,725 | |
| **Net Investment Income** | $22,636,537 | $17,970,760 | $17,312,201 |
| Net realized gain (loss) on non-controlled, non-affiliated investments and cash equivalents | $5,540,518 | $4,655,976 | $(13,089,671 ) |
| Tax provision on realized gain on investments | (267,975 ) | | |
| Net change in unrealized appreciation (depreciation) on non-controlled, non-affiliated investments and cash equivalents | $(1,706,549 ) | $40,113 | $18,603,401 |
| Net change in unrealized appreciation (depreciation) on non-controlled, affiliated investments and cash equivalents | 60,000 | (62,185 ) | |
| Benefit (provision) for taxes on net unrealized gain (loss) on investments | $(67,953 ) | $8,593 | $373,131 |
| **Net Increase in Net Assets Resulting from Operations** | $26,194,578 | $22,613,257 | $23,199,062 |
| **Net Investment Income Per Share** | $1.42 | $1.21 | $1.39 |
| **Net Increase in Net Assets Resulting from Operations Per Share** | $1.64 | $1.52 | $1.86 |

| | | | |
|---|---|---|---|
| **Weighted Average Shares of Common Stock Outstanding** | 15,953,571 | 14,870,981 | 12,479,959 |
| **Distributions Per Share** | $1.36 | $1.36 | $1.36 |

See accompanying notes to these consolidated financial statements.

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# STELLUS CAPITAL INVESTMENT CORPORATION

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

| | For the year ended December 31, 2018 | For the year ended December 31, 2017 | For the year ended December 31, 2016 |
|---|---|---|---|
| **Increase in Net Assets Resulting from Operations** | | | |
| Net investment income | $22,636,537 | $17,970,760 | $17,312,201 |
| Net realized gain (loss) on investments and cash equivalents | 5,540,518 | 4,655,976 | (13,089,671) |
| Tax provision on realized gain on investments | (267,975) | | |
| Net change in unrealized appreciation (depreciation) on non-controlled, non-affiliated investments and cash equivalents | (1,706,549) | 40,113 | 18,603,401 |
| Net change in unrealized appreciation (depreciation) on non-controlled, affiliated investments and cash equivalents | 60,000 | (62,185) | |
| Benefit (provision) for taxes on unrealized appreciation on investments | (67,953) | 8,593 | 373,131 |
| **Net Increase in Net Assets Resulting from Operations** | $26,194,578 | $22,613,257 | $23,199,062 |
| **Stockholder distributions from:** | | | |
| Net investment income | (16,418,007) | (17,970,760) | (16,968,350) |
| Net realized capital gains | (5,272,543) | (2,352,545) | |
| **Total Distributions** | $(21,690,550) | $(20,323,305) | $(16,968,350) |
| **Capital Share Transactions** | | | |
| Issuance of common stock | $94,788 | $48,741,549 | $ |
| Sales load | | (1,358,880) | |
| Offering costs | | (307,022) | |
| Partial share redemption | (1,051) | (142) | (31) |
| **Net Increase (Decrease) in Net Assets Resulting From Capital Share Transactions** | $93,737 | $47,075,505 | $(31) |
| **Total Increase in Net Assets** | $4,597,765 | $49,365,457 | $6,230,681 |
| **Net Assets at Beginning of Period** | $220,247,242 | $170,881,785 | $164,651,104 |
| **Net Assets at End of Period (Includes $5,782,736, $(435,794) and $(435,794) of Accumulated Undistributed Net Investment Income (Loss), Respectively)** | $224,845,007 | $220,247,242 | $170,881,785 |

See accompanying notes to these consolidated financial statements.

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# STELLUS CAPITAL INVESTMENT CORPORATION

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the year ended December 31, 2018 | For the year ended December 31, 2017 | For the year ended December 31, 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net Increase in net assets resulting from operations | $26,194,578 | $22,613,257 | $23,199,062 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities: | | | |
| Purchases of investments | (272,927,459) | (172,171,246) | (65,661,034) |
| Proceeds from sales and repayments of investments | 147,528,448 | 172,260,541 | 55,949,177 |
| Net change in unrealized depreciation (appreciation) on investments | 1,646,549 | 22,072 | (18,603,401) |
| Increase in investments due to PIK | (1,869,905) | (499,595) | (243,766) |
| Amortization of premium and accretion of discount, net | (1,553,333) | (1,196,566) | (1,128,511) |
| Deferred tax provision (benefit) | 67,953 | (8,593) | (373,130) |
| Amortization of loan structure fees | 456,151 | 455,893 | 523,835 |
| Amortization of deferred financing costs | 335,309 | 251,826 | 326,190 |
| Amortization of loan fees on SBA-guaranteed debentures | 623,989 | 333,027 | 184,783 |
| Net realized (gain) loss on investments | (5,540,518) | (4,655,976) | 13,089,341 |
| Loss on extinguishment of debt | | 416,725 | |
| Deferred offering costs | | | 261,761 |
| Changes in other assets and liabilities | | | |
| Decrease (increase) in interest receivable | (866,480) | 1,679,538 | 118,289 |
| Decrease (increase) in other receivable | (85,246) | 748 | 6,936 |
| Decrease in prepaid expenses | 16,649 | 94,949 | 19,230 |
| Increase in management fees payable | 562,383 | 13,297 | 89,516 |
| Increase (decrease) in incentive fees payable | 1,564,891 | (981,624) | 745,315 |
| Increase in capital gains incentive fees payable | 81,038 | | |
| Increase (decrease) in administrative services payable | 65,158 | 54,522 | (125,288) |
| Increase in interest payable | 842,393 | 47,361 | 403,623 |
| Increase (decrease) in unearned revenue | 271,289 | 119,349 | (16,922) |
| Increase in income tax payable | 316,092 | | |
| Increase (decrease) in other accrued expenses and liabilities | (152,511) | 1,022 | 71,714 |
| | $(102,422,582) | $18,850,527 | $8,836,720 |

**Net Cash Provided by (Used in) Operating Activities**

See accompanying notes to these consolidated financial statements.

