

Stellus Capital Investment Corp

Form 497

April 28, 2014

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

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

SUBJECT TO COMPLETION, DATED APRIL 28, 2014

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

\$25,000,000

Stellus Capital Investment Corporation

% Notes due 2019

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

We are offering \$25,000,000 in aggregate principal amount of % notes due 2019, which we refer to as the Notes. The Notes will mature on April 30, 2019. We will pay interest on the Notes on February 15, May 15, August 15 and November 15 of each year, beginning August 15, 2014. We may redeem the Notes in whole or in part at any time or from time to time on or after April 30, 2016, at the redemption price of par, plus accrued interest, as discussed under the caption Specific Terms of the Notes and the Offering Optional redemption in this prospectus supplement. The Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof.

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

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

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

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

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

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

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

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

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

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

Keefe, Bruyette & Woods
A Stifel Company

omery Scott

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

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ABOUT THIS PROSPECTUS SUPPLEMENT

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

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

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

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SUMMARY OF THE SPECIFIC TERMS OF THE NOTES AND THE OFFERING

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

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

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

Regular record dates for interest

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

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Specified currency

U.S. Dollars

Place of payment

New York City

Ranking of Notes

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

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

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

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

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

Denominations

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

Business Day

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

Optional redemption

The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after April 30, 2016 upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the Notes to be redeemed plus accrued and unpaid interest payments otherwise payable thereon for the then-current quarterly interest period accrued to the date fixed for redemption. Before redeeming any Notes, we would have to comply with certain requirements under our Credit Facility, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders.

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

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

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

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Sinking fund

The Notes will not be subject to any sinking fund.

Repayment at option of holders

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

Defeasance

The Notes are subject to defeasance by us.

Covenant Defeasance

The Notes are subject to covenant defeasance by us.

Form of Notes

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

Trustee, Paying Agent, Registrar and Transfer Agent

U.S. Bank National Association

Other covenants

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

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

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

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

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

Events of default

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

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

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

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

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

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

Further issuances

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

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Use of proceeds

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus supplement and the accompanying prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this this prospectus supplement and the accompanying prospectus involve risks and uncertainties, including statements as to:

our future operating results;
our business prospects and the prospects of our portfolio companies;
the effect of investments that we expect to make;
our contractual arrangements and relationships with third parties;
actual and potential conflicts of interest with Stellus Capital Management;
the dependence of our future success on the general economy and its effect on the industries in which we invest;
the ability of our portfolio companies to achieve their objectives;
the use of borrowed money to finance a portion of our investments;
the adequacy of our financing sources and working capital;
the timing of cash flows, if any, from the operations of our portfolio companies;
the ability of Stellus Capital Management to locate suitable investments for us and to monitor and administer our investments;
the ability of Stellus Capital Management to attract and retain highly talented professionals;
the potential that we will become subject to corporate-level U.S. federal income tax on all of our income if we are unable to qualify or maintain our qualification as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, which would have a material adverse effect on our financial performance; and
the effect of future changes in laws or regulations (including the interpretation of these laws and regulations by regulatory authorities) and conditions in our operating areas, particularly with respect to business development companies or RICs.

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

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

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

accompanying prospectus, if any.

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THE COMPANY

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

Except as otherwise indicated, the terms we, us, our, and the Company refer to Stellus Capital Investment Corporation; and Stellus Capital Management refers to our investment adviser and administrator, Stellus Capital Management, LLC.

Stellus Capital Investment Corporation

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the 1940 Act and a RIC for U.S. federal income tax purposes.

We originate and invest primarily in private middle-market companies (typically those with \$5.0 million to \$50.0 million of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien, second lien, unitranche and mezzanine debt financing, often times with a corresponding equity investment. Unitranche debt is typically structured as first lien loans with certain risk characteristics of mezzanine debt. Mezzanine debt includes senior unsecured and subordinated loans.

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

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

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

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

Management (other than the D. E. Shaw group funds, as defined below) where doing so is consistent with our investment strategy as well as applicable law (including the terms and conditions of the exemptive order issued by the SEC). Under the terms of the relief permitting us to co-invest with other funds managed by Stellus Capital Management, a required majority (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent

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with our investment objectives and strategies. We intend to co-invest, subject to the conditions included in the exemptive order we received from the SEC, with a private credit fund managed by Stellus Capital Management that has an investment strategy that is identical to our investment strategy. We believe that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification.

Portfolio Composition

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

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

Stellus Capital Management

Stellus Capital Management manages our investment activities and is responsible for analyzing investment opportunities, conducting research and performing due diligence on potential investments, negotiating and structuring our investments, originating prospective investments and monitoring our investments and portfolio companies on an ongoing basis. Stellus Capital Management is an investment advisory firm led by the former head, Robert T. Ladd, and certain senior investment professionals of the direct capital business of D. E. Shaw & Co., L.P. and its associated investment funds and affiliated entities (collectively, the D. E. Shaw group), which spun out of the D. E. Shaw group in January 2012. The Stellus Capital Management investment team was responsible for helping the D. E. Shaw group build its middle-market direct investment business until it spun out in January 2012. The senior investment professionals of Stellus Capital Management have an average of over 24 years of investing, corporate finance, restructuring, consulting and accounting experience and have worked together at several companies, including the D. E. Shaw group. The Stellus Capital Management investment team has a wide range of experience in middle-market investing, including originating, structuring and managing loans and debt securities through market cycles. The Stellus Capital Management investment team continues to provide investment advisory services to the D. E. Shaw group with respect to an approximately \$430 million investment portfolio (as of December 31, 2013) in middle-market companies pursuant to sub-advisory arrangements.

In addition to serving as our investment adviser and the sub-advisor to the D. E. Shaw group as noted above, Stellus Capital Management currently manages a private credit fund that has an investment strategy that is identical to our investment strategy and energy private equity funds. We received exemptive relief from the SEC to co-invest with

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

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

Market Opportunity

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

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

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

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

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

Competitive Strengths

Experienced Investment Team. Through our investment adviser, Stellus Capital Management, we have access to the experience and expertise of the Stellus Capital Management investment team, including its senior investment professionals who have an average of over 24 years of investing, corporate finance, restructuring, consulting and accounting experience and have worked together at several companies. The Stellus Capital Management investment

team has a wide range of experience in middle-market investing, including originating, structuring and managing loans and debt securities through market cycles. We believe the members of Stellus Capital Management's investment team are proven and experienced, with extensive capabilities in leveraged credit investing, having participated in these markets for the predominant portion of their careers. We believe that the experience and demonstrated ability of the Stellus Capital Management investment team to complete transactions enhances the quantity and quality of investment opportunities available to us.

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

Demonstrated Ability to Structure Investments Creatively. Stellus Capital Management has the expertise and ability to structure investments across all levels of a company's capital structure. While at the D. E. Shaw group, the Stellus Capital Management investment team invested approximately \$5.4 billion across the entire capital structure in 193 middle-market companies. These investments included secured and unsecured debt and related equity securities. Furthermore, we believe that current market conditions will allow us to structure attractively priced debt investments and may allow us to incorporate other return-enhancing mechanisms such as commitment fees, original issue discounts, early redemption premiums, payment-in-kind, or PIK, interest or some form of equity securities.

Resources of Stellus Capital Management Platform. We have access to the resources and capabilities of Stellus Capital Management, which has 15 investment professionals, including Messrs. Ladd, Dean D Angelo, Joshua T. Davis and Todd A. Overbergen, who are supported by one managing director, six principals, two vice presidents and two analysts. These individuals have developed long-term relationships with middle-market companies, management teams, financial sponsors, lending institutions and deal intermediaries by providing flexible financing throughout the capital structure. We believe that these relationships provide us with a competitive advantage in identifying investment opportunities in our target market. We also expect to benefit from Stellus Capital Management's due diligence, credit analysis, origination and transaction execution experience and capabilities, including the support provided with respect to those functions by Mr. W. Todd Huskinson, who serves as our chief financial officer and chief compliance officer, and his staff of five additional mid- and back-office professionals.

SBIC License

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

Recent Developments

Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Facility

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

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

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

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

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

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

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

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

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

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

Management Updates

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

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

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

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SUPPLEMENTARY RISK FACTORS

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

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

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

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

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

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

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

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

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

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

enter into transactions with affiliates;

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

make investments; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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USE OF PROCEEDS

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

We intend to use all of the net proceeds of this offering to repay a portion of the amount outstanding under the Credit Facility. As of April 25, 2014, we had \$123.0 million outstanding under the Credit Facility. The Credit Facility has a maturity date of November 12, 2016. Borrowings under the Credit Facility currently bear interest on a per annum basis equal to LIBOR plus 3.00% with no LIBOR floor. Affiliates of certain of the underwriters for this offering are lenders under the Credit Facility. See Underwriting Other Relationships. Pending such use, we will invest the net proceeds of this offering primarily in short-term securities consistent with our BDC election and our qualification as a RIC for U.S. federal income tax purposes. See Regulation Temporary Investments in the accompanying prospectus.

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

on an actual basis; and

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

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

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

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

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

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

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

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

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

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TABLE OF CONTENTS**SENIOR SECURITIES**

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

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

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

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

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

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

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

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

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

The following selected financial data for the years ended December 31, 2012 and 2013 set forth below was derived from our financial statements which have been audited by Grant Thornton LLP, our independent registered public accounting firm. The data should be read in conjunction with our financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement and the accompanying prospectus.

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

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

Overview

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

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

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

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

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

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

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

borrowings in an aggregate amount up to \$115 million on a committed basis and an accordion for an additional \$35 million for a total facility size of \$150 million. The exercise of the accordion will require sufficient borrowing base and additional commitments from the existing lender group and/or new lenders. On July 30, 2013, we exercised a portion of the accordion feature to increase our borrowing capacity under the Credit Facility from \$115 million to \$135 million. Borrowings under the Credit Facility bear interest, subject to the Company's election, on a per annum basis equal to (i) LIBOR plus 3.00% with no LIBOR floor or (ii) 2.00% plus an alternate base rate based on the highest of the Prime Rate, Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. The Company pays unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable quarterly in arrears. Any amounts borrowed under the Credit Facility will mature, and all accrued and unpaid interest thereunder

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

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

We have elected to be treated for tax purposes as a RIC under Subchapter M of the Code. To maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. As of December 31, 2013, we were in compliance with the RIC requirements. As a RIC, we generally will not have to pay U.S. federal corporate-level taxes on any income we distribute to our stockholders.

Portfolio Composition and Investment Activity

Portfolio Composition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Activity

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

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

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

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

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

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

Asset Quality

In addition to various risk management and monitoring tools, Stellus Capital Management uses an investment rating system to characterize and monitor the credit profile and expected level of returns on each investment in our portfolio.

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

Investment Rating 1 is used for investments that are performing above expectations, and whose risks remain favorable compared to the expected risk at the time of the original investment.

Investment Rating 2 is used for investments that are performing within expectations and whose risks remain neutral compared to the expected risk at the time of the original investment. All new loans are initially rated 2.

Investment Rating 3 is used for investments that are performing below expectations and that require closer monitoring, but where no loss of return or principal is expected. Portfolio companies with a rating of 3 may be out of compliance with financial covenants.

Investment Rating 4 is used for investments that are performing substantially below expectations and whose risks have increased substantially since the original investment. These investments are often in work out. Investments with a rating of 4 are those for which some loss of return but no loss of principal is expected.

Investment Rating 5 is used for investments that are performing substantially below expectations and whose risks have increased substantially since the original investment. These investments are almost always in work out.

Investments with a rating of 5 are those for which some loss of return and principal is expected.

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

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

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

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Investment Rating	Fair Value as of December 31, 2012	% of Portfolio	Number of Portfolio Companies
1	\$		
2	195,451,256	100 %	15
3			
4			
5			
Total	\$ 195,451,256	100 %	15

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, 2013 and December 31, 2012, we had no loans on non-accrual.

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, 2013 and December 31, 2012**Revenues**

We generate revenue in the form of interest income on debt investments and capital gains and distributions, if any, on investment securities that we may acquire in portfolio companies. Our debt investments typically have a term of five to seven years and bear interest at a fixed or floating rate. Interest on our debt securities is generally payable quarterly. Payments of principal on our debt investments may be amortized over the stated term of the investment, deferred for several years or due entirely at maturity. In some cases, our debt investments may pay interest in-kind, or PIK. Any outstanding principal amount of our debt securities and any accrued but unpaid interest will generally become due at the maturity date. The level of interest income we receive is directly related to the balance of interest-bearing investments multiplied by the weighted average yield of our investments. We expect that the total dollar amount of interest and any dividend income that we earn to increase as the size of our investment portfolio increases. In addition, we may generate revenue in the form of prepayment fees, commitment, loan origination, structuring or due diligence fees, fees for providing significant managerial assistance and consulting fees. Total investment income for the year ended December 31, 2013 totaled \$29.4 million and was primarily composed of interest income, including \$1.1 million of PIK income and \$1.4 million of miscellaneous fees. Total investment income for the period from Inception (May 18, 2012) through December 31, 2012 was \$3.7 million and was composed entirely of interest income, including \$18,000 of PIK income.

The increase in our total investment income for the year ended December 31, 2013 as compared to period from inception (May 18, 2012) through December 31, 2012 was primarily attributable to the fact that we only acquired our initial investment portfolio on November 7, 2012 and, as a result, our total investment income for the period from

inception (May 18, 2012) through December 31, 2012 only reflected our receipt of investment income from the initial investment portfolio for an approximate two-month period. Our total investment income for year ended December 31, 2013 reflected a full-year of investment income from our investment portfolio. Such increase was partially offset by a decrease in the weighted average yield of our debt investments from 12.5% to 11.4% during the year-over-year period.

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Expenses

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

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to making investments, including out-of-pocket fees and expenses (such as travel expenses) associated with performing due diligence and reviews of prospective investments;
- transfer agent and custodial fees;
- out-of-pocket fees and expenses associated with marketing efforts;
- federal and state registration fees and any stock exchange listing fees;
- U.S. federal, state and local taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- fidelity bond, directors' and officers' liability insurance and other insurance premiums;
- direct costs, such as printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act and other applicable U.S. federal and state securities laws; and
- other expenses incurred by Stellus Capital Management or us in connection with administering our business, including payments under the administration agreement that are based upon our allocable portion of overhead (subject to the review of our board of directors).

Operating expenses, net of fee and expense waiver for the year ended December 31, 2013 totaled \$13.4 million.

Operating expenses totaled \$2.4 million for the period from Inception through December 31, 2012. Operating expenses, net of fee and expense waiver consisted of base management fees, incentive fees, administrative services expenses, fees related to the Credit Facility, professional fees, valuation fees, insurance expenses, directors' fees and other general and administrative expenses, partially offset by the waiver of incentive fee.

The base management fee for the year ended December 31, 2013 was \$4.2 million. The base management fee for the period from Inception (May 18, 2012) through December 31, 2012 was \$0.5 million, as provided for in the investment advisory agreement.

For the year ended December 31, 2013, the Company incurred incentive fees totaling \$4.6 million, as compared to none for the period from Inception (May 18, 2012) through December 31, 2012. The Company records an expense accrual in the statements of operations relating to the capital gains incentive fee payable by the Company to its investment adviser when the unrealized gains on its investments exceed all realized capital losses on its investments given the fact that a capital gains incentive fee would be owed to the investment adviser if the Company were to liquidate its investment portfolio at such time. The actual incentive fee payable to the Company's investment adviser related to capital gains will be determined and payable in arrears at the end of each fiscal year and will include only realized capital gains for the period. As of December 31, 2013, \$0.3 million of the \$4.6 million in accrued incentive fees related to such expense accrual.

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Pursuant to its agreement with the Company, Stellus Capital Management waived \$1.8 million and all of its incentive fee for the year ended December 31, 2013 and the period from Inception (May 18, 2012) through December 31, 2012, respectively, in order to support a minimum annual dividend yield of 9% based on the price per share of our common stock in connection with our IPO.

The total gains incentive fee payable to Stellus Capital Management under the investment management agreement as of December 31, 2013 and December 31, 2012 was \$0.3 million and \$0, respectively.

Borrowings under the Credit Facility were \$110.0 million and \$38.0 million as of December 31, 2013 and December 31, 2012, respectively.

For the year ended December 31, 2013 the effective interest rate under the Credit Facility was approximately 3.3% (approximately 3.7% including commitment fees on the unused portion of the Credit Facility). Interest is paid quarterly in arrears. The Company recorded interest and fee expense of \$3.1 million for the year ended December 31, 2013, of which \$2.3 million was interest expense, \$0.5 million was amortization of loan fees paid on the Credit Facility, \$0.3 million related to commitment fees on the unused portion of the Credit Facility, and \$50 thousand related to loan administration fees. The average borrowings under the Credit Facility for the year ended December 31, 2013 were \$68 million.

For the period from Inception (May 18, 2012) through December 31, 2012 the effective interest rate under the Credit Facility was approximately 3.6% (approximately 5.4% including commitment fees on the unused portion of the Credit Facility). The Company recorded interest and fee expense of \$0.3 million for the period ended December 31, 2012, of which \$0.2 million was interest expense, \$61 thousand related to commitment fees on the unused portion of the Credit Facility and \$18 thousand related to other loan fees. The average borrowings under the Credit Facility for the period ended December 31, 2013 were \$25 million.

