

Stellus Capital Investment Corp
Form PRER14A
April 06, 2018

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Stellus Capital Investment Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:
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(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION
4400 Post Oak Parkway, Suite 2200
Houston, Texas 77027
(713) 292-5400

April , 2018

Dear Stockholder:

You are cordially invited to attend the 2018 Annual Meeting of Stockholders (the Annual Meeting) of Stellus Capital Investment Corporation to be held on June 28, 2018 at 10:00 a.m., Central Time, at 4400 Post Oak Parkway, Suite 2200, Texas 77027. Only stockholders of record at the close of business on April 5, 2018 are entitled to the notice of, and to vote at, the Annual Meeting, including any postponement or adjournment thereof.

Details regarding the business to be conducted are more fully described in the accompanying Notice of Annual Meeting and Proxy Statement.

It is important that your shares be represented at the Annual Meeting, and you are encouraged to vote your shares as soon as possible. The enclosed proxy card contains instructions for voting over the Internet, by telephone or by returning your proxy card via mail in the envelope provided. Your vote is important.

We look forward to seeing you at the Annual Meeting.

Sincerely yours,

Robert T. Ladd
Chairman of the Board, President
and Chief Executive Officer

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on June 28, 2018.

Our proxy statement and annual report on Form 10-K for the year ended December 31, 2017 are available at the following cookies-free website that can be accessed anonymously: <http://www.viewproxy.com/StellusCapital/2018>.

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION
4400 Post Oak Parkway, Suite 2200
Houston, Texas 77027
(713) 292-5400

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JUNE 28, 2018**

To the Stockholders of Stellus Capital Investment Corporation:

The 2018 Annual Meeting of Stockholders (the Annual Meeting) of Stellus Capital Investment Corporation (the Company), a Maryland corporation, will be held at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027 on June 28, 2018, at 10:00 a.m., Central Time, for the following purposes:

1. To elect three directors of the Company nominated by the Company's Board of Directors (the Board) and named in this proxy statement who will each serve for three years or until his successor is elected and qualified;
2. To approve a proposal to authorize the Company, with the approval of the Board, to sell or otherwise issue up to 25% of the Company's outstanding common stock at an offering price that is below the Company's then current net asset value (NAV) per share;
3. To approve the reduction of the Company's required minimum asset coverage ratio from 200% to 150%;
4. To approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies; and
5. To transact such other business as may properly come before the meeting, or any postponement or adjournment thereof.

**THE BOARD, INCLUDING THE INDEPENDENT
DIRECTORS, UNANIMOUSLY
RECOMMENDS THAT YOU VOTE FOR EACH OF
THESE PROPOSALS.**

The enclosed proxy statement is also available at www.stelluscapital.com (under the Public Investors section). This website also includes copies of the form of proxy and the Company's Annual Report on Form 10-K to stockholders. Stockholders may request a copy of the proxy statement and the Company's Annual Report by contacting our main office at (713) 292-5400.

You have the right to receive notice of and to vote at the Annual Meeting if you were a stockholder of record at the close of business on April 5, 2018. Whether or not you expect to be present in person at the Annual Meeting, please sign the enclosed proxy and return it promptly in the self-addressed envelope provided. As a registered stockholder, you may also vote your proxy electronically by telephone or over the Internet by following the instructions included with your proxy card. Instructions are shown on the proxy card. In the event there are not sufficient votes for a quorum or to approve any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be postponed or adjourned in order to permit further solicitation of the proxies by the Company.

THE BOARD, INCLUDING THE INDEPENDENT DIRECTORS, UNANIMOUSLY RECOMMENDS THAT YOU VOTE

By Order of the Board,

W. Todd Huskinson
Chief Financial Officer, Chief Compliance Officer,
Secretary and Treasurer

Houston, Texas
April , 2018

This is an important meeting. To ensure proper representation at the Annual Meeting, please complete, sign, date and return the proxy card in the enclosed, self-addressed envelope. You may also vote your proxy electronically by telephone or over the Internet by following the instructions included with your proxy card. Even if you vote your shares prior to the Annual Meeting, you still may attend the Annual Meeting and vote your shares in person.