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# STELLUS CAPITAL INVESTMENT CORPORATION

# CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

| | For the year ended December 31, 2018 | For the year ended December 31, 2017 | For the year ended December 31, 2016 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from the issuance of common stock | $ | $48,741,549 | $ |
| Sales load for common stock issued | | (1,358,880) | |
| Offering costs paid for common stock | (18,673) | (307,022) | |
| Proceeds from notes issued | | 48,875,000 | |
| Financing costs paid for Notes issued | | (1,688,961) | |
| Repayments on Notes issued | | (25,000,000) | |
| Stockholder distributions paid | (21,594,863) | (19,930,616) | (16,968,350) |
| Proceeds from SBA Debentures | 60,000,000 | 25,000,000 | |
| Financing costs paid on SBA Debentures | (2,055,000) | (856,250) | |
| Borrowings under Credit Facility | 246,300,000 | 194,250,000 | 56,500,000 |
| Repayments of Credit Facility | (187,500,000) | (269,500,000) | (50,000,000) |
| Financing costs paid on Credit facility | (351,403) | (1,158,616) | (50,000) |
| Partial Share Redemption | (1,051) | (142) | (31) |
| Net Cash Provided by (Used in) Financing Activities | $94,779,010 | $(2,933,938) | $(10,518,381) |
| Net Increase (Decrease) in Cash and Cash Equivalents | $(7,643,572) | $15,916,589 | $(1,681,661) |
| Cash and cash equivalents balance at beginning of period | 25,110,718 | 9,194,129 | 10,875,790 |
| **Cash and Cash Equivalents Balance at End of Period** | $17,467,146 | $25,110,718 | $9,194,129 |
| **Supplemental and Non-Cash Activities** | | | |
| Cash paid for interest expense | $10,075,913 | $6,762,104 | $6,548,754 |
| Excise tax paid | 27,717 | 37,648 | |
| Shares issued pursuant to Dividend Reinvestment Plan | 94,788 | | |
| Conversion from debt to equity | | 864,101 | |
| Increase in Distribution Payable | 899 | 392,689 | |

See accompanying notes to these consolidated financial statements.

STELLUS CAPITAL INVESTMENT CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS (conti

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## Consolidated Schedule of Investments (continued) December 31, 2018

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# Stellus Capital Investment Corporation

# Consolidated Schedule of Investments (continued) December 31, 2018

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

(2) Investments held by the SBIC subsidiary, which include $13,410,706 of cash and $214,114,498 of investments (at cost) are excluded from the obligations to the lenders of the Credit Facility. The Company s obligations to the lenders of the Credit Facility, as defined in Note 9, are secured by a first priority security interest in all investments and cash and cash equivalents, except for investments held by the SBIC Subsidiary.

(3) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $865,385, with an interest rate of LIBOR plus 7.50% and a maturity of June 30, 2023. This investment is accruing an unused commitment fee of 0.375% per annum.

(4) Security is non-income producing.

(5) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended. The Company may not acquire any non-qualifying assets unless, at the time of the acquisition, qualifying assets represent at least 70% of the Company s total assets. Qualifying assets represent approximately 87% of the Company s total assets as of December 31, 2018.

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

(7) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $666,666, with an interest rate of LIBOR plus 5.75% and a maturity of June 29, 2022. This investment is accruing an unused commitment fee of 0.50% per annum.

(8) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $2,000,000, with an interest rate of LIBOR plus 5.75% and a maturity of August 8, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

(9) Investment has been on non-accrual since November 30, 2018.

(10) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $3,669,681 with an interest rate of LIBOR plus 5.50% and a maturity of October 18, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

(11) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $520,000, with an interest rate of LIBOR plus 8.00% and a maturity of September 30, 2018. This investment is not accruing an unused commitment fee.

(12) These loans have LIBOR floors that are lower than the applicable LIBOR rates; therefore, the floors are not in effect.

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# Consolidated Schedule of Investments (continued) December 31, 2018

(13) These loans are last-out term loans with contractual rates higher than the applicable LIBOR rates; therefore, the floors are not in effect.

(14) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $5,357,143, with an interest rate of LIBOR plus 6.75% and a maturity of August 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

(15) Investment has been on non-accrual since November 1, 2017.

(16) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,000,000, with an interest rate of LIBOR plus 7.75% and a maturity of February 5, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

(17) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,500,000, with an interest rate of LIBOR plus 6.50% and a maturity of January 31, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

(18) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $750,000, with an interest rate of LIBOR plus 7.50% and a maturity of April 13, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

(19) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,222,494, with an interest rate of LIBOR plus 6.25% and a maturity of September 26, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

(20) Investment has been on non-accrual since March 29, 2018.

(21) Investment has been on non-accrual since October 31, 2018.

(22) This loan is a unitranche investment.

(23) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $1,662,592, with an interest rate of LIBOR plus 6.25% and a maturity of September 26, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

(24) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $2,000,000 with an interest rate of LIBOR plus 6.00% and a maturity of November 15, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

**Abbreviation Legend**

| | |
|---|---|
| PIK | Payment-In-Kind |
| L | LIBOR |
| Euro | Euro Dollar |

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