Administrative services expenses for the year ended December 31, 2013 totaled \$0.9 million, \$0.4 million of which was allocated to us from Stellus Capital Management, as our administration. Administrative services expenses from Inception through December 31, 2012 totaled \$103 thousand, \$63 thousand was related to our third party administrator and \$40 thousand of which was allocated to us from Stellus Capital Management, LLC. Expenses for valuation, professional fees, insurance expenses, directors fees, and other general and administrative expense for the year ended December 31, 2013 and the period from Inception through December 31, 2012 totaled \$2.3 million and \$1.2 million, respectively.

Net Investment Income

For the year ended December 31, 2013, net investment income was \$16.0 million, or \$1.33 per common share (based on 12,059,293 weighted-average common shares outstanding at December 31, 2013). Net investment income includes expense accruals of \$0.3 million of incentive fees related to realized and unrealized gains.

For the period from Inception (May 18, 2012) through December 31, 2012, net investment income was \$1.3 million, or \$0.11 per common share (based on a weighted average of 12,035,023 common shares outstanding for the period from Inception through December 31, 2012).

Net Realized Gains and Losses

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

appreciation or depreciation previously recognized.

Repayments of investments and amortization of other certain investments for the year ended December 31, 2013 totaled \$97.4 million and net realized gains totaled \$1.0 million.

We did not recognize any realized gains or losses on our investments during the period from Inception (May 18, 2012) through December 31, 2012.

Net Change in Unrealized Appreciation of Investments

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

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Net change in unrealized appreciation (depreciation) on investments and cash equivalents for the year ended December 31, 2013 totaled \$0.5 million.

Net change in unrealized depreciation on investments totaled \$6 thousand for the period from Inception (May 18, 2012) through December 31, 2012 and primarily related to unrealized depreciation on our holdings of United States treasury securities.

Net Increase in Net Assets Resulting from Operations

For the year ended December 31, 2013, net increase in net assets resulting from operations totaled \$17.5 million, or \$1.45 per common share (based on 12,059,293 weighted-average common shares outstanding at December 31, 2013).

For the period from Inception (May 18, 2012) through December 31, 2012, net increase in net assets resulting from operations totaled \$1.3 million, or \$0.11 per common share (based on 12,035,023 common shares outstanding at December 31, 2012).

Financial condition, liquidity and capital resources

Cash Flows from Operating and Financing Activities

Our operating activities used cash of \$68.6 million for the year ended December 31, 2013, primarily in connection with the purchase of investments. Our financing activities for the year ended December 31, 2013 provided cash of \$20.1 million primarily from borrowings under the Credit Facility.

Our operating activities used cash of \$164.4 million for the period from Inception (May 18, 2012) through December 31, 2012, primarily in connection with the purchase of investments, including the initial investment portfolio we acquired immediately prior to our IPO from a private investment fund to which the D. E. Shaw group serves as investment adviser and Stellus Capital Management serves as a non-discretionary sub-adviser. Our financing activities provided cash of \$226.5 million primarily from our IPO and borrowings under the Credit Facility.

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

Although we expect to fund the growth of our investment portfolio through the net proceeds from future public and private equity offerings and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act, our plans to raise capital may not be successful. In this regard, if our common stock trades at a price below our then-current net asset value per share, we may be limited in our ability to raise equity capital given that we cannot sell our common stock at a price below net asset value per share unless our stockholders approve such a sale and our board of directors makes certain determinations in connection therewith. A proposal, approved by our stockholders at our 2013 Annual Meeting of Stockholders, authorizes us to sell shares equal to up to 25% of our outstanding common stock of our common stock below the then current net asset value per share of our common stock in one or more offerings for the period ending on the earlier of (i) May 23, 2014, the one year anniversary of our 2013 Annual Meeting of Stockholders, or (ii) the date of our 2014 Annual Meeting of Stockholders. We would need similar future

approval from our stockholders to issue shares below the then current net asset value per share any time after the expiration of the current approval. In addition, we intend to distribute between 90% and 100% of our taxable income to our stockholders in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings. In addition, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

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Also, as a business development company, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200%. This requirement limits the amount that we may borrow. We were in compliance with the asset coverage at all times. As of December 31, 2013 and December 31, 2012 our asset coverage ratio was 248% and 309%, 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, 2013 and December 31, 2012, we had cash of \$3.7 million and \$12.1 million, respectively, and United States Treasury securities of approximately \$10.0 million and \$50.0 million, respectively.

Credit Facility

The Credit Facility is a syndicated multi-currency facility and provides for borrowings up to \$135 million and matures in November 2016. As of December 31, 2013, we had \$110 million of borrowings outstanding under the Credit Facility. Borrowings under the Credit Facility generally bear interest at LIBOR plus 3.00%. The Credit Facility size may be increased up to \$150 million, subject to certain conditions, with additional new lenders or through an increase in commitments of current lenders. On July 30, 2013, we exercised a portion of the accordion feature to increase our borrowing capacity from \$115 million to \$135 million. The Credit Facility is a four-year revolving facility secured by substantially all of our investment portfolio assets. The Credit Facility contains affirmative and restrictive covenants, including but not limited to maintenance of a minimum shareholders' equity amount and maintenance of a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.0:1.0. In addition to the asset coverage ratio described in the preceding sentence, borrowings under the Credit Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in our portfolio. We have also generally agreed under the terms of the Credit Facility not to incur any additional secured indebtedness. In addition, we have agreed not to incur any additional unsecured indebtedness that has a maturity date prior to the maturity date of the Credit Facility. Furthermore, the Credit Facility contains a covenant requiring us to maintain compliance with RIC provisions at all times, subject to certain remedial provisions. Unless extended, the period during which the Company may make and reinvest borrowings under the Credit Facility will expire on November 13, 2015 and the maturity date of the Credit Facility is November 12, 2016.

Other

We have applied for a license to form and operate an SBIC subsidiary; however, the application is subject to approval by the SBA. We can make no assurances that the SBA will approve our application, or the time frame in which we would receive a license, should one ultimately be granted. The SBIC subsidiary would be allowed to issue SBA-guaranteed debentures up to a maximum of \$150 million under current SBIC regulations, subject to required capitalization of the SBIC subsidiary and other requirements. SBA guaranteed debentures generally have longer maturities and lower interest rates than other forms of debt that may be available to us, and we believe therefore would represent an attractive source of debt capital.

Contractual Obligations

As of December 31, 2013, our future fixed commitments for cash payments on contractual obligations for each of the next five years and thereafter are as follows:

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	Total	2014	2015	2016	2017	2018	2019 and thereafter
	(dollars in thousands)						
Credit facility payable	\$ 110,000			\$ 110,000			
Short-term loan	\$ 9,000	\$ 9,000					
Administrative service expense	\$ 460	\$ 460					
	\$ 119,460	\$ 9,460	\$	\$ 110,000	\$	\$	\$

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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, 2013, our only off-balance sheet arrangements consisted of \$20.9 million of unfunded commitments, which was comprised of \$20.9 million to provide debt financing to three of our portfolio companies. As of December 31, 2012, our only off-balance sheet arrangements consisted of a \$2.0 million unfunded commitment to provide debt financing to one 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 status as a RIC, we will not be taxed on our investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis.

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

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

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

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

In accordance with certain applicable Treasury regulations and private letter rulings issued by the Internal Revenue Service, a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each

stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 20% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive less than 20% of his or her entire distribution in cash. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received

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

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

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

Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of Stellus Capital Management responsible for the portfolio investment;

Preliminary valuation conclusions are then documented and discussed with our senior management and Stellus Capital Management;

The audit committee of our board of directors then reviews these preliminary valuations;

At least once each quarter, the valuation for each portfolio investment is reviewed by an independent valuation firm; and

The board of directors then discusses valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of Stellus Capital Management, the independent valuation firm and the audit committee.

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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.

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

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

Unrealized Gains Incentive Fee

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

Payment-in-Kind Interest

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

Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. For the years ended December 31, 2013 and December 31, 2012, 58% and 40%, or 19 and 9 of the loans in our portfolio bore interest at floating rates, respectively. For the year ended December 31, 2013, 17 of these 19 loans in our portfolio have interest rate floors, which have effectively converted the loans to fixed rate loans in the current interest rate environment. In the future, we expect other loans in our portfolio will have floating rates. Assuming that the Statement of Assets and Liabilities as of December 31, 2013, were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical one percent increase in LIBOR would increase our net income by less than \$144,000 due the current

floors in place. A hypothetical decrease in LIBOR would not affect our net income, again, due to the aforementioned floors in place. Although we believe that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts 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, 2012 and December 31, 2013, we did not engage in hedging activities.

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Changes in interest rates will affect our cost of funding. Our interest expense will be affected by changes in the published LIBOR rate in connection with the Credit Facility. As of December 31, 2013, we had not entered into any interest rate hedging arrangements. At December 31, 2013, based on our applicable levels of our Credit Facility, a 1% increase in interest rates would have decreased our net investment income by approximately \$671 thousand for the year ended December 31, 2013.

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DESCRIPTION OF THE NOTES

The Notes will be issued under an indenture and the first supplemental indenture thereto, each dated as of _____, 2014, between us and U.S. Bank National Association, as trustee. We refer to the indenture, as well as any supplements thereto, as the indenture and to U.S. Bank National Association as the trustee. The Notes are governed by the indenture, as required by federal law for all bonds and notes of companies that are publicly offered. An indenture is a contract between us and the financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under **Events of Default Remedies if an Event of Default Occurs**. Second, the trustee performs certain administrative duties for us with respect to our Notes.

This section includes a description of the material terms of the Notes and the indenture. Because this section is a summary, however, it does not describe every aspect of the Notes and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of the Notes. The indenture has been attached as an exhibit to the registration statement of which this prospectus is a part and filed with the SEC. See **Available Information** for information on how to obtain a copy of the indenture.

We are permitted, under specific conditions, to issue multiple classes of indebtedness if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance after giving effect to any exemptive relief granted by the SEC. See **Risk Factors Risk Relating to Our Business and Structure** Pending legislation may allow us to incur additional leverage in the accompanying prospectus. In addition, while any indebtedness and senior securities remain outstanding, we must make provisions to prohibit distributions to our stockholders or the repurchase of such securities or shares in certain cases, unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary purposes without regard to asset coverage.

General

The Notes will mature on April 30, 2019. The principal payable at maturity will be 100% of the aggregate principal amount. The interest rate of the Notes is _____ % per year and will be paid every February 15, May 15, August 15 and November 15, beginning August 15, 2014, and the regular record dates for interest payments will be every February 1, May 1, August 1 and November 1, commencing August 1, 2014. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment. The initial interest period will be the period from and including _____, 2014, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof. The Notes will not be subject to any sinking fund and holders of the Notes will not have the option to have the Notes repaid prior to the stated maturity date.

The indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

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

Optional Redemption

The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after April 30, 2016 upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the Notes to be redeemed plus accrued and unpaid interest payments otherwise payable thereon for the then-current quarterly interest period accrued to the date fixed for redemption.

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You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes. Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act.

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

Global Securities

Each Note will be issued in book-entry form and represented by a global security that we deposit with and register in the name of The Depository Trust Company, New York, New York, known as DTC, or its nominee. A global security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. As a result of these arrangements, the depository, or its nominee, will be the sole registered owner and holder of all the Notes represented by a global security, and investors will be permitted to own only beneficial interests in a global security. For more information about these arrangements, see Book-Entry Procedures below.

Termination of a Global Security

If a global security is terminated for any reason, interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated Notes directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders.

Payment and Paying Agents

We will pay interest to the person listed in the trustee's records as the owner of the Notes at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the Note on the interest due date. That day, usually about two weeks in advance of the interest due date, is called the record date. Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling the Notes must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the Notes to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called accrued interest.

Payments on Global Securities

We will make payments on the Notes so long as they are represented by a global security in accordance with the applicable policies of the depository as in effect from time to time. Under those policies, we will make payments directly to the depository, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depository and its participants, as described under Book-Entry Procedures.

Payments on Certificated Securities

In the event the Notes become represented by certificated securities, we will make payments on the Notes as follows. We will pay interest that is due on an interest payment date to the holder of the Notes as shown on the trustee's records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the corporate trust office of the applicable trustee in New York, New York and/or at other offices that may be specified in the indenture or in a notice to holders against surrender of the Note.

Alternatively, at our option, we may pay any cash interest that becomes due on the Notes by mailing a check to the holder at his, her or its address shown on the trustee's records as of the close of business on the regular record date or by transfer to an account at a bank in the United States, in either case, on the due date.

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Payment When Offices Are Closed

If any payment is due on the Notes on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date. Such payment will not result in a default under the Notes or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on the Notes.

Events of Default

You will have rights if an Event of Default occurs in respect of the Notes, as described later in this subsection. The term **Event of Default** in respect of the Notes means any of the following:

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

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

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

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

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

An Event of Default for the Notes does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of the Notes of any default, except in the payment of principal or interest, if it in good faith considers the withholding of notice to be in the best interests of the holders.

Remedies if an Event of Default Occurs

If an Event of Default has occurred and is continuing, the trustee or the holders of not less than 25% in principal amount of the Notes may declare the entire principal amount of all the Notes to be due and immediately payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the Notes if (1) we have deposited with the trustee all amounts due and owing with respect to the Notes (other than principal that has become due solely by reason of such acceleration) and certain other amounts, and (2) any other Events of Default have been cured or waived.

The trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee protection from expenses and liability reasonably satisfactory to it (called an **indemnity**). If indemnity reasonably satisfactory to the trustee is provided, the holders of a majority in principal amount of the Notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the Notes, the following must occur:

you must give the trustee written notice that an Event of Default has occurred and remains uncured; the holders of at least 25% in principal amount of all the Notes must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the costs, expenses and other liabilities of taking that action;

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the trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity; and the holders of a majority in principal amount of the Notes must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your Notes on or after the due date.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.

Each year, we will furnish to the trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the Notes, or else specifying any default.

Waiver of Default

The holders of a majority in principal amount of the Notes may waive any past defaults other than a default:

the payment of principal of (or premium, if any) or interest; or
in respect of a covenant that cannot be modified or amended without the consent of each holder.

Merger or Consolidation

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met:

where we merge out of existence or convey or transfer our assets substantially as an entirety, the resulting entity must agree to be legally responsible for our obligations under the Notes;
the merger or sale of assets must not cause a default on the Notes and we must not already be in default (unless the merger or sale would cure the default). For purposes of this no-default test, a default would include an Event of Default that has occurred and has not been cured, as described under Events of Default above. A default for this purpose would also include any event that would be an Event of Default if the requirements for giving us a notice of default or our default having to exist for a specific period of time were disregarded; and
we must deliver certain certificates and documents to the trustee.

Modification or Waiver

There are three types of changes we can make to the indenture and the Notes issued thereunder.

Changes Requiring Your Approval

First, there are changes that we cannot make to your Notes without your specific approval. The following is a list of those types of changes:

change the stated maturity of the principal of or interest on the Notes;
reduce any amounts due on the Notes;
reduce the amount of principal payable upon acceleration of the maturity of a Note following a default;
change the place or currency of payment on a Note;
impair your right to sue for payment;

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adversely affect any rights to convert or exchange any note in accordance with its terms;
reduce the percentage of holders of Notes whose consent is needed to modify or amend the indenture;
reduce the percentage of holders of Notes whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults; and
modify any other material aspect of the indenture dealing with supplemental indentures, modification and waiver of past defaults, reduction of the quorum or voting requirements or the waiver of certain covenants.

Changes Not Requiring Approval

The second type of change does not require any vote by the holders of the Notes. This type is limited to clarifications and certain other changes that would not adversely affect holders of the Notes in any material respect.

Changes Requiring Majority Approval

Any other change to the indenture and the Notes would require the following approval:

if the change affects only the Notes, it must be approved by the holders of a majority in principal amount of the Notes; and

if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

In each case, the required approval must be given by written consent.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture.

However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under Changes Requiring Your Approval.

Further Details Concerning Voting

When taking a vote, we will use the principal amount that would be due and payable on the voting date if the maturity of the Notes were accelerated to that date because of a default, to decide how much principal to attribute to the Notes:

The Notes will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. The Notes will also not be eligible to vote if they have been fully defeased as described later under Defeasance Full Defeasance.

We will generally be entitled to set any day as a record date for the purpose of determining the holders of the Notes that are entitled to vote or take other action under the indenture. However, the record date may not be more than 30 days before the date of the first solicitation of holders to vote on or take such action. If we set a record date for a vote or other action to be taken by holders of the Notes, that vote or action may be taken only by persons who are holders of the Notes on the record date and must be taken within eleven months following the record date.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the Notes or request a waiver.

Defeasance

The following defeasance provisions will be applicable to the Notes. Defeasance means that, by depositing with a trustee an amount of cash and/or government securities sufficient to pay all principal and interest, if any, on the Notes when due and satisfying any additional conditions noted below, we will be deemed to have been discharged from our obligations under the Notes. In the event of a covenant defeasance, upon depositing such funds and satisfying similar conditions discussed below we would be

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released from certain covenants under the indenture relating to the Notes. The consequences to the holders of the Notes would be that, while they would no longer benefit from certain covenants under the indenture, and while the Notes could not be accelerated for any reason, the holders of Notes nonetheless would be guaranteed to receive the principal and interest owed to them.

Covenant Defeasance

Under current U.S. federal tax law and the indenture, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the Notes were issued. This is called covenant defeasance. In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your Notes. If we achieve covenant defeasance and your Notes were subordinated as described under Indenture Provisions Ranking below, such subordination would not prevent the trustee under the indenture from applying the funds available to it from the deposit described in the first bullet below to the payment of amounts due in respect of such debt securities for the benefit of the subordinated debtholders. In order to achieve covenant defeasance, we must do the following:

Since the Notes are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of the Notes a combination of cash and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates;

we must deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the Notes any differently than if we did not make the deposit;

we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, and a legal opinion and officers certificate stating that all conditions precedent to covenant defeasance have been complied with;

defeasance must not result in a breach or violation of, or result in a default under, the indenture or any of our other material agreements or instruments; and

no default or event of default with respect to the Notes shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days.