TABLE OF CONTENTS

Table of Contents

	Page
<u>General</u>	<u>1</u>
<u>Annual Meeting Information</u>	<u>1</u>
<u>Voting Information</u>	<u>2</u>
<u>Information Regarding this Solicitation</u>	<u>5</u>
<u>Security Ownership of Certain Beneficial Owners and Management</u>	<u>6</u>
<u>Proposal 1: Election of Directors</u>	<u>8</u>
<u>Required Vote</u>	<u>8</u>
<u>Certain Relationships and Related Transactions</u>	<u>17</u>
<u>Section 16(A) Beneficial Ownership Reporting Compliance</u>	<u>17</u>
<u>Executive Compensation</u>	<u>17</u>
<u>Proposal 2: Authorize the Company to Sell or Otherwise Issue up to 25% of the Company's</u> <u>Outstanding Common Stock at an Offering Price Per Share that is Below the Company's then</u> <u>Current Nav Per Share</u>	<u>18</u>
<u>Required Vote</u>	<u>23</u>
<u>Proposal 3: To approve the reduction of the Company's required minimum asset coverage ratio</u> <u>from 200% to 150%</u>	<u>24</u>
<u>Required Vote</u>	<u>27</u>
<u>Proposal 4: Adjournment Of The Annual Meeting</u>	<u>28</u>
<u>Principal Accountant Fees And Services</u>	<u>28</u>
<u>Audit Committee Report</u>	<u>29</u>
<u>Other Business</u>	<u>30</u>
<u>Submission Of Stockholder Proposals</u>	<u>30</u>
<u>Privacy Principles</u>	<u>31</u>

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION
4400 Post Oak Parkway, Suite 2200
Houston, Texas 77027
(713) 292-5400

PROXY STATEMENT

2018 ANNUAL MEETING OF STOCKHOLDERS

GENERAL

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Stellus Capital Investment Corporation (the Company, we, us or our), a Maryland corporation, for use at the Company's 2018 Annual Meeting of Stockholders (the Annual Meeting) to be held June 28, 2018, at 10:00 a.m.

Central Time at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027 and at any postponements or adjournments thereof. This proxy statement, the accompanying proxy card and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the Annual Report) are first being sent to stockholders on or about April 1, 2018.

We encourage you to vote your shares, either by voting in person at the Annual Meeting or by granting a proxy (*i.e.*, authorizing someone to vote your shares). If you properly sign and date the accompanying proxy card, and the Company receives it in time for the Annual Meeting, the persons named as proxies will vote the shares registered directly in your name in the manner that you specified. This proxy statement is also available via the Internet at www.stelluscapital.com (under the Public Investors section). The website also includes electronic copies of the form of proxy and the Company's Annual Report. If your shares are registered in the name of a bank or brokerage firm, you may be eligible to vote your shares electronically via the Internet or by telephone. This program provides eligible stockholders who receive a copy of the Company's Annual Report and proxy statement, either by paper or electronically, the opportunity to vote via the Internet or by telephone. If your voting form does not reference Internet or telephone voting information, please complete and return the paper proxy card in the pre-addressed, postage-paid envelope provided.

ANNUAL MEETING INFORMATION

Date and Location

We will hold the Annual Meeting on June 28, 2018, at 10:00 a.m. Central Time at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027.

Admission

Only record or beneficial owners of the Company's common stock as of the close of business on April 5, 2018 or their proxies may attend the Annual Meeting. Beneficial owners must also provide evidence of stock holdings, such as a recent brokerage account or bank statement.

Purpose of the Annual Meeting

At the Annual Meeting, you will be asked to vote on the following proposals:

1. To elect three directors of the Company nominated by the Board and named in this proxy statement who will each serve for three years or until his successor is elected and qualified;
2. To approve a proposal to authorize the Company, with the approval of the Board, to sell or otherwise issue up to 25% of the Company's outstanding common stock at an offering price that is below the Company's then current net asset value (NAV) per share;
3. To approve the reduction of the Company's required minimum asset coverage ratio from 200% to 150%;
4. To approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies; and
5. To transact such other business as may properly come before the meeting, or any postponement or adjournment thereof.

1

TABLE OF CONTENTS

VOTING INFORMATION

Record Date and Quorum Required

The record date of the Annual Meeting is the close of business on April 5, 2018 (the Record Date). You may cast one vote for each share of common stock that you own as of the Record Date.

A quorum of stockholders must be present for any business to be conducted at the Annual Meeting. The presence at the Annual Meeting, in person or by proxy, of stockholders entitled to cast a majority of the votes entitled to be cast as of the Record Date will constitute a quorum. Abstentions will be treated as shares present for quorum purposes. On the Record Date, there were [] shares outstanding and entitled to vote. Thus, [] shares must be represented by stockholders present at the Annual Meeting or by proxy to have a quorum.