If we accomplish covenant defeasance, you can still look to us for repayment of the Notes if there were a shortfall in the trust deposit or the trustee is prevented from making payment. In fact, if one of the remaining Events of Default occurred (such as our bankruptcy) and the Notes became immediately due and payable, there might be a shortfall.

Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Full Defeasance

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the Notes (called full defeasance) if we put in place the following other arrangements for you to be repaid:

Since the Notes are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of the Notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates;

we must deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the Notes any differently than if we did not make the deposit;

we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, and a legal opinion and officers certificate stating that all conditions precedent to defeasance have been complied with;

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defeasance must not result in a breach or violation of, or constitute a default under, of the indenture or any of our other material agreements or instruments; and

no default or event of default with respect to the Notes shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the Notes. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If your Notes were subordinated as described later under Indenture Provisions Ranking, such subordination would not prevent the trustee under the Indenture from applying the funds available to it from the deposit referred to in the first bullet of the preceding paragraph to the payment of amounts due in respect of such Notes for the benefit of the subordinated debtholders.

Other Covenants

In addition to any other covenants described in this prospectus, as well as standard covenants relating to payment of principal and interest, maintaining an office where payments may be made or securities can be surrendered for payment, payment of taxes by the Company and related matters, the following covenants will apply to the Notes:

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

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

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

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Form, Exchange and Transfer of Certificated Registered Securities

If registered Notes cease to be issued in book-entry form, they will be issued:

only in fully registered certificated form;
without interest coupons; and

unless we indicate otherwise, in denominations of \$25 and amounts that are multiples of \$25.

Holders may exchange their certificated securities for Notes of smaller denominations or combined into fewer Notes of larger denominations, as long as the total principal amount is not changed and as long as the denomination is equal to or greater than \$25.

Holders may exchange or transfer their certificated securities at the office of the trustee. We have appointed the trustee to act as our agent for registering Notes in the names of holders transferring Notes. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a registered debt security is issued in book-entry form, only the depositary will be entitled to transfer and exchange the debt security as described in this subsection, since it will be the sole holder of the debt security.

Resignation of Trustee

The trustee may resign or be removed with respect to the Notes provided that a successor trustee is appointed to act with respect to the Notes. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

Indenture Provisions Ranking

The Notes will be designated as Senior Securities and, therefore, Senior Indebtedness under the indenture. Senior Indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on:

our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed, that we have designated as Senior Indebtedness for purposes of the indenture and in accordance with the terms of the indenture (including any indenture securities designated as Senior Indebtedness), and renewals, extensions, modifications and refinancings of any of this indebtedness.

As unsecured obligations of the Company designated as Senior Indebtedness under the indenture, the Notes will rank

pari passu, or equal, with our future senior unsecured indebtedness;
senior to any of our future indebtedness that expressly provides it is subordinated to the Notes;

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

structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries. In particular, as designated Senior Indebtedness under the indenture, the Notes will rank senior to any future securities we issue under the indenture that are designated as subordinated debt securities. Any such indenture securities designated as subordinated debt securities will be subordinated in right of payment of the principal of (and premium if any) and interest, if any, on such subordinated debt securities to the prior payment in full of the Notes, and all other Senior Indebtedness under the indenture, upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on the Notes, and all other Senior Indebtedness, has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities, upon our dissolution, winding up, liquidation or reorganization before the Notes, and all other Senior Indebtedness, are paid in full, the payment or distribution must be paid over to the holders of our Senior Indebtedness, including the Notes, or on their behalf for application to the payment of all Senior Indebtedness, including the Notes, remaining unpaid until all Senior Indebtedness, including the Notes, have been paid in full, after giving effect to any concurrent payment or distribution to the holders of our Senior Indebtedness, including the Notes. Subject to the payment in full of the all Senior Indebtedness, including the Notes, upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of our Senior Indebtedness, including the Notes, to the extent of payments made to the holders of our Senior Indebtedness, including the Notes, out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, our Senior Indebtedness, including the Notes, and certain of our senior creditors, may recover more, ratably, than holders of any subordinated debt securities or the holders of any indenture securities that are not Senior Indebtedness. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

Book-Entry Procedures

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

The Notes will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each issuance of the Notes, in the aggregate principal amount of such issue, and will be deposited with DTC. Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately

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available funds. None of the Company, the Trustee or the Paying Agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a

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clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (Direct Participants) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (DTCC).

DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants). DTC has Standard & Poor's Ratings Services' highest rating: AAA. The DTC Rules applicable to its participants are on file with the SEC. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each security, or the Beneficial Owner, is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts the Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Redemption proceeds, distributions, and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from us or the Trustee on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts

of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by

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an authorized representative of DTC) is the responsibility of us or the Trustee, but disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to us or to the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered. We may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary describes generally certain U.S. federal income tax considerations (and, in the case of a non-U.S. holder (as defined below), certain U.S. federal estate tax consequences) applicable to an investment in the Notes. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. The summary is based upon the Internal Revenue Code of 1986, as amended (the Code), U.S. Treasury Regulations, and administrative and judicial interpretations, each as of the date of this prospectus supplement and all of which are subject to change, potentially with retroactive effect, or to different interpretations. Investors should consult their own tax advisors with respect to tax considerations that pertain to their investment in the Notes.

This summary discusses only Notes held as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment purposes) and does not purport to address persons in special tax situations, such as financial institutions, insurance companies, controlled foreign corporations, passive foreign investment companies and regulated investment companies (and shareholders of such corporations), dealers in securities or currencies, traders in securities, former citizens of the United States, persons holding the Notes as a hedge against currency risks or as a position in a straddle, hedge, constructive sale transaction or conversion transaction for U.S. federal income tax purposes, entities that are tax-exempt for U.S. federal income tax purposes, retirement plans, individual retirement accounts, tax-deferred accounts, persons subject to the alternative minimum tax, pass-through entities (including partnerships and entities and arrangements classified as partnerships for U.S. federal income tax purposes) and beneficial owners of pass-through entities, or persons whose functional currency is not the U.S. dollar (as defined in Section 985 of the Code). It also does not address beneficial owners of the Notes other than original purchasers of the Notes who acquire the Notes in this offering for a price equal to their original issue price (i.e., the first price at which a substantial amount of the Notes are sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

For purposes of this discussion, the term U.S. holder means a beneficial owner of a Note that is, for U.S. federal income tax purposes:

an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States;
a corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
a trust (a) subject to the control of one or more U.S. persons and the primary supervision of a court in the United States, or (b) that existed on August 20, 1996 and has made a valid election (under applicable U.S. Treasury Regulations) to be treated as a domestic trust;

an estate the income of which is subject to U.S. federal income taxation regardless of its source.

The term non-U.S. holder means a beneficial owner of a Note that is neither a U.S. holder nor a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes). An individual may, subject to exceptions, be deemed to be a resident alien, as opposed to a non-resident alien, by, among other ways, being present in the United States (i) on at least 31 days in the calendar year, and (ii) for an aggregate of at least 183 days during a three-year period ending in the current calendar year, counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Resident aliens are subject to U.S. federal income tax as if they were United States citizens.

If a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds any Notes, the U.S. federal income tax treatment of a partner of the partnership generally will depend upon the

status of the partner, the activities of the partnership and certain determinations made at the partner level. Partnerships holding Notes, and persons holding interests in such partnerships, should each consult their own tax advisors as to the consequences of investing in the Notes in their individual circumstances.

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Investors considering purchasing the Notes should consult their own tax advisors concerning the application of the U.S. federal income tax laws to their individual circumstances, as well as any consequences to such investors relating to purchasing, owning and disposing of the Notes under the laws of any other taxing jurisdiction.

Taxation of Note Holders

Taxation of U.S. Holders.

Payments of Interest

Payments or accruals of interest on a Note generally will be taxable to a U.S. holder as ordinary interest income at the time they are received (actually or constructively) or accrued, in accordance with the U.S. holder's regular method of tax accounting.

Sale, Exchange, Redemption or Other Taxable Disposition of a Note

Upon the sale, exchange, redemption or other taxable disposition of a Note, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or other taxable disposition (excluding amounts representing accrued and unpaid interest, which are treated as ordinary income to the extent not previously included in income) and the U.S. holder's tax basis in the Note. A U.S. holder's tax basis in a Note generally will equal the U.S. holder's initial investment in the Note. Capital gain or loss generally will be long-term capital gain or loss if the U.S. holder's holding period in the Note was more than one year. Long-term capital gains generally are taxed at reduced rates for individuals and certain other non-corporate U.S. holders. The deductibility of capital losses is subject to limitations.

Unearned Income Medicare Contribution

A tax of 3.8% will be imposed on certain net investment income (or undistributed net investment income, in the case of estates and trusts) received by certain taxpayers with adjusted gross income above certain threshold amounts. Net investment income as defined for U.S. federal Medicare contribution purposes generally includes interest payments and gain recognized from the sale or other disposition of the Notes. Tax-exempt trusts, which are not subject to income taxes generally, and foreign individuals will not be subject to this tax. U.S. holders should consult their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of the Notes.

Information Reporting and Backup Withholding

In general, a U.S. holder that is not an exempt recipient will be subject to U.S. federal backup withholding tax at the applicable rate (currently 28%) with respect to payments on the Notes and the proceeds of a sale, exchange, redemption or other taxable disposition of the Notes, unless the U.S. holder provides its taxpayer identification number to the paying agent and certifies, under penalty of perjury, that it is not subject to backup withholding on an IRS Form W-9 (Request for Taxpayer Identification Number and Certification) or a suitable substitute form (or other applicable certificate) and otherwise complies with the applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. holder

may be allowed as a credit against such U.S. holder's U.S. federal income tax liability and may entitle such U.S. holder to a refund, provided the required information is furnished to the IRS in a timely manner. In addition, payments on the Notes made to, and the proceeds of a sale, exchange, redemption or other taxable disposition by, a U.S. holder generally will be subject to information reporting requirements, unless such U.S. holder is an exempt recipient and appropriately establishes that exemption.

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Taxation of Non-U.S. Holders.

Payments of Interest

Subject to the discussion below under Information Reporting and Backup Withholding, a non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on interest paid on the Notes as long as that interest is not effectively connected with the non-U.S. holder's conduct of a trade or business within the United States and:

the non-U.S. holder does not, directly or indirectly, actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote;

the non-U.S. holder is not a controlled foreign corporation for U.S. federal income tax purposes that is related to us, actually or by attribution, through stock ownership;

the non-U.S. holder is not a bank receiving the interest pursuant to a loan agreement entered into in the ordinary course of the non-U.S. holder's trade or business; and

either (i) the non-U.S. holder certifies under penalties of perjury on IRS Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting (Individuals)) or IRS Form W-8BEN-E (Certificate of Status of Beneficial Owner for United States Tax Withholding and Reporting (Entities)), as applicable, or a suitable substitute form (or other applicable certificate) that it is not a U.S. person, and provides its name, address and certain other required information or (ii) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds the Notes on behalf of the non-U.S. holder, certifies under penalties of perjury that the certification referred to in clause (i) has been received from the non-U.S. holder or an intermediate financial institution and furnishes to us a copy thereof.

A non-U.S. holder that does not qualify for exemption from withholding as described above generally will be subject to withholding of U.S. federal income tax at a rate of 30% on payments of interest on the Notes (except as described below with respect to effectively connected income). A non-U.S. holder may be entitled to the benefits of an income tax treaty under which interest on the Notes is subject to a reduced rate of withholding tax or is exempt from U.S. withholding tax, provided the non-U.S. holder furnishes us with a properly executed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, or a suitable substitute form (or other applicable certificate) claiming the reduction or exemption and the non-U.S. holder complies with any other applicable procedures.

Sale, Exchange, Redemption or Other Taxable Disposition of a Note

Generally, a non-U.S. holder will not be subject to U.S. federal income or withholding taxes on any amount that constitutes capital gain upon the sale, exchange, redemption or other taxable disposition of a Note, provided that:

the gain is not effectively connected with the conduct of a trade or business in the United States by the non-U.S. holder (and, if required by an applicable income tax treaty, is not attributable to a U.S. permanent establishment maintained by the non-U.S. holder); and

the non-U.S. holder is not an individual who is present in the U.S. for 183 days or more in the taxable year of the sale, exchange, or other taxable disposition and meets certain other conditions (unless such holder is eligible for relief under an applicable income tax treaty).

Certain other exceptions may be applicable, and non-U.S. holders should consult their own tax advisors with regard to whether taxes will be imposed on capital gain in their individual circumstances.

Effectively Connect Income

If interest or gain recognized by a non-U.S. holder on a note is effectively connected with the non-U.S. holder's conduct of a trade or business within the United States (and, if a treaty applies, is attributable to a permanent establishment maintained by the non-U.S. holder in the United States), the non-U.S. holder will be exempt from the withholding tax on interest previously discussed if the non-U.S.

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holder provides us with a properly completed and executed IRS Form W-8ECI (Certificate of Foreign Person's Claim That Income Is Effectively Connected With the Conduct of a Trade or Business in the United States) or a suitable substitute or successor form or such other form as the IRS may prescribe, but the Non-U.S. Holder generally will be subject to U.S. federal income tax on such interest or gain as if it were a United States person (as defined in the Code). In addition to such U.S. federal income tax, if the non-U.S. holder is treated as a corporation for U.S. federal income tax purposes, such income may be subject to an additional branch profits tax (which is generally imposed on a non-U.S. corporation on the actual or deemed repatriation from the United States of earnings and profits attributable to a United States trade or business) at a 30% rate, or such lower rate provided by an applicable income tax treaty.

Information Reporting and Backup Withholding

Under current U.S. Treasury regulations, we must report annually to the IRS and to each non-U.S. holder the amount of interest paid to the non-U.S. holder and the amount of tax withheld, if any, from those payments. These reporting requirements apply regardless of whether U.S. withholding tax on such payments was reduced or eliminated by any applicable tax treaty or otherwise. Copies of the information returns reporting those payments and the amounts withheld may also be made available to the tax authorities in the country where a non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

Under some circumstances, U.S. Treasury regulations require backup withholding and additional information reporting on payments of interest and other reportable payments. Such backup withholding and additional information reporting will not apply to payments on the Notes made by us or our paying agent to a non-U.S. holder if the certification described above under Payments of Interest is received from the non-U.S. holder.

Backup withholding and information reporting generally will not apply to payments of proceeds from the sale, exchange, redemption or other taxable disposition of a Note made to a non-U.S. holder by or through the foreign office of a broker. However, information reporting requirements, and possibly backup withholding, will apply if such broker is, for U.S. federal income tax purposes, a United States person (as defined in the Code) or has certain other enumerated connections with the United States, unless such broker has documentary evidence in its records that the non-U.S. holder is not a U.S. person (as defined in the Code) and certain other conditions are met, or the non-U.S. holder otherwise establishes an exemption. Payments of proceeds from the sale, exchange, redemption or other taxable disposition of a Note made to a non-U.S. holder by or through the U.S. office of a broker are subject to information reporting and backup withholding at the applicable rate unless the non-U.S. holder certifies, under penalties of perjury, that it is not a United States person (as defined in the Code) and it satisfies certain other conditions, or the non-U.S. holder otherwise establishes an exemption. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a non-U.S. holder may be allowed as a credit against such non-U.S. holder's U.S. federal income tax liability and may entitle such non-U.S. holder to a refund, provided the required information is furnished to the IRS in a timely manner.

Non-U.S. holders are urged to consult their tax advisors regarding the application of information reporting and backup withholding in their particular situations, the availability of an exemption therefrom, and the procedures for obtaining such an exemption, if available.

Estate Tax

A Note that is held by an individual who, at the time of death, is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) generally will not be subject to the U.S. federal estate tax, unless, at the time of death, (i) such individual directly or indirectly, actually or constructively, owns ten percent or

more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code and the Treasury Regulations thereunder or (ii) such individual's interest in the Notes is effectively connected with the individual's conduct of a U.S. trade or business.

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Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the Code (FATCA) generally impose a U.S. federal withholding tax of 30% on payments of interest or gross proceeds from the disposition of a debt instrument paid after December 31, 2012 to certain non-U.S. entities, including certain foreign financial institutions and investment funds, unless such non-U.S. entity complies with certain reporting requirements regarding its U.S. account holders and its U.S. owners. Pursuant to U.S. Treasury regulations and other Treasury guidance, these rules do not apply to payments on, or with respect to, obligations that are outstanding on July 1, 2014, unless such obligations are significantly modified (and thus are treated as being reissued for U.S. federal income tax purposes) after such date and, accordingly, these rules do not apply to the Notes.

Non-U.S. holders should consult their own tax advisors regarding FATCA and whether it may be relevant to their acquisition, ownership and disposition of the Notes.

Investors should consult their own tax advisors with respect to the particular tax consequences of an investment in the Notes in their individual circumstances, including the possible effect of any pending legislation or proposed regulations.

Taxation as a Regulated Investment Company

For any taxable year in which we:

qualify as a RIC; and

satisfy the Annual Distribution Requirement,

we generally will not be subject to U.S. federal income tax on the portion of our income we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years and on which we paid no corporate-level U.S. federal income tax (the Excise Tax Avoidance Requirement). We generally will endeavor in each taxable year to make sufficient distributions to our stockholders to avoid any U.S. federal excise tax on our earnings.