If a quorum is not present at the Annual Meeting, the stockholders who are represented may adjourn the Annual Meeting until a quorum is present. The persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit further solicitation of proxies.

Submitting Voting Instructions for Shares Held Through a Broker

If you hold shares of common stock through a broker, bank or other nominee, you must follow the voting instructions you receive from your broker, bank or nominee. If you hold shares of common stock through a broker, bank or other nominee and you want to vote in person at the meeting, you must obtain a legal proxy from the record holder of your shares and present it at the meeting. If you do not submit voting instructions to your broker, bank or other nominee, your broker, bank or other nominee will not be permitted to vote your shares on any proposal considered at the meeting.

Authorizing a Proxy for Shares Held in Your Name

If you are a record holder of shares of common stock, you may authorize a proxy to vote on your behalf by mail, as described on the enclosed proxy card. Authorizing a proxy will not limit your right to vote in person at the meeting. A properly completed, executed and submitted proxy will be voted in accordance with your instructions, unless you subsequently revoke the proxy. If you authorize a proxy without indicating your voting instructions, the proxyholder will vote your shares according to the Board's recommendations.

Revoking Your Proxy

If you are a stockholder of record, you can revoke your proxy by (1) delivering a written revocation notice prior to the Annual Meeting to our Secretary, W. Todd Huskinson, at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027; (2) delivering a later-dated proxy that we receive no later than the opening of the polls at the meeting; or (3) voting in person at the meeting. If you hold shares of common stock through a broker, bank or other nominee, you must follow the instructions you receive from your nominee in order to revoke your voting instructions. Attending the Annual Meeting does not revoke your proxy unless you also vote in person at the meeting.

TABLE OF CONTENTS

Vote Required

Proposal	Vote Required	Broker Discretionary Voting Allowed	Effect of Abstentions and Broker Non-Votes
<p>Proposal 1 To elect three directors of the Company nominated by the Company's Board and named in this proxy statement who will serve for three years or until his successor is elected and qualified.</p>	<p>Affirmative vote of the holders of a plurality of the shares of stock outstanding and entitled to vote thereon at the Annual Meeting.</p>	No	<p>Because directors are elected by a plurality of the votes, an abstention will have no effect on the outcome of the vote.</p>
<p>Proposal 2 To approve a proposal to authorize the Company, with the approval of the Board, to sell or otherwise issue up to 25% of the Company's outstanding common stock at an offering price that is below the Company's then current NAV per share.</p>	<p>Pursuant to the Investment Company Act of 1940 (the "1940 Act"), approval of this proposal requires the affirmative vote of: (i) a majority of the outstanding shares of common stock of the Company; and (ii) a majority of the outstanding shares of common stock of the Company which are not held by affiliated persons of the Company, which includes our directors, officers, employees and 5% stockholders. For purposes of this proposal, the 1940 Act defines a majority of the outstanding shares common stock as: (A) 67% or more of the shares of common stock present at the Annual Meeting if the holders of more than 50% of the outstanding shares of common stock of the Company are present or represented by proxy;</p>	No	<p>Abstentions and broker non-votes, if any, will have the effect of a vote against this proposal.</p>

or (B) 50% of the
outstanding shares of
common stock of
the Company, whichever
is the less.

Proposal 3 To approve the
reduction of the Company's
required minimum asset
coverage
ratio from 200% to 150%.

Affirmative vote of the
holders of a majority of the
votes cast at the Annual
Meeting. No

Abstentions and broker
non-votes, if any, will have
no effect on the outcome of
the vote.

3

TABLE OF CONTENTS

Proposal	Vote Required	Broker Discretionary Voting Allowed	Effect of Abstentions and Broker Non-Votes
Proposal 4 To approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies.	Affirmative vote of the holders of a majority of the votes cast at the Annual Meeting.	No	Abstentions and broker non-votes, if any, will have no effect on the outcome of the vote.

4

TABLE OF CONTENTS

INFORMATION REGARDING THIS SOLICITATION

The Company will bear the expense of the solicitation of proxies for the Annual Meeting, including the cost of preparing, printing, and mailing this proxy statement, the accompanying Notice of Annual Meeting of Stockholders, and the proxy card. We have requested that brokers, nominees, fiduciaries and other persons holding shares in their names, or in the name of their nominees, which are beneficially owned by others, forward the proxy materials to, and obtain proxies from, such beneficial owners. We will reimburse such persons for their reasonable expenses in so doing.

In addition to the solicitation of proxies by the use of the mail, proxies may be solicited in person and by telephone or facsimile transmission by directors, officers or regular employees of the Company or Stellus Capital Management, LLC, the Company's external investment adviser (Stellus Capital Management), for which no director, officer or regular employee will receive any additional or special compensation.

The Company has engaged the services of Alliance Advisors LLC (Alliance) for the purpose of assisting in the solicitation of proxies at an anticipated cost of approximately \$7,000 plus reimbursement of certain out-of-pocket expenses and fees for additional services requested. Please note that Alliance may solicit stockholder proxies by telephone on behalf of the Company. They will not attempt to influence how you vote your shares, but only ask that you take the time to authorize your proxy. You may also be asked if you would like to authorize your proxy over the telephone and to have your voting instructions transmitted to the Company's proxy tabulation firm.

The Securities and Exchange Commission (the SEC) has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

A number of brokerages and other institutional holders of record have implemented householding. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. If you have received notice from your broker that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, please notify your broker. Stockholders who currently receive multiple copies of the proxy statement at their addresses and would like to request information about householding of their communications should contact their brokers or other intermediary holder of record. You can notify us by sending a written request to: W. Todd Huskinson, Secretary, Stellus Capital Investment Corporation, 4400 Post Oak Parkway, Suite 2200 Houston, Texas 77027, or by calling (713) 292-5400. In addition, we will promptly deliver, upon written or oral request to the address or telephone number above, a separate copy of the Annual Report and proxy statement to a stockholder at a shared address to which a single copy of the documents was delivered.

TABLE OF CONTENTS

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of April 5, 2018, the beneficial ownership of each current director, each nominee for director, the Company's executive officers, each person known to us to beneficially own 5% or more of the outstanding shares of our common stock, and the executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Shares of common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of April 5, 2018 are deemed to be outstanding and beneficially owned by the person holding such options or warrants. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Percentage of ownership is based on [] shares of common stock outstanding as of April 5, 2018.

Unless otherwise indicated, to our knowledge, each stockholder listed below has sole voting and investment power with respect to the shares beneficially owned by the stockholder, except to the extent authority is shared by their spouses under applicable law. Unless otherwise indicated, the address of all executive officers and directors is c/o Stellus Capital Investment Corporation, 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027.

The Company's directors are divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in Section 2(a)(19) of the 1940 Act.

Name and Address of Beneficial Owner	Number of Shares Owned Beneficially ⁽¹⁾	Percentage of Class
Interested Directors		
Robert T. Ladd		
Joshua T. Davis		
Dean D. Angelo		
Independent Directors		
J. Tim Arnoult		
Bruce R. Bilger		
Paul Keglevic		
William C. Repko		
Executive Officers		
W. Todd Huskinson		
Executive officers and directors as a group		
5% Holders		
None		

* Less than 1%

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended.

TABLE OF CONTENTS

The following table sets forth as of April 5, 2018, the dollar range of our securities owned by our directors and executive officers.

Name	Dollar Range of Equity Securities Beneficially Owned ⁽¹⁾⁽²⁾⁽³⁾
Interested Director:	
Robert T. Ladd	over \$100,000
Dean D Angelo	over \$100,000
Joshua T. Davis	over \$100,000
Independent Directors:	
J. Tim Arnoult	over \$100,000
Bruce R. Bilger	over \$100,000
Paul Keglevic	over \$100,000
William C. Repko	over \$100,000
Executive Officers:	
W. Todd Huskinson	over \$100,000

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Securities Exchange Act of 1934, as amended.

(2) The dollar range of the equity securities beneficially owned is based on the closing price per share of the Company's common stock of \$[] on April 5, 2018 on the New York Stock Exchange.

(3) The dollar ranges of equity securities beneficially owned are: none; \$1 - \$10,000; \$10,001 - \$50,000; \$50,001 - \$100,000; and over \$100,000.

7

TABLE OF CONTENTS

PROPOSAL 1: ELECTION OF DIRECTORS

Our business and affairs are managed under the direction of our Board. Pursuant to our articles of incorporation, the number of directors on our Board is currently fixed at seven directors and is divided into three classes. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualified. At each Annual Meeting, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the Annual Meeting of Stockholders held in the third year following the year of their election and until their successors have been duly elected and qualified or any director's earlier resignation, death or removal.