In order to qualify as a RIC for U.S. federal income tax purposes, we must, among other things:

continue to qualify as a BDC under the 1940 Act at all times during each taxable year;

derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to loans of certain securities, gains from the sale of stock or other securities, net income from certain qualified publicly traded partnerships, or other income derived with respect to our business of investing in such stock or securities (the 90% Income Test); and

diversify our holdings so that at the end of each quarter of the taxable year:

at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and

no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain qualified publicly traded partnerships (the Diversification Tests).

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue

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discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as PIK interest, deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock, or certain income with respect to equity investments in foreign corporations. Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain asset coverage tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous. If we are prohibited from making distributions or are unable to obtain cash from other sources to make the distributions, we may fail to qualify as a RIC, which would result in us becoming subject to corporate-level U.S. federal income tax.

In addition, we will be partially dependent on our SBIC subsidiaries for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiaries may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC subsidiaries to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. If our SBIC subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may cause us to fail to qualify as a RIC, which would result in us becoming subject to corporate-level U.S. federal income tax.

Failure to Qualify as a Regulated Investment Company

If we fail to satisfy the 90% Income Test or the Diversification Tests for any taxable year, we may nevertheless continue to qualify as a RIC for such year if certain relief provisions are applicable (which may, among other things, require us to pay certain corporate-level U.S. federal income taxes or to dispose of certain assets).

If we were unable to qualify for treatment as a RIC and the foregoing relief provisions are not applicable, distributions to our stockholders would not be required, and we would be subject to tax on all of our taxable income at regular corporate rates, regardless of whether we make any distributions to our stockholders. To requalify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year in which we failed to qualify as a RIC. Subject to a limited exception applicable to RICs that qualified as such under the Code for at least one year prior to disqualification and that requalify as a RIC no later than the second year following the nonqualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we failed to qualify as a RIC that are

recognized within the subsequent 10 years (five years for taxable years beginning prior to December 31, 2013), unless we made a special election to pay corporate-level tax on such built-in gain at the time of our requalification as a RIC.

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TABLE OF CONTENTS**UNDERWRITING**

Keefe Bruyette & Woods, Inc. is acting as the representative of the underwriters of this offering and sole book-running manager of this offering. Subject to the terms and conditions set forth in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the aggregate principal amount of Notes set forth opposite its name below.

Underwriters	Principal Amount of Notes
Keefe, Bruyette & Woods, Inc	
Janney Montgomery Scott LLC	
Oppenheimer & Co. Inc.	
Total	\$ 25,000,000

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the Notes sold under the underwriting agreement if any of these Notes are purchased. If an underwriter defaults, the underwriting agreement provides that, under the circumstances, the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

An underwriting discount of 2.5% per Note will be paid by us. This underwriting discount will also apply to any Notes purchased pursuant to the over-allotment option.

The following table shows the total underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. The information assumes either no exercise or full exercise by the underwriters of their over-allotment option.

	Per Note	Without Option	With Option
Public offering price	100 %	\$25,000,000	\$28,750,000
Sales load (underwriting discount and commission) payable by us	2.5 %	\$625,000	\$718,750
Proceeds, before expenses, to us	97.5 %	\$24,375,000	\$28,031,250

The underwriters propose to offer some of the Notes to the public at the public offering price set forth on the cover

page of this prospectus supplement and some of the Notes to certain other Financial Industry Regulatory Authority members at the public offering price less a concession not in excess of % of the aggregate principal amount of the Notes. The underwriters may allow, and the dealers may reallow, a discount not in excess of % of the aggregate principal amount of the Notes. After the initial offering of the Notes to the public, the public offering price and such concessions may be changed. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement.

The expenses of the offering, not including the underwriting discount, are estimated at \$250,000 and are payable by us.

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Over-allotment Option

We have granted an option to the underwriters to purchase up to an additional \$3,750,000 aggregate principal amount of the Notes offered hereby at the public offering price within 30 days from the date of this prospectus supplement solely to cover any over-allotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional Notes proportionate to that underwriter's initial principal amount reflected in the table above.

No Sales of Similar Securities

Subject to certain exceptions, we have agreed not to directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any debt securities issued or guaranteed by the Company or any securities convertible into or exercisable or exchangeable for debt securities issued or guaranteed by the Company or file any registration statement under the Securities Act with respect to any of the foregoing for a period of 45 days after the date of this prospectus supplement without first obtaining the written consent of Keefe, Bruyette & Woods, Inc. This consent may be given at any time without public notice.

Listing

The Notes are a new issue of securities with no established trading market. We intend to list the Notes on the NYSE. We expect trading in the Notes on the NYSE to begin within 30 days after the original issue date under the trading symbol SCQ. Currently there is no public market for the Notes.

We have been advised by certain of the underwriters that they presently intend to make a market in the Notes after completion of the offering as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make a market in the Notes and any such market-making may be discontinued at any time in the sole discretion of the underwriters without any notice. Accordingly, no assurance can be given as to the liquidity of, or development of a public trading market for, the Notes. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

Price Stabilization, Short Positions

In connection with the offering, the underwriters may purchase and sell Notes in the open market. These transactions may include over-allotment, covering transactions and stabilizing transactions. Over-allotment involves sales of securities in excess of the aggregate principal amount of securities to be purchased by the underwriters in the offering, which creates a short position for the underwriters. Covering transactions involve purchases of the securities in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of securities made for the purpose of preventing or retarding a decline in the market price of the securities while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Any of these activities may cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be affected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time without any notice relating thereto.

Electronic Offer, Sale and Distribution of Notes

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a limited principal amount of the Notes for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

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Other than the prospectus in electronic format, information contained in any other web site maintained by an underwriter or selling group member is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been endorsed by us and should not be relied on by investors in deciding whether to purchase any Notes.

Other Relationships

An affiliate of Keefe, Bruyette & Woods, Inc. is a lender under our Credit Facility. Accordingly, the affiliate of such underwriter will receive a portion of the net proceeds from this offering. Certain of the underwriters and their affiliates have provided in the past and may provide from time to time in the future in the ordinary course of their business certain commercial banking, financial advisory, investment banking and other services to us, our portfolio companies or our affiliates for which they have received or will be entitled to receive separate fees. In particular, the underwriters or their affiliates may execute transactions with us, on behalf of us, any of our portfolio companies or our affiliates. In addition, the underwriters or their affiliates may act as arrangers, underwriters or placement agents for companies whose securities are sold to or whose loans are syndicated to us, our portfolio companies or our affiliates.

The underwriters or their affiliates may also trade in our securities, securities of our portfolio companies or other financial instruments related thereto for their own accounts or for the account of others and may extend loans or financing directly or through derivative transactions to us, any of our portfolio companies or our affiliates.

After the date of this prospectus supplement, the underwriters and their affiliates may from time to time obtain information regarding specific portfolio companies or us that may not be available to the general public. Any such information is obtained by the underwriters and their affiliates in the ordinary course of its business and not in connection with the offering of the Notes. In addition, after the offering period for the sale of the Notes, the underwriters or their affiliates may develop analyses or opinions related to us or our portfolio companies and buy or sell interests in one or more of our portfolio companies on behalf of their proprietary or client accounts and may engage in competitive activities. There is no obligation on behalf of these parties to disclose their respective analyses, opinions or purchase and sale activities regarding any portfolio company or regarding us to our noteholders or any other persons.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the underwriters and their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions that consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The principal business address of Keefe, Bruyette & Woods, Inc. is 787 Seventh Avenue, 4th Floor, New York, NY 10019.

Other Jurisdictions

The Notes offered by this prospectus supplement may not be offered or sold, directly or indirectly, nor may this prospectus supplement or any other offering material or advertisements in connection with the offer and sale of any such Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus supplement comes are advised to inform themselves about and to observe any restriction relating to the offering and the distribution of this prospectus supplement. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of an offer to

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buy the Notes offered by this prospectus supplement and the accompanying prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Our securities are held by State Street Bank and Trust Company pursuant to a custody agreement. State Street Bank and Trust Company will also serve as our transfer agent, distribution paying agent and registrar. The principal business address of State Street Bank and Trust Company is 225 Franklin Street, Boston, Massachusetts 02110. U.S. Bank National Association, our trustee under an indenture and the first supplemental indenture thereto relating to the Notes, is the paying agent, registrar and transfer agent relating to the Notes. The corporate trust office address of our trustee is One Federal Street, 10th Floor, Boston, Massachusetts 02110, unless otherwise specified in the indenture.

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC 20001. Certain legal matters in connection with the offering will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements and financial highlights of Stellus Capital Investment Corporation included in this prospectus supplement and the accompanying prospectus and elsewhere in the registration statement have been so included in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in giving said reports. Information about our senior securities is shown in the senior securities table for the fiscal year ended December 31, 2012 included in this prospectus supplement have been so included in reliance upon the report of Grant Thornton LLP, upon the authority of said firm as experts in giving said reports. Grant Thornton LLP's principal business address is 175 W. Jackson Blvd., 20th Floor, Chicago, Illinois, 60604.

AVAILABLE INFORMATION

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

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

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM**

Board of Directors and Shareholders
Stellus Capital Investment Corporation

We have audited the accompanying statements of assets and liabilities of Stellus Capital Investment Corporation (a Maryland corporation) (the Company), including the schedules of investments, as of December 31, 2013 and 2012, and the related statements of operations, changes in net assets, and cash flows for the year ended December 31, 2013 and the period from inception (May 18, 2012) to December 31, 2012 and the financial highlights for the year ended December 31, 2013 and the period from inception (May 18, 2012) to December 31, 2012. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included verification by confirmation of securities as of December 31, 2013 and 2012, 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.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Stellus Capital Investment Corporation as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the year ended December 31, 2013 and the period from inception (May 18, 2012) to December 31, 2012 and the financial highlights for the year ended December 31, 2013 and the period from inception (May 18, 2012) to December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP
Houston, Texas
March 6, 2014

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STELLUS CAPITAL INVESTMENT CORPORATION

STATEMENTS OF ASSETS AND LIABILITIES

	December 31, 2013	December 31, 2012
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$277,004,466 and \$195,455,671, respectively)	\$277,504,510	\$195,451,256
Cash and cash equivalents	13,663,542	62,131,686
Interest receivable	4,713,912	2,573,831
Deferred offering costs	205,165	
Receivable for affiliated transaction	43,450	
Prepaid loan structure fees	1,586,405	1,947,820
Prepaid expenses	411,321	438,384
Total Assets	\$298,128,305	\$262,542,977
LIABILITIES		
Payable for investments purchased	\$	\$4,750,000
Credit facility payable	110,000,000	38,000,000
Short-term loan	9,000,000	45,000,943
Base management fees payable	1,176,730	527,034
Incentive fees payable	1,056,942	
Accrued offering costs		147,123
Interest payable	234,051	66,477
Directors' fees payable	96,000	29,452
Unearned revenue	146,965	
Other accrued expenses and liabilities	526,103	175,993
Total Liabilities	122,236,791	88,697,022
Net Assets	\$175,891,514	\$173,845,955
NET ASSETS		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,099,022 and 12,035,023 shares issued and outstanding, respectively)	\$12,099	\$12,035
Paid-in capital	175,614,738	174,714,838
Accumulated undistributed net realized gain	1,027,392	
Distributions in excess of net investment income	(1,262,659)	(874,986)
Unrealized appreciation (depreciation) on investments and cash equivalents	499,944	(5,932)
Net Assets	\$175,891,514	\$173,845,955
Total Liabilities and Net Assets	\$298,128,305	\$262,542,977
Net Asset Value Per Share	\$14.54	\$14.45

See notes to financial statements

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STELLUS CAPITAL INVESTMENT CORPORATION

STATEMENTS OF OPERATIONS

	For the year ended December 31, 2013	For the period from Inception (May 18, 2012) through December 31, 2012
INVESTMENT INCOME		
Interest income	\$27,995,486	\$3,696,432
Other income	1,405,250	
Total Investment Income	29,400,736	3,696,432
OPERATING EXPENSES		
Management fees	4,242,608	527,034
Valuation fees	497,228	184,500
Administrative services expenses	883,050	103,482
Incentive fees	4,647,802	
Professional fees	649,863	734,365
Directors' fees	350,000	109,439
Insurance expense	468,046	79,279
Interest expense and other fees	3,123,701	282,629
Credit facility fees		317,594
Other general and administrative expenses	314,196	53,754
Total Operating Expenses	15,176,494	2,392,076
Waiver of Incentive Fees	(1,787,487)	
Total expenses, net of fee waiver	13,389,007	2,392,076
Net Investment Income	16,011,729	1,304,356
Net Realized Gain on Investments and Cash Equivalents	1,027,392	
Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents	505,876	(5,932)
Net Increase in Net Assets Resulting from Operations	\$17,544,997	\$1,298,424
Net Investment Income Per Share	\$1.33	\$0.11
Net Increase in Net Assets Resulting from Operations Per Share	\$1.45	\$0.11
Weighted Average Shares of Common Stock Outstanding	12,059,293	12,035,023

See notes to financial statements

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STELLUS CAPITAL INVESTMENT CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS

	For the year ended December 31, 2013	For the period from Inception (May 18, 2012) through December 31, 2012
Increase in Net Assets Resulting from Operations		
Net investment income	\$16,011,729	\$1,304,356
Net realized gain on investments and cash equivalents	1,027,392	
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	505,876	(5,932)
Net Increase in Net Assets Resulting from Operations	17,544,997	1,298,424
Stockholder distributions		
Distributions from net investment income	(16,399,402)	(2,179,342)
Capital share transactions		
Issuance of common stock		180,409,145
Reinvestments of stockholder distributions	899,964	112,948
Sales load		(4,959,720)
Offering costs		(835,500)
Net increase in net assets resulting from capital share transactions	899,964	174,726,873
Total increase in net assets	2,045,559	173,845,955
Net assets at beginning of year/period	173,845,955	
Net assets at end of year/period (includes \$1,262,659 and \$874,986 of distributions in excess of net investment income)	\$175,891,514	\$173,845,955

See notes to financial statements

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TABLE OF CONTENTS**STELLUS CAPITAL INVESTMENT CORPORATION****STATEMENTS OF CASH FLOWS**

	For the year ended December 31, 2013	For the period from Inception (May 18, 2012) through December 31, 2012
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$17,544,997	\$1,298,424
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(176,445,413)	(232,708,419)
Proceeds from sales and repayments of investments	97,437,434	66,458,112
Net change in unrealized appreciation on investments	(504,459)	4,415
Increase in investments due to PIK	(1,073,588)	(18,044)
Accretion of discount	(436,582)	(28,175)
Net realized gain on investments	(1,030,646)	
Changes in other assets and liabilities		
Increase in interest receivable	(2,140,081)	(2,573,831)
Increase in receivable for affiliated transaction	(43,450)	
Decrease (increase) in prepaid expenses and fees	388,478	(2,386,204)
Increase (decrease) in payable for investments purchased	(4,750,000)	4,750,000
Increase in management fees payable	649,696	527,034
Increase in directors' fees payable	66,548	29,452
Increase in incentive fees payable	1,056,942	
Increase in interest payable	167,574	66,477
Increase in unearned revenue	146,965	
Increase in other accrued expenses and liabilities	350,110	175,993
Net cash used in operating activities	(68,615,475)	(164,404,766)
Cash flows from financing activities		
Gross proceeds from common shares issued		151,250,000
Borrowings on bridge note		156,000,000
Payments on bridge note		(156,000,000)
Sales load		(4,959,720)
Offering costs paid	(352,288)	(688,377)
Stockholder distributions paid	(15,499,438)	(2,066,394)
Net borrowings under credit facility	72,000,000	38,000,000
Net paydowns of short-term loan	(36,000,943)	45,000,943
Net cash provided by financing activities	20,147,331	226,536,452
Net increase (decrease) in cash and cash equivalents	(48,468,144)	62,131,686
Cash and cash equivalents balance at beginning of year/period	62,131,686	

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Cash and cash equivalents balance at end of year/period	\$ 13,663,542	\$ 62,131,686
Non-cash items		
Purchase of portfolio companies through the issuance of common stock	\$	\$ 29,159,145
Accrued deferred offering costs		147,123
Shares issued pursuant to Dividend Reinvestment Plan	899,964	112,948

See notes to financial statements

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TABLE OF CONTENTS**STELLUS CAPITAL INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS
DECEMBER 31, 2013**

Investments	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value ⁽¹⁾	% of Net Assets	
Non-controlled, non-affiliated investments ⁽²⁾						
<u>Aderant North America Inc.</u> Term Loan-Second Lien, L + 8.75%, LIBOR floor 1.25%, due 6/20/2019	Atlanta, GA Software	\$1,500,000	\$1,480,112	\$1,500,000	0.85	%
<u>Ascend Learning, LLC</u> Term Loan-Second Lien, Euro + 10.00%, Euro floor 1.50%, due 12/6/2017	Burlington, MA Software	\$10,000,000	10,000,000	10,000,000	5.69	%
<u>Atkins Nutritional Holdings II, Inc.</u> Term Loan-Second Lien, L + 8.50%, LIBOR floor 1.25%, due 4/3/2019	Denver, CO Beverage, Food, & Tobacco	\$17,000,000	16,689,794	17,000,000	9.67	%
<u>ATX Networks</u> Term Loan-Unsecured, 12.00% cash, 2.00% PIK, due 5/12/2016 ⁽³⁾⁽⁴⁾	West Ajax, Ontario High Tech Industries	\$21,203,012	21,203,012	21,203,012	12.05	%
<u>Binder and Binder</u> Term Loan-Unsecured, 13.00% cash, 2.00% PIK, due 2/27/2016 ⁽³⁾	Hauppauge, NY Services: Consumer	\$13,133,228	13,133,228	11,395,293	6.48	%
<u>Blackhawk Mining, LLC</u> Term Loan-First Lien, 12.50%, due 10/9/2016	Lexington, KY Metals & Mining	\$4,806,071	4,445,365	4,547,024	2.59	%
Common Shares, Class B ⁽⁵⁾		36 shares	214,286	341,349	0.19	%
Total			4,659,651	4,888,373	2.78	%
<u>Calero Software, LLC</u> Term Loan-Second Lien, L + 9.50%, LIBOR floor 1.00%, due 6/5/2019	Rochester, NY Telecommunications	\$10,000,000	9,802,547	9,802,547	5.57	%
Managed Mobility Holdings, LLC Ltd. Partnership ⁽⁵⁾		8,507 shares	500,000	500,000	0.28	%

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Total			10,302,547	10,302,547	5.85	%
<u>Colford Capital Holdings, LLC</u> ⁽⁶⁾	New York, NY					
Term Loan-Unsecured 12.25%, due 5/31/2018 ⁽⁴⁾	Finance	\$12,500,000	12,242,889	12,491,250	7.10	%
<u>ConvergeOne Holdings Corp.</u>	Eagan, MN					
Term Loan-First Lien, L + 8.00%, LIBOR floor 1.25%, due 5/8/2019	Telecommunications	\$12,185,952	12,017,679	12,104,672	6.88	%
<u>Eating Recovery Center, LLC</u>	Denver, CO					
Mezzanine Term Loan-Unsecured, 12.00% cash, 1.00% PIK, due 6/28/2018 ⁽³⁾	Health & Pharmaceuticals	\$18,400,000	18,075,428	18,400,000	10.46	%
Common Shares, Class A ⁽⁵⁾		17,528 shares	1,647,135	1,708,667	0.97	%
Total			19,722,563	20,108,667	11.43	%
<u>Empirix Inc.</u> ⁽⁷⁾	Billerica, MA					
Term Loan-Second Lien, L + 9.50%, LIBOR floor 1.00%, due 5/1/2020	Software	\$21,407,850	20,988,492	20,988,492	11.93	%
Common Shares, Class A ⁽⁵⁾		1,304 shares	1,304,232	1,304,232	0.74	%
Common Shares, Class B ⁽⁵⁾		1,317,406 shares	13,174	13,174	0.01	%
Total			22,305,898	22,305,898	12.68%	

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Investments	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value ⁽¹⁾	% of Net Assets
<u>Grupo HIMA San Pablo, Inc.</u>	San Juan, PR				
Term Loan-First Lien, L + 7.00%, LIBOR floor 1.50%, due 1/30/2018	Health & Pharmaceuticals	\$4,962,500	\$4,877,838	\$4,811,144	2.74%
Term Loan-Second Lien, 13.75%, due 7/30/2018		\$4,000,000	3,822,486	3,548,400	2.02%
Total			8,700,324	8,359,544	4.76%
<u>Help Systems, LLC</u>	Eden Prairie, MN				
Term Loan-Second Lien, L + 8.50%, LIBOR floor 1.00%, due 6/28/2020	Software	\$15,000,000	\$14,784,682	\$15,000,000	8.53%
<u>Hostway Corp.</u>	Chicago, IL				
Term Loan-Second Lien, L + 8.75%, LIBOR floor 1.25%, due 12/13/2020	High Tech Industries	\$6,750,000	6,615,231	6,615,231	3.76%
<u>Livingston International, Inc.</u>	Toronto, Ontario				
Term Loan-Second Lien, L + 7.75%, LIBOR floor 1.25%, due 4/18/2020 ⁽⁴⁾	Transportation: Cargo	\$6,841,739	6,714,636	7,012,783	3.99%
<u>Refac Optical Group⁽⁸⁾</u>	Blackwood, NJ				
Term A Loan-First Lien, L + 7.50%, due 9/30/2018	Retail	\$2,924,824	2,924,824	2,924,824	1.66%
Term B Loan-First Lien, L + 8.50% cash, 1.75% PIK, due 9/30/2018 ⁽³⁾		\$6,151,853	6,151,853	6,151,853	3.50%
Revolver-First Lien, L + 7.50%, due 9/30/2018		\$1,100,000	\$1,100,000	1,100,000	0.63%
Total			10,176,677	10,176,677	5.79%
<u>Securus Technologies Holdings</u>	Dallas, TX				
Term Loan-Second Lien, L + 7.75%, LIBOR floor 1.25%, due 4/30/2021	Telecommunications	\$8,500,000	8,434,305	8,500,000	4.83%
<u>Snowman Holdings, LLC⁽⁹⁾</u>	Lebanon, IN				
Term Loan-Unsecured, 12.50%, due 2/15/2019	Transportation: Cargo	\$11,169,118	11,169,118	11,169,118	6.35%
<u>SPM Capital, LLC</u>	Bloomington, MN				
Term Loan-First Lien, L + 5.50%, LIBOR floor 1.50%, due 10/31/2017	Healthcare & Pharmaceuticals	\$7,406,250	7,284,824	7,406,250	4.21%
<u>SOAD, LLC</u>	Tarrytown, NY				
Term Loan-Unsecured, 11.00% cash, 1.25% PIK, due	Media: Broadcasting &	\$5,000,000	4,914,724	4,912,500	2.79%

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4/30/2019 ⁽³⁾	Subscription				
Common Shares, Series A ⁽⁵⁾		5,000 shares	50,000	50,000	0.03 %
Preferred Shares, Series A ⁽⁵⁾		4,500 shares	450,000	450,000	0.26 %
Total			5,414,724	5,412,500	3.08 %
<u>Studer Group, LLC (The)</u> ⁽¹⁰⁾	Gulf Breeze, FL				
Term Loan-Unsecured, 12.00%, due 1/31/2019	Services: Business	\$16,910,423	16,910,423	16,910,423	9.61 %
<u>Telecommunications Management, LLC</u>	Sikeston, MO				
Term Loan-Second Lien, L + 8.00%, LIBOR floor 1.00%, due 10/30/2020	Media: Broadcasting & Subscription	\$8,000,000	7,925,241	8,120,000	4.62 %
<u>Telular Corp.</u>	Chicago, IL				
Term Loan-Second Lien, Euro + 8.00%, Euro floor 1.25%, due 6/24/2020	High Tech Industries	\$7,500,000	7,393,551	7,500,000	4.26 %

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Investments	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value ⁽¹⁾	% of Net Assets
<u>Transaction Network Services, Inc.</u>	Reston, VA				
Term Loan-Second Lien, L + 8.00%, LIBOR floor 1.00%, due 8/14/2020	Telecommunications	\$2,550,000	\$2,514,924	\$2,584,272	1.47 %
<u>Varel International Energy Funding Corp.</u>	Carrollton, TX				
Term Loan-First Lien, L + 7.75%, LIBOR floor 1.50%, due 7/17/2017	Energy: Oil & Gas	\$9,700,000	9,538,738	9,700,000	5.51 %
<u>Woodstream Corp.</u> ⁽¹¹⁾	Lititz, PA				
Senior Subordinated Note-Unsecured, 11.50%, due 2/28/2017	Consumer Goods: Non-Durable	\$9,137,721	\$8,825,566	\$8,898,313	5.06 %
<u>Woodstream Group, Inc.</u> ⁽¹¹⁾	Lititz, PA				
Senior Subordinated Debt-Unsecured, 11.50%, due 2/28/2017	Consumer Goods: Non-Durable	\$862,279	\$844,129	\$839,687	0.48 %
Total Non-controlled, non-affiliated investments			\$277,004,466	\$277,504,510	157.77 %
<u>Cash Equivalents</u> ⁽²⁾					
United States Treasury Bills 0%, due 01/30/2014		\$10,000,000	10,000,000	9,999,900	5.69 %
Total Short-Term Investments			10,000,000	9,999,900	5.69 %
LIABILITIES IN EXCESS OF OTHER ASSETS				(111,612,896)	(63.46)%
NET ASSETS				\$175,891,514	100.00%

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

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

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

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

(5) Security is non-income producing.

This investment also includes an unfunded term loan commitment in an amount not to exceed \$12,500,000, an interest rate of 12.25% fixed, and a maturity of May 31, 2018. This investment is accruing an unused commitment fee of 0.50% per annum.

This investment also includes a delayed draw term loan commitment in an amount not to exceed \$7,542,150, an interest rate of LIBOR plus 9.50%, and a maturity of May 1, 2020. This investment is accruing an unused commitment fee of 0.50% per annum.

(8)

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This investment also includes an undrawn revolving loan commitment in an amount not to exceed \$900,000, an interest rate of LIBOR plus 7.50%, and a maturity of September 28, 2018. This investment is accruing an unused commitment fee of 0.50% per annum. This investment amended its maturity to 9/30/18 on 9/30/13.

- (9) This investment amended its maturity to 2/15/19 on 8/15/13. The interest rate was amended from 11% cash pay plus 2% PIK to 12.5% cash pay.
- (10) This investment amended its maturity to 1/31/19 on 7/23/13. The interest rate was amended from 12% cash pay plus 2% PIK to 12% cash pay.
- (11) Amended maturity to 2/18/17 on 3/4/13. Amended rate to 11.5% fixed on 12/6/13.

Abbreviation Legend

PIK Payment-In-Kind

L LIBOR

Euro Euro Dollar

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TABLE OF CONTENTS**STELLUS CAPITAL INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS
DECEMBER 31, 2012**

Investments	Headquarters/ Industry	Principal Amount/ Shares	Cost	Fair Value ⁽¹⁾	% of Net Assets
Non-controlled, non-affiliated investments ⁽⁹⁾					
<u>Aderant North America Inc.</u>	Atlanta, GA				
Term Loan-Second Lien, Prime + 7.75%, due 6/20/2019 ⁽²⁾	Services: Business	\$1,500,000	\$1,477,622	\$1,477,622	0.85 %
<u>Ascend Learning, Inc.</u>	Burlington, MA				
Term Loan-Second Lien, Euro + 10.00%, Euro floor 1.50%, due 12/6/2017 ⁽²⁾	High Tech Industries	\$10,000,000	10,000,000	10,000,000	5.75 %
<u>ATX Networks</u>	West Ajax, Ontario				
Term Loan-Unsecured, 12.00% cash, 2.00% PIK, due 5/12/2016 ⁽²⁾⁽³⁾⁽⁴⁾	High Tech Industries	\$20,778,456	20,778,456	20,778,456	11.95 %
<u>Baja Broadband, LLC</u>	Fort Mill, SC				
Term Loan-Second Lien, L + 11.00%, LIBOR floor 1.50%, due 12/20/2017 ⁽²⁾	Media: Broadcasting & Subscription	\$15,000,000	15,000,000	15,000,000	8.63 %
<u>Binder and Binder</u>	Hauppauge, New York				
Senior Subordinated Note-Unsecured, 13.00% cash, 2.00% PIK, due 2/27/2016 ⁽³⁾	Services: Business	\$13,000,000	13,000,000	13,000,000	7.48 %
<u>Blackhawk Mining, LLC</u>	Lexington, KY				
Term Loan-First Lien, 12.50%, due 10/5/2016 ⁽⁷⁾	Metals & Mining	\$5,000,000	4,535,714	4,535,714	2.61 %
Common Shares, Class B ⁽⁵⁾⁽⁶⁾		36 shares	214,286	214,286	0.12 %
Total			4,750,000	4,750,000	2.73 %
<u>Eating Recovery Center, LLC</u>	Denver, CO				
Mezzanine Term Loan-Unsecured, 12.00% cash, 1.00% PIK, due 12/28/2018 ⁽²⁾⁽³⁾		\$18,400,000	18,032,633	18,032,633	10.37 %
Common Shares, Series A ⁽⁵⁾	Healthcare &	86,667	1,500,000	1,500,000	0.86 %

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Total	Pharmaceuticals	shares	19,532,633	19,532,633	11.23 %
<u>Holley Performance Products</u>	Bowling Green, KY				
Term Loan-First Lien, Prime + 6.00%, Prime floor 3.50%, due 11/30/2017 ⁽²⁾	Automotive	\$12,500,000	12,345,646	12,345,646	7.10 %
<u>Refac Optical Group⁽⁸⁾</u>	Blackwood, NJ				
Term A Loan-First Lien, L + 7.50%, LIBOR 0.2077%, due 3/23/2016 ⁽²⁾	Retail	\$3,780,408	3,780,408	3,780,408	2.18 %
Term B Loan-First Lien, L + 8.50%, LIBOR 0.2077%, 1.75% PIK, due 3/23/2016 ⁽²⁾⁽³⁾		\$6,098,781	6,098,781	6,098,781	3.51 %
Total			9,879,189	9,879,189	5.69 %
<u>Securus Technologies Holdings</u>	Dallas, TX				
Term Loan-Second Lien, Euro + 9.00%, Euro floor 1.75%, due 6/1/2018 ⁽²⁾	Telecommunications	\$12,000,000	12,119,671	12,120,000	6.97 %
<u>Snowman Holdings, LLC</u>	Lebanon, IN				
Term Loan-Unsecured, 11.00% cash, 2.00% PIK, due 1/11/2017 ⁽³⁾	Transportation: Cargo	\$8,969,955	8,969,955	8,969,955	5.16 %
<u>SPM Capital, LLC</u>	Stamford, CT				
Term Loan-First Lien, Euro + 5.50%, Euro floor 1.50%, due 10/31/2017 ⁽²⁾	Capital Markets	\$7,500,000	7,351,604	7,351,604	4.23 %

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Investments	Headquarters/ Industry	Principal Amount/ Shares	Cost	Fair Value ⁽¹⁾	% of Net Assets
<u>Sportsmans Warehouse Holdings, Inc.</u>	Midvale, UT				
Term Loan-First Lien, L + 7.00%, LIBOR 1.50%, due 11/13/2018 ⁽²⁾	Retail	\$10,000,000	\$9,902,063	\$9,902,062	5.70 %
<u>Studer Group, LLC (The)</u>	Gulf Breeze, FL				
Term Loan-Unsecured, 12.00% cash, 2.00% PIK, due 3/29/2017 ⁽³⁾	Services: Business	\$16,639,880	16,639,880	16,639,880	9.57 %
<u>Woodstream Corp.</u>	Lititz, PA				
Subordinated Debt-Unsecured, 12.00%, due 2/27/2015 ⁽²⁾	Consumer Goods: Non-Durable	\$3,017,977	2,910,987	2,906,244	1.67 %
<u>Woodstream Group, Inc.</u>	Lititz, PA				
Senior Subordinated Note-Unsecured, 12.00%, due 2/27/2015	Consumer Goods: Non-Durable	\$31,982,023	30,797,965	30,797,965	17.72 %
Total Non-controlled, non-affiliated investments			\$195,455,671	\$195,451,256	112.43 %
<u>Cash Equivalents⁽⁹⁾</u>					
United States Treasury Bills 0%, due 01/30/2013		\$50,000,000	\$50,001,017	\$49,999,500	28.76 %
Total Short-Term Investments			\$50,001,017	\$49,999,500	28.76 %
LIABILITIES IN EXCESS OF OTHER ASSETS				(71,604,801)	(41.19)%
NET ASSETS				\$173,845,955	100.00 %

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

(2) Coupon is subject to Prime and LIBOR floors.

(3) Represents a payment-in-kind security which pays a portion of interest in additional par.

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

(5) Security is non-income producing.

(6) Common shares position will settle after December 31, 2012.

(7) The loan will settle after December 31, 2012.

(8) This instrument also includes an undrawn revolving loan commitment in an amount not to exceed \$2,000,000, an interest rate of Libor plus 7.5%, and a maturity of March 23, 2016. This investment is accruing an unused fee of 0.50% per annum.

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

Abbreviation Legend

PIK Payment-In-Kind

L LIBOR
Euro Euro Dollar

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STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

On November 7, 2012, the Company priced its initial public offering (the Offering), at a price of \$15.00 per share. Through its initial public offering the Company sold 9,200,000 shares (including 1,200,000 shares through the underwriters' exercise of the overallotment option) for gross proceeds of \$138,000,000. As of December 31, 2013, the Company has raised \$180,409,145 including (i) \$500,010 of seed capital contributed by Stellus Capital, (ii) \$12,749,990 in a private placement to certain purchasers, including persons and entities associated with Stellus Capital, and (iii) \$29,159,145 in connection with the acquisition of the Company's initial portfolio. The Company's shares are currently listed on the New York Stock Exchange under the symbol SCM.

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

The Company's investment objective is to maximize the total return to its stockholders in the form of current income and capital appreciation through debt and related equity investments in middle-market companies. The Company seeks to achieve its investment objective by originating and investing primarily in private U.S. middle-market companies (typically those with \$5.0 million to \$50.0 million of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien, second lien, unitranche and mezzanine debt financing, with corresponding equity co-investments. It sources investments primarily through the extensive network of relationships that the principals of its investment adviser have developed with financial sponsor firms, financial institutions, middle-market companies, management teams and other professional intermediaries.

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) and pursuant to the requirements for reporting on Form 10-K and Article 10 of regulation S-X.

In the opinion of management, the consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the periods included herein. Certain reclassifications have been made to certain prior period balances to conform with current presentation.

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

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STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

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

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

Portfolio Investment Classification

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

Cash and Cash Equivalents

At December 31, 2013, cash balances totaling \$3,413,642 exceeded FDIC insurance protection levels, subjecting the Company to risk related to the uninsured balance. All of the Company's cash deposits are held at large established high credit quality financial institutions and management believes that risk of loss associated with any uninsured balances is remote.