Robert T. Ladd, J. Tim Arnoult, and Paul Keglevic have been nominated by the Board for re-election for a three year term expiring in 2021. Messrs. Ladd, Arnoult, and Keglevic have indicated his willingness to continue to serve if elected and have consented to be named as a nominee. None of Messrs. Ladd, Mr. Arnoult, or Mr. Keglevic is being nominated to serve as a director pursuant to any agreement or understanding between him and the Company.

A stockholder can vote for or withhold his or her vote for each of the nominees. **In the absence of instructions to the contrary, it is the intention of the persons named as proxies to vote such proxy FOR the election of the nominees named in this proxy statement. If any of the nominees should decline or be unable to serve as a director, it is intended that the proxy will be voted for the election of such person as is nominated by the Board as a replacement.** The Board has no reason to believe that any of the nominees will be unable or unwilling to serve.

Required Vote

This proposal requires the affirmative vote of the holders of a plurality of the shares of stock outstanding and entitled to vote thereon. Stockholders may not cumulate their votes. If you vote withhold authority with respect to any of the nominees, your shares will not be voted with respect to the person indicated. Because directors are elected by a plurality of the votes, an abstention will have no effect on the outcome of the vote and, therefore, is not offered as a voting option for this proposal.

The Board unanimously recommends a vote for the election of each of the nominees named in this proxy statement.

TABLE OF CONTENTS**Information about Directors and Executive Officers****Board of Directors**

We have adopted provisions in our articles of incorporation that divide our Board into three classes. At each annual meeting, directors will be elected for staggered terms of three years (other than the initial terms, which extend for up to three years), with the term of office of only one of these three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Information regarding Messrs. Ladd, Arnoult, and Keglevic, each of whom are being nominated for election as directors of the Company by the stockholders at the Annual Meeting, as well as information about our current directors whose terms of office will continue after the Annual Meeting is as follows:

Name	Year of Birth	Position	Director Since	Term Expires
Interested Directors				
Robert T. Ladd	1956	Chairman, Chief Executive Officer and President	2012	2018
Dean D. Angelo	1967	Director	2012	2019
Joshua T. Davis	1972	Director	2012	2020
Independent Directors				
J. Tim Arnoult	1949	Director	2012	2018
Bruce R. Bilger	1952	Director	2012	2020
Paul Keglevic	1954	Director	2012	2018
William C. Repko	1949	Director	2012	2019

The address for each of our directors is c/o Stellus Capital Investment Corporation, 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027.

Executive Officers Who Are Not Directors

Information regarding our executive officers who are not directors is as follows:

Name	Year of Birth	Position
W. Todd Huskinson	1964	Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary

The address for each of our executive officers is c/o Stellus Capital Investment Corporation, 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027.

Biographical Information

The Board considered whether each of the directors is qualified to serve as a director, based on a review of the experience, qualifications, attributes and skills of each director, including those described below. The Board will also consider whether each director has significant experience in the investment or financial services industries and has

held management, board or oversight positions in other companies and organizations. For the purposes of this presentation, our directors have been divided into two groups independent directors and interested directors. Interested directors are interested persons as defined in the 1940 Act.

Independent Directors

J. Tim Arnoult has served as a member of our Board since 2012. Mr. Arnoult has over 35 years of banking and financial services experience. From 1979 to 2006, Mr. Arnoult served in various positions at Bank of America, including its predecessors, including president of Global Treasury Services from 2005 2006, president of Global Technology and Operations from 2000 to 2005, president of Central U.S. Consumer and Commercial Banking from 1996 to 2000 and president of Global Private Banking

TABLE OF CONTENTS

from 1991 to 1996. Mr. Arnoult is also experienced in mergers and acquisitions, having been directly involved in significant transactions such as the mergers of NationsBank and Bank of America in 1998 and Bank of America and FleetBoston in 2004. Mr. Arnoult currently serves on the board of directors of Cardtronics Inc. (NasdaqGM: CATM) and AgileCraft, LLC and has served on a variety of boards throughout his career, including the board of Visa USA before it became a public company. Mr. Arnoult holds a B.A. in Psychology and a M.B.A. from the University of Texas at Austin. We believe Mr. Arnoult's extensive banking and financial services experience bring important and valuable skills to our Board.