Cash consists of bank demand deposits. We deem certain U.S. Treasury Bills and other high-quality, short-term debt securities as cash equivalents. At the end of each fiscal quarter, we may take proactive steps to ensure we are in compliance with the RIC diversification requirements under Subchapter M of the Internal Revenue Code, which are dependent upon the composition of our total assets at quarter end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out positions after quarter-end or temporarily drawing down on the Credit Facility (see footnote 9). On December 31, 2013, we held approximately \$10 million of U.S. Treasury Bills with a 25 day maturity purchased using \$1 million in margin cash and the proceeds from a \$9 million short term loan from Raymond James. The loan had an effective annual interest rate of approximately 6.25%. On January 2, 2014, we sold the remaining Treasury Bills, repaid the remainder of the loan from Raymond James and received back the \$1 million margin payment (net of fees and expenses of \$1,875).

On December 31, 2012, we held approximately \$50 million of U.S. Treasury Bills with a 30 day maturity purchased using \$5 million in cash and the proceeds from a \$45 million short term loan from Raymond James. The loan had an effective annual interest rate of approximately 1%. On January 2, 2013, we sold the Treasury Bills, repaid the \$45 million loan from Raymond James and received back the \$5 million margin payment (net of fees and expenses of \$8,943).

Use of Estimates

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

Deferred Financing Costs

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

Investments

As a business development company, the Company will generally invest in illiquid loans and securities including debt and equity securities of middle-market companies. Under procedures established by the board of directors, the Company intends to value investments for which market quotations are readily available at

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STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

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

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

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

available current market data, including relevant and applicable market trading and transaction comparables;

applicable market yields and multiples;

security covenants;

call protection provisions;

information rights;

the nature and realizable value of any collateral;

the portfolio company's ability to make payments, its earnings and discounted cash flows and the markets in which it does business;

comparisons of financial ratios of peer companies that are public;

comparable merger and acquisition transactions; and

the principal market and enterprise values.

Revenue Recognition

We record interest income on an accrual basis to the extent such interest is deemed collectible. For loans and debt securities with contractual 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

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STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

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

unamortized loan origination fee is recorded as interest income. We record prepayment premiums on loans and debt securities as interest income. Dividend income, if any, will be recognized on the ex-dividend date.

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

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

Payment-in-Kind Interest

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

Investment Transaction Costs

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

Payable for Unsettled Securities Transaction

The Company records all investments on a trade date basis.

U.S. Federal Income Taxes

The Company has elected to be treated as a RIC under subchapter M of the Internal Revenue Code of 1986, as amended, and to operate in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. So long as the Company maintains its status as a RIC,

it generally will not pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that it distributes at least annually to its stockholders as dividends. Rather, any tax liability related to income earned by the Company represents obligations of the Company's investors and will not be reflected in the financial statements of the Company.

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

As of December 31, 2013 and December 31, 2012, the Company had not recorded a liability for any unrecognized tax positions. Management's evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. The Company's policy is to include interest and penalties related to income taxes, if applicable, in general and administrative expenses. There were no such expenses for the year ended December 31, 2013.

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STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

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

Earnings per Share

Basic per share calculations are computed utilizing the weighted average number of shares of common stock outstanding for the period. The Company has no unvested shares as of December 31, 2013 or December 31, 2012. As a result, there is no difference between diluted earnings per share and basic per share amounts.

Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (ASU 2013-04). ASU 2013-04 provides additional guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. Public companies are required to apply ASU 2013-04 prospectively for interim and annual reporting periods beginning after December 15, 2013.

In June 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2013-08, Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements (ASU 2013-08). ASU 2013-08 amends the criteria that define an investment company, clarifies the measurement guidance and requires certain additional disclosures. Public companies are required to apply ASU 2013-08 prospectively for interim and annual reporting periods beginning after December 15, 2013.

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standards setting bodies that are adopted by the Company as of the specified effective date. The Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial statements upon adoption.

NOTE 2 RELATED PARTY ARRANGEMENTS

Investment Advisory Agreement

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

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For the years ended December 31, 2013 and December 31, 2012, the Company incurred base management fees expense to the Advisor of \$4,242,608 and \$527,034, respectively.

The annual incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of the pre-incentive fee net investment income (as defined in the agreement) for the immediately preceding quarter, subject to a hurdle rate of 2.0% per quarter (8.0% annualized) and a catch-up feature. The net pre-incentive fee investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 1.75% base management fee. For the year ended December 31, 2013, the Company incurred \$2,554,847 of incentive fees related to pre-incentive fee net investment income, net of amounts waived as discussed below. As of December 31, 2013, \$1,056,942 of such incentive fees are currently payable to the Advisor, and \$109,957 of pre-incentive fee net investment income incentive fees incurred by the Company were generated from deferred interest (i.e. PIK and certain discount accretion) and are not payable until such amounts are received in cash. There were no incentive fees payable to the advisor as of December 31, 2012.

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STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 2 RELATED PARTY ARRANGEMENTS (continued)

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

With respect to the incentive fee expense accrual relating to the unrealized gains incentive fee, GAAP requires that the realized gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a realized gains incentive fee would be payable if such unrealized appreciation were realized, even though such unrealized appreciation is not permitted to be considered in calculating the fee actually payable under the investment management agreement. For accounting purposes in accordance with GAAP only, in order to reflect the potential realized gains incentive fee that would be payable for a given period as if all unrealized gains were realized, the Company's accrual for unrealized gains incentive fees includes an amount related to unrealized capital appreciation of \$305,467 and \$0 as of December 31, 2013 and December 31, 2012, respectively. There can be no assurance that such unrealized capital appreciation will be realized in the future. Accordingly, such fee, as calculated and accrued would not necessarily be payable under the investment management agreement, and may never be paid based upon the computation of capital gains incentive fees in subsequent periods.

For the years ending December 31, 2013 and December 31, 2012, the Advisor agreed to waive its incentive fee to the extent required to support an annualized dividend yield of 9.0% (to be paid on a quarterly basis) based on the price per share of our common stock in connection with the Offering. For the year ended December 31, 2013, the adviser waived incentive fees related to pre-incentive fee net investment income of \$1,787,487. The amounts waived in 2012 are immaterial.

As of December 31, 2013 and December 31, 2012, the Company was due \$43,450 and \$0, respectively, from a Stellus Capital related party for reimbursement of expenses paid for by the Company that were the responsibility of Stellus Capital. The amount due to the Company is included in the Statement of Assets and Liabilities.

As of December 31, 2013 and December 31, 2012, the Company owed its independent directors \$96,000 and \$29,452, respectively, in total for unpaid director fees.

As agreed to in the Amended and Restated Side Agreement made and entered into as of November 12, 2012 by and between Stellus Capital and Raymond James & Associates, Inc. and Stifel, Nicolaus & Company, Incorporated, Stellus Capital has agreed to pay on behalf of the Company, 2.41% of the 6% underwriters sales load, or \$3,320,280 in total, in connection with the Offering. Of this amount, \$1,940,280 was paid on November 14, 2012, \$460,000 was paid on March 25, 2013, \$460,000 was paid on June 28, 2013 and the remaining \$460,000 was paid on September 25,

2013.

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

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STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 2 RELATED PARTY ARRANGEMENTS (continued)

Management that has an investment strategy that is identical to our investment strategy. We believe that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification.

License Agreement

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

Administration Agreement

The Company entered into an administration agreement with Stellus Capital Management pursuant to which Stellus Capital Management will furnish the Company with office facilities and equipment and will provide the Company with the clerical, bookkeeping, recordkeeping and other administrative services necessary to conduct day-to-day operations. Under this administration agreement, Stellus Capital Management will perform, or oversee the performance of, its required administrative services, which includes, among other things, being responsible for the financial records which it is required to maintain and preparing reports to its stockholders and reports filed with the SEC. For the year ended December 31, 2013 and the period from Inception (May 18, 2012) through December 31, 2012 there were \$443,632 and \$62,716 of such costs incurred under the Administration Agreement, respectively.

Indemnifications

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

NOTE 3 DISTRIBUTIONS

The Company intends to continue to declare and make monthly distributions of available net investment income to its stockholders. The distribution frequency was changed from quarterly to monthly subsequent to year end (see Note 12). The Company intends to distribute net realized gains (*i.e.*, net capital gains in excess of net capital losses), if any, at least annually. The stockholder distributions, if any, will be determined by the board of directors. Any distribution to stockholders will be declared out of assets legally available for distribution.

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December 31, 2013****NOTE 3 DISTRIBUTIONS (continued)**

The following table reflects the Company's dividends declared during 2013 and paid or to be paid on its common stock:

Date Declared	Record Date	Payment Date	Amount Per Share
March 7, 2013	March 21, 2013	March 28, 2013	\$ 0.34
June 7, 2013	June 21, 2013	June 28, 2013	\$ 0.34
August 21, 2013	September 5, 2013	September 27, 2013	\$ 0.34
November 22, 2013	December 9, 2013	December 23, 2013	\$ 0.34
December 27, 2013	January 15, 2014	January 24, 2014	\$ 0.065

Unless the stockholder elects to receive its distributions in cash, the Company intends to make such distributions in additional shares of the Company's common stock under the Company's dividend reinvestment plan. Although distributions paid in the form of additional shares of the Company's common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in the Company's dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. If a stockholder holds shares of the Company's common stock in the name of a broker or financial intermediary, the stockholder should contact such broker or financial intermediary regarding their election to receive distributions in cash in lieu of shares of the Company's common stock. Any distributions reinvested through the issuance of shares through the Company's dividend reinvestment plan will increase the Company's gross assets on which the base management fee and the incentive fee are determined and paid to Stellus Capital. Of the total distributions of \$16,399,402 made to shareholders through December 31, 2013, \$15,499,438 was made in cash and the remainder in shares.

NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE

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

The guidance establishes three levels of the fair value hierarchy as follows:

Level

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

Level

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

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

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

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

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TABLE OF CONTENTS**STELLUS CAPITAL INVESTMENT CORPORATION****NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013****NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE
(continued)**

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

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

At December 31, 2012, the Company had investments in 15 portfolio companies. The total cost and fair value of the investments were \$195,455,671 and \$195,451,256, respectively. The composition of our investments as of December 31, 2012 is as follows:

	Cost	Fair Value
Senior Secured First Lien	\$ 44,014,214	\$ 44,014,214
Senior Secured Second Lien	38,597,293	38,597,622
Unsecured Debt	111,129,878	111,125,134
Equity	1,714,286	1,714,286
Total Investments	\$ 195,455,671	\$ 195,451,256

The Company's investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require the Company to provide funding when requested by portfolio companies in accordance with the terms of the underlying loan agreements. As of December 31, 2013 and December 31, 2012, the Company had three and one such investments with aggregate unfunded commitments of \$20,942,150 and \$2,000,000, respectively.

The Company maintains sufficient liquidity to fund such unfunded loan commitments should the need arise.

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

Quoted Prices in	Significant Other Observable	Significant Unobservable Inputs	Total
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		Active Inputs Markets (Level 2) for Identical Securities (Level 1)	(Level 3)	
Senior Secured First Lien	\$	\$ 12,104,672	\$ 36,641,095	\$ 48,745,767
Senior Secured Second Lien		21,084,272	97,087,453	118,171,725
Unsecured Debt			106,219,596	106,219,596
Equity			4,367,422	4,367,422
Total Investments	\$	\$ 33,188,944	\$ 244,315,566	\$ 277,504,510

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December 31, 2013****NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE
(continued)**

The fair values of our investments disaggregated into the three levels of the fair value hierarchy based upon the lowest level of significant input used in the valuation as of December 31, 2012 are as follows:

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Senior Secured First Lien	\$	\$	\$ 44,014,214	\$ 44,014,214
Senior Secured Second Lien		12,120,000	26,477,622	38,597,622
Unsecured Debt			111,125,134	111,125,134
Equity			1,714,286	1,714,286
Total Investments	\$	\$ 12,120,000	\$ 183,331,256	\$ 195,451,256

The aggregate values of Level 3 portfolio investments changed during the year ended December 31, 2013 are as follows:

	Senior Secured Loans First Lien	Senior Secured Loans Second Lien	Unsecured Debt	Equity	Total
Fair value at beginning of period	\$44,014,214	\$26,477,622	\$111,125,134	\$1,714,286	\$183,331,256
Purchases of investments	25,858,527	104,999,976	20,158,739	2,464,541	153,481,783
Sales and Redemptions	(34,036,217)	(25,253,125)	(25,000,000)		(84,289,342)
Realized Gains	291,223	203,125	903,322		1,397,670
Change in unrealized depreciation included in earnings	317,653	572,534	(1,094,178)	188,595	(15,396)
Accretion of discount	195,695	87,321	126,579		409,595
Transfer from Level 2					
Transfer to Level 2		(10,000,000)			(10,000,000)
Fair value at end of period	\$36,641,095	\$97,087,453	\$106,219,596	\$4,367,422	\$244,315,566
Change in unrealized depreciation on Level 3 investments still held as	\$317,653	\$572,534	\$(1,094,178)	\$188,595	\$(15,396)

of December 31, 2013

During the year ended December 31, 2013, there was one transfer from Level 3 to Level 2 due to the increase in the availability of significant observable inputs in determining the fair value of these investments.

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

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December 31, 2013****NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE
(continued)**

The aggregate values of Level 3 portfolio investments changed during the period from Inception through December 31, 2012 are as follows:

	Senior Secured Loans First Lien	Senior Secured Loans Second Lien	Unsecured Debt	Equity	Total
Fair value at beginning of period	\$	\$	\$	\$	\$
Purchases of investments	97,066,024	16,477,500	124,507,797	1,714,286	239,765,607
Sales and Redemptions	(53,057,372)		(13,400,740)		(66,458,112)
Change in unrealized appreciation (depreciation) included in earnings			(4,744))	(4,744)
Accretion of discount	5,562	122	22,821		28,505
Transfer from Level 2		10,000,000			10,000,000
Transfer to Level 2					
Fair value at end of period	\$44,014,214	\$26,477,622	\$111,125,134	\$1,714,286	\$183,331,256
Change in unrealized appreciation (depreciation) on Level 3 investments still held as of December 31, 2012	\$	\$	\$(4,744)) \$	\$(4,744)

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

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

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Indiana	11,169,118	11,169,118	4.02	%
New Jersey	10,176,677	10,176,677	3.67	%
Pennsylvania	9,669,695	9,738,000	3.51	%
Puerto Rico	8,700,324	8,359,544	3.01	%
Missouri	7,925,241	8,120,000	2.93	%
Kentucky	4,659,651	4,888,373	1.76	%
Virginia	2,514,924	2,584,272	0.93	%
Georgia	1,480,112	1,500,000	0.54	%
	\$ 277,004,466	\$ 277,504,510	100.00	%

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December 31, 2013****NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE
(continued)**

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

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

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

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

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Retail	10,176,677	10,176,677	3.67	%
Consumer Goods: Non-Durable	9,669,695	9,738,000	3.51	%
Energy: Oil & Gas	9,538,738	9,700,000	3.49	%
Metals & Mining	4,659,651	4,888,373	1.76	%
	\$ 277,004,466	\$ 277,504,510	100.00	%

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December 31, 2013****NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE
(continued)**

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

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

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

The following provides quantitative information about Level 3 fair value measurements as of December 31, 2013:

Description:	Fair Value	Valuation Technique	Unobservable Inputs	Range (Average) ⁽¹⁾⁽³⁾
First lien debt	\$ 36,641,095	Income/Market approach ⁽²⁾	HY credit spreads, Risk free rates	-1.58% to .46% (-.95%) .00% to .17% (.04 -1.41% to
Second lien debt	\$ 97,087,453	Income/Market approach ⁽²⁾	HY credit spreads, Risk free rates	1.40% (-.68%) .04% to .81% (.21
Unsecured debt	\$ 106,219,596	Income/Market approach ⁽²⁾	HY credit spreads, Risk free rates	-1.27% to 2.79% (-27%) -.42% to .62%

				(.15
Equity investments	\$4,367,422	Market approach ⁽⁴⁾	Underwriting multiple/EBITDA Multiple	5x to 13x
Total Long Term Level 3 Investments	\$244,315,566			

(1) Weighted average based on fair value as of December 31, 2013.

(2) Inclusive of but not limited to the income approach (by discounting future cash flows using an appropriate yield) and the market approach (by ensuring sufficient enterprise value).

The Company calculates the price of the loan by discounting future cash flows using an appropriate yield calculated as of the valuation date. This yield is calculated based on the loan's yield at the original investment and is adjusted as of the valuation date based on: changes in comparable credit spreads (per Barclay's high yield indexes), changes in risk free interest rates (per swap rates), and changes in credit quality (via an estimated shadow rating).

(3) Significant movements in any of these factors would result in a significantly lower (higher) fair value measurement. As an example, the Range (Average) for first lien debt instruments in the table above indicates that the change in the HY spreads between the date a loan closed and the valuation date ranged from -1.58% (158 basis points) to .46% (46 basis points). The average of all changes was -.95%.

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TABLE OF CONTENTS**STELLUS CAPITAL INVESTMENT CORPORATION****NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013****NOTE 4 PORTFOLIO INVESTMENTS AND FAIR VALUE
(continued)**

The primary significant unobservable input used in the fair value measurement of the Company's equity investments is the EBITDA multiple, or the Multiple. Significant increases (decreases) in the Multiple in isolation would result in a significantly higher (lower) fair value measurement. To determine the Multiple for the market (4) approach, the Company considers current market trading and/or transaction multiple, portfolio company performance (financial ratios) relative to public and private peer companies and leverage levels, among other factors. Changes in one or more of these factors can have a similar directional change on other factors in determining the appropriate Multiple to use in the market approach.

The following provides quantitative information about Level 3 fair value measurements as of December 31, 2012:

Description:	Fair Value	Valuation Technique	Unobservable Inputs	Range (Average) ⁽¹⁾⁽³⁾
First lien debt	\$44,014,214	Income/Market approach ⁽²⁾	HY credit spreads, Risk free rates	-.22% to .00% (-.15%) -.03% to .12% (.04 -.49% to -.22%)
Second lien debt	\$26,477,622	Income/Market approach ⁽²⁾	HY credit spreads, Risk free rates	(-.33%) .00% to .04% (.03 -.31% to -.22%)
Unsecured debt	\$111,125,134	Income/Market approach ⁽²⁾	HY credit spreads, Risk free rates	(-.23%) .01% to .04% (.02
Equity investments	\$1,714,286	Market approach ⁽⁴⁾	Underwriting multiple/EBITDA Multiple	5x to 13x
Total Long Term Level 3 Investments	\$183,331,256			

(1) Weighted average based on fair value as of December 31, 2012.

(2) Inclusive of but not limited to the income approach (by discounting future cash flows using an appropriate yield) and the market approach (by ensuring sufficient enterprise value).

(3) The Company calculates the price of the loan by discounting future cash flows using an appropriate yield calculated as of the valuation date. This yield is calculated based on the loan's yield at the original investment and is adjusted as of the valuation date based on: changes in comparable credit spreads (per Barclay's high yield indexes),

changes in risk free interest rates (per swap rates), and changes in credit quality (via an estimated shadow rating). Significant movements in any of these factors would result in a significantly lower (higher) fair value measurement. As an example, the Range (Average) for first lien debt instruments in the table above indicates that the change in the HY spreads and the risk free rates between the date a loan closed and the valuation date ranged from $-.22\%$ (22 basis points) to $.00\%$ (0 basis points). The average of all changes was $-.15\%$.

The primary significant unobservable input used in the fair value measurement of the Company's equity investments is the EBITDA multiple, or the Multiple. Significant increases (decreases) in the Multiple in isolation would result in a significantly higher (lower) fair value measurement. To determine the Multiple for the market (4) approach, the Company considers current market trading and/or transaction multiple, portfolio company performance (financial ratios) relative to public and private peer companies and leverage levels, among other factors. Changes in one or more of these factors can have a similar directional change on other factors in determining the appropriate Multiple to use in the market approach.

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TABLE OF CONTENTS**STELLUS CAPITAL INVESTMENT CORPORATION****NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013****NOTE 5 EQUITY OFFERINGS AND RELATED EXPENSES**

The Company issued 63,998 shares of common stock during the year ended December 31, 2013 in connection with the stockholder distribution reinvestment.

Issuance of Common Stock	Number of Shares	Gross Proceeds	Sales Load	Offering Expenses	Offering Price
March 28, 2013 ⁽¹⁾	15,249	\$ 214,706			\$ 14.08
June 28, 2013 ⁽¹⁾	15,747	225,182			14.30
September 27, 2013 ⁽¹⁾	16,202	229,914			14.19
December 22, 2013 ⁽¹⁾	16,800	230,162			13.70
Total	63,998	\$ 899,964			

(1) Issued in connection with stockholder distribution reinvestment.

The Company issued 12,035,023 shares of common stock during the period from Inception through December 31, 2012. The proceeds raised, the related sales load, the offering expenses and the prices at which these shares were issued are as follows:

Issuance of Common Stock	Number of Shares	Gross Proceeds	Sales Load	Offering Expenses	Offering Price
September 30, 2012	100	\$ 500,010	\$	\$	\$ 5,000.10
October 25, 2012 ⁽¹⁾	33,234				
November 2, 2012 ⁽²⁾	849,999	12,749,990			15.00
November 7, 2012 ⁽³⁾	1,943,943	29,159,145			15.00
November 7, 2012	9,200,000	138,000,000	4,959,720	835,500 ⁽⁴⁾	15.00
December 28, 2012 ⁽⁵⁾	7,747	112,948			14.58
Total	12,035,023	\$ 180,522,093	\$ 4,959,720	835,500	

(1) Stock dividend of 33,234 shares issued on October 25, 2012 to stockholders of record on October 22, 2012. Results in average price per share of \$15.00.

(2) Issued in connection with the private placement on November 2, 2012

(3) Issued in connection with the purchase and sale agreement with D.E. Shaw Direct Capital Portfolios, L.L.C dated November 2, 2012.

(4) Includes \$147,123 of offering expenses that were accrued on December 31, 2012.

(5) Issued in connection with stockholder distribution reinvestment.

NOTE 6 NET INCREASE (DECREASE) IN NET ASSETS PER COMMON SHARE

The following information sets forth the computation of net increase (decrease) in net assets resulting from operations per common share for the year ended December 31, 2013.

	Year ended December 31, 2013	For the period from Inception (May 18, 2012) through December 31, 2012
Net increase in net assets resulting from operations	\$ 17,544,997	\$ 1,298,424
Average common shares	12,059,293	12,035,023
Basic and diluted earnings per common share	\$ 1.45	\$ 0.11

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TABLE OF CONTENTS**STELLUS CAPITAL INVESTMENT CORPORATION****NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013****NOTE 7 COMMITMENTS AND CONTINGENCIES**

The Company is currently not subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us. From time to time, we may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition or results of operations.

NOTE 8 FINANCIAL HIGHLIGHTS

	Year ended December 31, 2013	For the period from Inception (May 18, 2012) through December 31, 2012		
Per Share Data: ⁽¹⁾				
Net asset value at beginning of year/period	\$ 14.45	\$ 15.00		
Net investment income	1.33	0.11		
Change in unrealized appreciation (depreciation)	0.03	(0.01)	
Realized gain	0.09			
Total from investment operations	1.45	0.10		
Reinvestments of stockholder distributions		0.01		
Sales load		(0.41)	
Offering costs		(0.07)	
Stockholder distributions	(1.36)	(0.18)
Net asset value at end of year/period	\$ 14.54	\$ 14.45		
Per share market value at end of year/period	\$ 14.95	\$ 16.38		
Total return based on market value ⁽²⁾	0.42	%	10.48	%
Total return based on change in net asset value ⁽⁵⁾	10.35	%	(0.79)%
Weighted average shares outstanding at end of period	12,059,293		12,035,023	
Ratio/Supplemental Data:				
Net assets at end of year/period	\$ 175,891,514		\$ 173,845,955	
Average net assets ⁽³⁾	\$ 175,398,660		\$ 173,845,955	
Annualized ratio of gross operating expenses to net assets ⁽³⁾	8.65	%	5.49	%
Annualized ratio of net operating expenses to net assets ⁽³⁾	7.63	%	5.50	%
Annualized ratio of net investment income to net assets ⁽³⁾	9.13	%	4.99	%

Portfolio Turnover⁽⁴⁾ 41 % 35 %

(1) Financial highlights are based on weighted average shares outstanding as of year/period ended.

(2) Total return on market value is based on the change in market price per share since the end of the prior quarter and includes dividends paid. The total returns are not annualized.

Financial highlights for periods of less than one year are annualized and the ratios of operating expenses to average net assets, net investment income to average net assets and total return based on change in net asset value are adjusted accordingly.

(4) Calculated as payoffs divided by average portfolio balance and is not annualized.

(5) Total return on net asset value is based on the change in net asset value per share since the end of the prior year and includes dividends paid. The total returns are not annualized.

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STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 9 CREDIT FACILITY

On November 7, 2012, the Company entered into a revolving credit facility (the Credit Facility) with various lenders. SunTrust Bank is one of the lenders and serves as administrative agent under the Credit Facility. The Credit Facility originally provided for borrowings in an aggregate amount up to \$115,000,000 on a committed basis and an accordion for an additional \$35,000,000 for a total facility size of \$150,000,000. On July 30, 2013, the Company partially exercised the accordion feature under its Credit Facility and received additional commitments from the existing bank group in the amount of \$20,000,000 which increased the total commitment to \$135,000,000 under the facility. The exercise of the remaining accordion will require sufficient borrowing base and additional commitments from the existing lender group and/or new lenders.

The Company's obligations to the lenders are secured by a first priority security interest in its portfolio of securities and cash, but excluding short term investments. The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (i) maintaining a minimum liquidity test of at least 85% of adjusted borrowing base, (ii) maintaining an asset coverage ratio of at least 2.0 to 1.0, and (iii) maintaining a minimum shareholder's equity. As of December 31, 2013, the Company was in compliance with these covenants.

Borrowings under the Credit Facility bear interest, subject to the Company's election, on a per annum basis equal to (i) LIBOR plus 3.00% with no LIBOR floor or (ii) 2.00% plus an alternate base rate based on the highest of the Prime Rate, Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. The Company pays unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable quarterly in arrears. Any amounts borrowed under the Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on November 12, 2016.

As of December 31, 2013 and December 31, 2012, \$110,000,000 and \$38,000,000 was outstanding under the Credit Facility, respectively. The carrying amount of the amount outstanding under the Credit Facility approximates its fair value. From Inception to December 31, 2012, the Company incurred costs of \$2,015,415 in connection with obtaining the Credit Facility, which the Company has recorded as prepaid loan structure fees on its statement of assets and liabilities and is amortizing these fees over the life of the Credit Facility. During the year ended December 31, 2013, the Company incurred costs of \$113,384 in connection with the \$20,000,000 commitment increase. As of December 31, 2013 and December 31, 2012, \$1,586,405 and \$1,947,820 of such prepaid loan structure fees had yet to be amortized, respectively.

For the year ended December 31, 2013 the effective interest rate under the Credit Facility was approximately 3.3% (approximately 3.7% including commitment fees on the unused portion of the Credit Facility). Interest is paid quarterly in arrears. The Company recorded interest and fee expense of \$3,123,701 for the year ended December 31, 2013, of which \$2,276,571 was interest expense, \$518,106 was amortization of loan fees paid on the Credit Facility, \$279,042 related to commitment fees on the unused portion of the Credit Facility, and \$49,982 related to loan administration fees. The Company paid \$2,377,282 in interest expense and unused commitment fees for the year

ended December 31, 2013. The average borrowings under the Credit Facility for the year ended December 31, 2013 were \$68,449,315.

For the period from Inception (May 18, 2012) through December 31, 2012 the effective interest rate under the Credit Facility was approximately 3.6% (approximately 5.4%) including commitment fees on the unused portion of the Credit Facility). The Company recorded interest and fee expense of \$282,629 for the period ended December 31, 2012, of which \$202,864 was interest expense, \$61,264 related to commitment fees on the unused portion of the Credit Facility and \$18,501 related to other loan fees. The average borrowings under the Credit Facility for the period ended December 31, 2012 were \$24,979,592.

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December 31, 2013****NOTE 10 SELECTED QUARTERLY FINANCIAL DATA
(UNAUDITED)**

The following table sets forth the results of operations for the year ended December 31, 2013 and for the period Inception through December 31, 2012. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

	2013			
	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Total Investment Income (Loss)	\$6,446,440	\$7,341,227	\$7,917,631	\$7,695,438
Net Investment Income (Loss)	\$3,687,382	\$3,972,658	\$4,133,995	\$4,217,694
Net Increase in Net Assets from Operations	\$5,532,118	\$4,477,595	\$3,825,421	\$3,709,863
Total Investment Income (Loss) per share ⁽¹⁾	\$0.54	\$0.61	\$0.66	\$0.64
Net Investment Income (Loss) per share ⁽¹⁾	\$0.31	\$0.33	\$0.34	\$0.35
Net Increase in Net Assets from Operations per share ⁽¹⁾	\$0.46	\$0.37	\$0.32	\$0.30

	2012			
	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4 ⁽²⁾
Total Investment Income (Loss)	n/a	\$ (126,628)	\$ (264,993)	\$ 3,696,432
Net Investment Income (Loss)	n/a	\$ (126,628)	\$ (264,993)	\$ 1,304,356
Net Increase in Net Assets from Operations	n/a	\$ (126,628)	\$ (264,993)	\$ 1,298,424
Total Investment Income (Loss) per share ⁽¹⁾	n/a	n/a	\$ (2,650)	\$ 0.30
Net Investment Income (Loss) per share ⁽¹⁾	n/a	n/a	\$ (2,650)	\$ 0.11
Net Increase in Net Assets from Operations per share ⁽¹⁾	n/a	n/a	\$ (2,650)	\$ 0.11

(1) Per share amounts are calculated using weighted average shares outstanding during the period.

(2) For the period from Inception through December 31, 2012.

NOTE 11 INCOME TAXES

As of December 31, 2013 and December 31, 2012, the Company had \$945,186 and \$0, respectively, of undistributed ordinary income.⁽¹⁾ Undistributed capital gains were \$0 for the periods ended December 31, 2013 and December 31, 2012. All of the undistributed ordinary income as of December 31, 2013 will have been distributed within the required

period of time such that the Company will not have to pay corporate-level U.S. federal income tax for the year ended December 31, 2013. We will be subject to a 4% nondeductible U.S. federal excise tax on our undistributed income to the extent we did not distribute an amount equal to at least 98% of our net ordinary income plus 98.2% of our capital gain net income attributable to the period. The Company has accrued approximately \$24,000 and \$0, in U.S. federal excise tax for the years ended December 31, 2013 and December 31, 2012, respectively.

Ordinary dividend distributions from a RIC do not qualify for the reduced maximum tax rate on qualified dividend income from domestic corporations, except to the extent that the RIC received the income in the

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December 31, 2013****NOTE 11 INCOME TAXES (continued)**

form of qualifying dividends from domestic corporations and qualified foreign corporations. The tax character⁽²⁾ of distributions paid in the years ended December 31, 2013 and 2012 was as follows:

	December 31, 2013	December 31, 2012
Ordinary income	\$ 16,399,402	\$ 2,179,342
Qualified dividends		
Distributions of long-term capital gains		
Total distributions accrued or paid to common stockholders	\$ 16,399,402	\$ 2,179,342

(1) The Company's taxable income for each period is an estimate and will not be finally determined until the Company files its tax return for each year. Therefore, final taxable income earned in each period, and the undistributed ordinary income and capital gains for each period carried forward for distribution in the following period, may be different than this estimate.

(2) The character of the Company's distributions is determined annually, based upon its taxable income for the full year and based upon distributions made for the full year. A determination of the character of distributions made on an interim basis may not be representative of the final determination based upon taxable income computed for the full year.

The aggregate gross unrealized appreciation and depreciation, the net unrealized appreciation, and the aggregate cost of the Company's portfolio company securities for federal income tax purposes as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Aggregate cost of portfolio securities for federal income tax purposes	\$ 277,504,510	\$ 195,455,671
Gross unrealized appreciation of portfolio company securities	2,585,425	329
Gross unrealized depreciation of portfolio company securities	(2,085,481)	(6,261)
Net unrealized appreciation of portfolio company securities	\$ 499,944	\$ (5,932)

NOTE 12 SUBSEQUENT EVENTS

Investment Portfolio

On January 30, 2014, we made a \$6.5 million investment in the unsecured term loan of SKOPOS. We also invested \$0.7 million in the company's equity.

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

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

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

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

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

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STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 12 SUBSEQUENT EVENTS (continued)

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

Credit Facility

The outstanding balance under the Credit Facility as of March 4, 2014 was \$104.0 million due to net repayments subsequent to December 31, 2013.

Dividend Declared

On January 21, 2014, the Company announced that it was changing the frequency of its dividend payments to shareholders from quarterly to monthly. On January 20, 2014, the Company's board of directors declared a regular monthly dividend for each of January 2014, February 2014 and March 2014 as follows:

Declared	Ex-Dividend Date	Record Date	Payment Date	Amount per Share
1/20/2014	1/29/2014	1/31/2014	2/14/2014	\$ 0.1133
1/20/2014	2/26/2014	2/28/2014	3/14/2014	\$ 0.1133
1/20/2014	3/27/2014	3/31/2014	4/15/2014	\$ 0.1133

Asset Quality

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

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PROSPECTUS

Stellus Capital Investment Corporation

**Common Stock
Preferred Stock
Debt Securities
Warrants
Subscription Rights**

We may offer, from time to time in one or more offerings, up to \$300,000,000 of our common stock, preferred stock, debt securities, subscription rights or warrants to purchase common stock, preferred stock or debt securities, which we refer to, collectively, as the securities. Our securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. In addition, this prospectus relates to 1,875,858 shares of our common stock that may be sold by the selling stockholder identified under Selling Stockholder. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our securities.

Our securities may be offered directly to one or more purchasers through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such securities.

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

On January 28, 2014, the last reported sale price of our common stock on the New York Stock Exchange was \$14.85. We are required to determine the net asset value per share of our common stock on a quarterly basis. On September 30, 2013, our net asset value per share was \$14.57.

Shares of closed-end investment companies, including business development companies, frequently trade at a

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

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 18 of this prospectus.

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

The Securities and Exchange Commission has not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is January 30, 2014

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer, from time to time, up to \$300,000,000 of our securities on terms to be determined at the time of the offering. In addition, this prospectus relates to 1,875,858 shares of our common stock that may be sold by the selling stockholder identified under Selling Stockholder. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any accompanying prospectus supplement together with the additional information described under Risk Factors and Available Information before you make an investment decision.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus or any accompanying supplement to this prospectus. You must not rely on any unauthorized information or representations not contained in this prospectus or any accompanying prospectus supplement as if we had authorized it. This prospectus and any accompanying prospectus supplement do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus and any accompanying prospectus supplement is accurate as of the dates on their covers. Our financial condition, results of operations and prospects may have changed since that date. To the extent required by law, we will amend or supplement the information contained in this prospectus and any accompanying prospectus supplement to reflect any material changes to such information subsequent to the date of the prospectus and any accompanying prospectus supplement and prior to the completion of any offering pursuant to the prospectus and any accompanying prospectus supplement.

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PROSPECTUS SUMMARY

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

Except as otherwise indicated, the terms we, us, our, and the Company refer to Stellus Capital Investment Corporation; and Stellus Capital Management refers to our investment adviser and administrator, Stellus Capital Management, LLC.

Stellus Capital Investment Corporation

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the 1940 Act, and intends to elect to be treated as a RIC for U.S. federal income tax purposes. We originate and invest primarily in private middle-market companies (typically those with \$5.0 million to \$50.0 million of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien, second lien, unitranche and mezzanine debt financing, often times with a corresponding equity investment. Unitranche debt is typically structured as first lien loans with certain risk characteristics of mezzanine debt. Mezzanine debt includes senior unsecured and subordinated loans.

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

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

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

In addition, we have received exemptive relief from the SEC to co-invest with investment funds managed by Stellus Capital Management (other than the D. E. Shaw group funds, as defined below) where doing so is consistent with our investment strategy as well as applicable law (including the terms and conditions of the exemptive order issued by the

SEC). Under the terms of the relief permitting us to co-invest with other funds managed by Stellus Capital Management, a required majority (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including 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 intend to co-invest, subject to the conditions included in the exemptive order we received from the SEC, with a private credit fund managed by Stellus Capital Management that has an investment strategy that is identical to our investment strategy. We believe that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification.

Portfolio Composition

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

As of September 30, 2013, we had investments in 23 portfolio companies. The fair value of the investments was \$243.6 million. As of September 30, 2013, our portfolio included approximately 24.9% first lien debt, 32.5% second lien debt, and 41.8% mezzanine debt and 0.8% of equity investments at fair value, of which 46% is invested in fixed-rate debt and the remaining 54% is invested in floating rate debt.

The weighted average yield on all of our debt investments at September 30, 2013, was approximately 11.4% of which 10.8% will be current cash interest. The weighted average yield was computed using the effective interest rates for all debt investments within the initial portfolio, including accretion of original issue discount.

Stellus Capital Management

Stellus Capital Management manages our investment activities and is responsible for analyzing investment opportunities, conducting research and performing due diligence on potential investments, negotiating and structuring our investments, originating prospective investments and monitoring our investments and portfolio companies on an ongoing basis. Stellus Capital Management is an investment advisory firm led by the former head, Robert T. Ladd, and certain senior investment professionals of the direct capital business of D. E. Shaw & Co., L.P. and its associated investment funds and affiliated entities (collectively, the D. E. Shaw group), which was spun out of the D. E. Shaw group in January 2012. The Stellus Capital Management investment team was responsible for helping the D. E. Shaw group build its middle-market direct investment business until it was spun out in January 2012. The senior investment professionals of Stellus Capital Management have an average of over 24 years of investing, corporate finance, restructuring, consulting and accounting experience and have worked together at several companies including the D. E. Shaw group. The Stellus Capital Management investment team has a wide range of experience in middle-market investing, including originating, structuring and managing loans and debt securities through market cycles. The Stellus Capital Management investment team continues to provide investment advisory services to the D. E. Shaw group with respect to an approximately \$440 million investment portfolio (as of September 30, 2013) in middle-market companies pursuant to sub-advisory arrangements.

In addition to serving as our investment adviser, Stellus Capital Management currently manages a private credit fund that has an investment strategy that is identical to our investment strategy and an energy private equity funds. We have received exemptive relief from the SEC to co-invest with investment funds managed by Stellus Capital Management (other than the D. E. Shaw group funds, as defined below) where doing so is consistent with our investment strategy as well as applicable law (including the terms and conditions of the exemptive order issued by the SEC). We believe

that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification. We intend to co-invest with the private fund consistent with the terms and conditions of the exemptive order issued by the SEC. We will not co-invest with the energy private equity funds, as the energy private equity funds will focus on predominantly equity-related investments and we will focus on predominantly credit-related investments.

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

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Market Opportunity

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

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

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

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

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

Competitive Strengths

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

Experienced Investment Team. Through our investment adviser, Stellus Capital Management, we have access to the experience and expertise of the Stellus Capital Management investment team, including its senior investment professionals who have an average of over 24 years of investing, corporate finance, restructuring, consulting and accounting experience and have worked together at several companies. The Stellus Capital Management investment team has a wide range of experience in middle-market investing, including originating, structuring and managing loans and debt securities through market cycles. We believe the members of Stellus Capital Management's investment

team are proven and experienced, with extensive capabilities in leveraged credit investing, having participated in these markets for the predominant portion of their careers. We believe that the experience and demonstrated ability of the Stellus Capital Management investment team to complete transactions enhances the quantity and quality of investment opportunities available to us.

Established, Rigorous Investment and Monitoring Process. The Stellus Capital Management investment team has developed an extensive review and credit analysis process. Each investment that is

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

Demonstrated Ability to Structure Investments Creatively. Stellus Capital Management has the expertise and ability to structure investments across all levels of a company's capital structure. While at the D. E. Shaw group, the Stellus Capital Management investment team invested approximately \$5.4 billion across the entire capital structure in 193 middle-market companies. These investments included secured and unsecured debt and related equity securities. Furthermore, we believe that current market conditions will allow us to structure attractively priced debt investments and may allow us to incorporate other return-enhancing mechanisms such as commitment fees, original issue discounts, early redemption premiums, payment-in-kind, or PIK, interest or some form of equity securities.

Resources of Stellus Capital Management Platform. We will have access to the resources and capabilities of Stellus Capital Management, which has 15 investment professionals, including Messrs. Ladd, D'Angelo, Davis and Overbergen, who are supported by one managing director, six principals, two vice presidents and two analysts. These individuals have developed long-term relationships with middle-market companies, management teams, financial sponsors, lending institutions and deal intermediaries by providing flexible financing throughout the capital structure.

We believe that these relationships will 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 four additional mid- and back-office professionals.

SBIC License

We have applied for a license to form and operate a small business investment company subsidiary, or SBIC subsidiary; however, the application is subject to approval by the Small Business Administration, or SBA. We can make no assurances that the SBA will approve our application, or of the timeframe in which we would receive a license, should one ultimately be granted. The SBIC subsidiary would be allowed to issue SBA-guaranteed debentures up to a maximum of \$150 million under current SBIC regulations, subject to required capitalization of the SBIC subsidiary and other requirements. SBA guaranteed debentures generally have longer maturities and lower interest rates than other forms of debt that may be available to us, and we believe therefore would represent an attractive source of debt capital.

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 a private credit fund that has an investment strategy that is identical to our investment strategy. Stellus Capital Management also provides non-discretionary advisory services to the D. E.

Shaw group, pursuant to sub-advisory arrangements, with respect to a private investment fund and a strategy of a private multi-strategy investment fund (collectively with the D. E. Shaw group fund, the D. E. Shaw group funds) to which the D. E. Shaw group serves as investment adviser that have an investment strategy similar to our investment strategy. Our investment policies, fee arrangements and other circumstances may vary from those of other investment funds, accounts or investment vehicles managed by Stellus Capital Management.

We have received exemptive relief from the SEC to co-invest with investment funds managed by Stellus Capital Management (other than the D. E. Shaw group funds, as defined below) where doing so is consistent

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

In addition, as of September 30, 2013, our portfolio consisted of 10 assets in 7 portfolio companies acquired from the D. E. Shaw group fund to which the D. E. Shaw group serves as investment adviser. Stellus Capital Management provides non-discretionary advisory services with respect to the D. E. Shaw group fund pursuant to a sub-advisory arrangement. However, the D. E. Shaw group fund has retained equity investments in 6 of those 7 portfolio companies. To the extent that our investments in these portfolio companies need to be restructured or that we choose to exit these investments in the future, our ability to do so may be limited if such restructuring or exit also involves an affiliate or the D. E. Shaw group fund therein because such a transaction could be considered a joint transaction prohibited by the 1940 Act in the absence of our receipt of relief from the SEC in connection with such transaction. For example, if the D. E. Shaw group fund were required to approve a restructuring of our investment in one of these portfolio companies in its capacity as an equity holder thereof and the D. E. Shaw group fund were deemed to be our affiliate, such involvement by the D. E. Shaw group fund in the restructuring transaction may constitute a prohibited joint transaction under the 1940 Act. However, we do not believe that our ability to restructure or exit these investments will be significantly hampered due to the fact that the equity investments retained by the D. E. Shaw group fund are minority equity positions and, as a result, it is unlikely that the D. E. Shaw group fund will be or will be required to be involved in any such restructurings or exits. Moreover, although we have received exemptive relief in relation to certain joint transactions with certain investment funds affiliated with Stellus Capital Management, we do not intend to apply such exemptive relief to the D. E. Shaw group funds sub-advised by Stellus Capital Management. See Risk Factors Our ability to sell or otherwise exit investments in which affiliates of Stellus Capital Management also have an investment may be restricted and Related Party Transactions and Certain Relationships.

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.

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.

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Information on our website is not incorporated into or a part of this prospectus or any accompanying prospectus supplement and you should not consider information on our website to be part of this prospectus or any accompanying prospectus.

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

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THE OFFERING

We may offer, from time to time, up to \$300,000,000 of our securities, on terms to be determined at the time of the offering. Our securities may be offered at prices and on terms to be disclosed in one or more prospectus supplements.

In addition, this prospectus relates to 1,875,858 shares of our common stock that may be sold by the selling stockholder identified under Selling Stockholder.

We may offer shares of our common stock at a discount to net asset value per share at prices approximating market value less selling expenses upon approval of our board of directors, including a majority of our independent directors, in certain circumstances. On July 29, 2013, our stockholders voted to allow us to issue common stock at a price below net asset value per share for the period ending on the earlier of the one year anniversary of the date of the Company's 2013 Annual Meeting of Stockholders and the date of the Company's 2014 Annual Meeting of Stockholders, which is expected to be held in June 2014. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock, although the number of shares sold in each offering may not exceed 25% of our outstanding common stock immediately prior to such sale. In addition, we cannot issue shares of our common stock below net asset value unless our board of directors determines that it would be in our and our stockholders' best interests to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In addition, continuous sales of common stock below net asset value may have a negative impact on total returns and could have a negative impact on the market price of our shares of common stock. See Sales of Common Stock Below Net Asset Value in this prospectus and in any prospectus supplement, if applicable.

Our securities may be offered directly to one or more purchasers by us or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will disclose the terms of the offering, including the name or names of any agents or underwriters involved in the sale of our securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our securities directly or through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our securities.

Set forth below is additional information regarding the offering of our securities:

Use of Proceeds

We plan to use the net proceeds of this offering to make new investments in portfolio companies in accordance with our investment objective and strategies as described in this prospectus and for general working capital purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings. Pending such use, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See Use of Proceeds.

We will not receive any proceeds from any sale of common stock by the selling stockholder.

Investment Advisory Agreement

We will pay Stellus Capital Management a fee for its services under the investment advisory agreement. This fee consists of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.75% of our gross assets, including assets purchased with borrowed funds or other forms of leverage (including preferred stock, public and private debt issuances, derivative instruments, repurchase agreements and other similar instruments or arrangements) and excluding cash and cash equivalents. The base management fee will be payable quarterly in arrears.

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The incentive fee, which provides Stellus Capital Management with a share of the income that it generates for us, consists of two parts. The first part, which is calculated and payable quarterly in arrears, equals 20.0% of our pre-incentive fee net investment income for the immediately preceding quarter, subject to a hurdle rate of 2.0% per quarter (8.0% annualized), and is subject to a catch-up feature. The second part is calculated and payable in arrears as of the end of each calendar year (or, upon termination of the investment advisory agreement, as of the termination date) and equals 20.0% of our aggregate cumulative realized capital gains from inception through the end of each calendar year, computed net of aggregate cumulative realized capital losses and aggregate cumulative unrealized capital depreciation through the end of such year, less the aggregate amount of any previously paid capital gain incentive fees. See Management Agreements Management Fee and Incentive Fee.

Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence, managerial assistance and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under our administration agreement, and any interest expense and any distributions paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, or OID, debt instruments with PIK interest and zero coupon securities), accrued income that we have not yet received in cash. However, the portion of such incentive fee that is attributable to deferred interest (such as PIK interest 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. 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).

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle of 2.0% per quarter (8.0% annualized), subject to a catch-up provision incurred at the end of each calendar quarter. The incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of our pre-incentive fee net investment income is payable except to the extent 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative income and capital gains incentive fees accrued and/or paid for the 11 preceding quarters. As a result, the total return requirement acts to defer our obligation to pay our investment adviser an incentive

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fee to the extent that we have generated cumulative net decreases in assets resulting from operations over the trailing 12 quarters due to unrealized or realized net losses on our investments and even in the event that our pre-incentive fee net investment income exceeds the hurdle rate.

Our net pre-incentive fee investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 1.75% base management fee.

See the section entitled "Management Agreements" for examples of how the incentive fee is calculated. Stellus Capital Management has agreed to waive its incentive fee for the year ending December 31, 2013 to the extent required to support a minimum annual dividend yield of 9.0% (to be paid on a quarterly basis) to our stockholders immediately subsequent to our initial public offering based on our initial public offering price per share.

New York Stock Exchange symbol

SCM

Trading at a discount

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

Sales of common stock below net asset value

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

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Distributions

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

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.

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. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% immediately after each such borrowing. The amount of leverage that we employ will depend on Stellus Capital Management's and our board of directors' assessment of market and other factors at the time of any proposed borrowing.

We have entered into a revolving credit facility, or the Credit Facility, with various lenders, including SunTrust Bank, which also serves as administrative agent under the Credit Facility. As of September 30, 2013 the Credit Facility provided for borrowings in an aggregate amount up to \$135,000,000 on a committed basis with an accordion feature permitting us to seek an increase of the total commitments under the Credit Facility by an additional \$15,000,000 for a total facility size of \$150,000,000. The exercise of the accordion requires sufficient borrowing base and additional commitments from the existing lender group and/or new lenders. The Company's obligations to the lenders are secured by a first priority security interest in its portfolio of securities and cash, but excluding short term investments. As of September 30, 2013, substantially all of our assets were pledged as collateral under the Credit Facility.

We have applied for a license to form and operate an SBIC subsidiary; however, the application is subject to approval by the SBA. We can make no assurances that the SBA will approve our application, or the timeframe in which we would receive a license, should one ultimately be granted. The SBIC subsidiary would be allowed to issue SBA-guaranteed debentures up to a maximum of \$150 million under current SBIC regulations, subject to required capitalization of the SBIC subsidiary and other requirements. SBA guaranteed debentures generally have longer maturities and lower interest rates than other forms of debt that may be available to us, and we believe therefore would represent an attractive source of debt capital.

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Dividend reinvestment plan

We have adopted a dividend reinvestment plan for our stockholders, which is an opt out dividend reinvestment plan. Under this plan, if we declare a cash distribution to our stockholders, the amount of such distribution will be automatically reinvested in additional shares of our common stock unless a stockholder specifically opts out of our dividend reinvestment plan. If a stockholder opts out, that stockholder will receive cash distributions. Stockholders who receive distributions in the form of shares of common stock generally will be subject to the same U.S. federal, state and local tax consequences as stockholders who elect to receive their distributions in cash, but will not receive any corresponding cash distributions with which to pay any applicable taxes. See Dividend Reinvestment Plan.

Administration Agreement

The administration agreement requires us to reimburse Stellus Capital Management for our allocable portion (subject to the review of our board of directors) of overhead and other expenses, including furnishing us with office facilities and equipment and providing clerical, bookkeeping, record keeping and other administrative services at such facilities, and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs. To the extent that Stellus Capital Management outsources any of its functions, we will pay the fees associated with such functions on a direct basis, without incremental profit to Stellus Capital Management. See Management Agreements Administration Agreement.

License arrangements

We have entered into a license agreement with Stellus Capital Management under which Stellus Capital Management has granted us a non-exclusive, royalty-free license to use the name Stellus Capital. For a description of the license agreement, see Management Agreements License Agreement.

Custodian and transfer agent

State Street Bank and Trust Company serves as our custodian and our transfer and distribution paying agent and registrar. See Custodian, Transfer and Dividend Paying Agent and Registrar.

Anti-takeover provisions

Our charter and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price for our common stock. See Description of Capital Stock.

Available information

We are required to file periodic reports, proxy statements and other information with the SEC. This information is available at the SEC's public reference room at 100 F. Street, N.E., Washington, D.C. 20549 and on the SEC's website at <http://www.sec.gov>. Information on the operation of the SEC's public reference room may be obtained by calling the SEC at 1-800-SEC-0330.

We maintain a website at www.stelluscapital.com and make all of our annual, quarterly and current reports, proxy statements and other information available, free of charge, on or through our

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website. Information on our website is not incorporated into or part of this prospectus or any prospectus supplement and should not be relied upon as such. You may also obtain such information free of charge by contacting us in writing at 4400 Post Oak Parkway, Suite 2200, Houston, TX 77027, Attention: Investor Relations.

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 18 of this prospectus to read about factors you should consider before deciding to invest in our securities.

We have a limited operating history as a business development company and Stellus Capital Management has limited experience managing a business development company, and we may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders.

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.