Bruce R. Bilger has served as a member of our Board since 2012. Mr. Bilger has over 38 years of providing advice on mergers and acquisitions, financings, and restructurings, particularly in the energy industry. Mr. Bilger is a senior advisor at Lazard Frères & Co. LLC, a leading investment bank, where he began in January 2008 as managing director, chairman and head of Global Energy, and co-head of the Southwest Investment Banking region. Prior to joining Lazard Frères & Co. LLC, Mr. Bilger was a partner at the law firm of Vinson & Elkins LLP, where he was head of its 400-plus-attorney Energy Practice Group and co-head of its 175-plus-attorney corporate and transactional practice. Mr. Bilger is or has been a board or committee member with numerous charitable and civic organizations, including the Greater Houston Partnership, the Greater Houston Community Foundation, Reasoning Mind, Positive Coaching Alliance, Texas Children's Hospital, Asia Society Texas Center, St. Luke's United Methodist Church, St. John's School, Dartmouth College and the University of Virginia. Mr. Bilger graduated Phi Beta Kappa from Dartmouth College and has an M.B.A. and law degree from the University of Virginia. We believe Mr. Bilger's extensive merger and acquisition, financing, and restructuring experience bring important and valuable skills to our Board.

Paul Keglevic has served as a member of our Board of directors since 2012. Mr. Keglevic has over 40 years of experience with public companies across several industry sectors, including utilities, telecom, transportation and real estate. Mr. Keglevic retired in March 2018 from his role as the Chief Executive Officer of Energy Future Holdings Corp., (EFH). Previously he served as executive vice president and chief financial officer for EFH from June 2008-October 2016. EFH filed for voluntary protection under Chapter 11 of the U.S. Bankruptcy Code in April 2014 and emerged from bankruptcy in March 2018. Mr. Keglevic was a partner at PricewaterhouseCoopers (PWC), an accounting firm, where he worked from July 2002-July 2008. At PWC he was the U.S. utility sector leader for six years and the clients and sector assurance leader for one year. Prior to PWC, Mr. Keglevic led the utilities practice for Arthur Andersen, where he was a partner for 15 years. Mr. Keglevic has served as a member of the board of directors of several subsidiaries of EFH and the Dallas and state of California Chambers of Commerce and several other charitable and advisory boards. Mr. Keglevic is an experienced board member and currently serves as an independent director on several public company boards across a variety of industries, including Bonanza Creek Energy, Inc. (NYSE: BCEI), Cobalt International Energy, Inc. (OTCMKTS: CIEIQ), and Clear Channel Outdoor Holdings, Inc. (NYSE: CCO). In 2011, Mr. Keglevic was named CFO of the Year by the Dallas Business Journal and received a Distinguished Alumni Award in accounting from Northern Illinois University. Mr. Keglevic received his B.S. in accounting from Northern Illinois University and is a certified public accountant. We believe Mr. Keglevic's extensive experience with public companies and knowledge of accounting and regulatory issues brings important and valuable skills to our Board.

William C. Repko has served as a member of our Board since 2012. Mr. Repko has over 40 years of investing, finance and restructuring experience. Mr. 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. Prior to joining Evercore Partners Inc., Mr. Repko served as chairman and head of the Restructuring Group at J.P. Morgan Chase, a leading investment banking firm, where he focused on providing comprehensive solutions to clients' liquidity and reorganization challenges. In 1973, Mr. Repko joined Manufacturers Hanover Trust Company, a commercial bank, which after a series of mergers became part of J.P. Morgan Chase. Mr.

Repko has been named to the Turnaround Management Association (TMA)-sponsored Turnaround, Restructuring and Distressed Investing industry Hall of Fame. Mr. Repko received his B.S. in Finance from Lehigh University. We believe Mr. Repko's extensive investing, finance, and restructuring experience bring important and valuable skills to our Board.

10

TABLE OF CONTENTS

Interested Directors

Robert T. Ladd has served as the Chairman of our Board and Chief Executive Officer and President since 2012. Mr. Ladd is the managing partner and Chief Investment Officer of Stellus Capital Management, the external investment manager of the Company. Mr. Ladd has more than 36 years of investing, finance, and restructuring experience. Prior to joining Stellus Capital Management, he had been with the D. E. Shaw group, a global investment and technology development firm, where he led the D. E. Shaw group's Direct Capital Group from February 2004 to January 2012.

Prior to joining the D. E. Shaw group, Mr. Ladd served as the president of Duke Energy North America, LLC, a merchant energy subsidiary of Duke Energy Corporation, and president and chief executive officer of Duke Capital Partners, LLC, a merchant banking subsidiary of Duke Energy Corporation, from September 2000 to February 2004.

From February 1993 to September 2000, Mr. Ladd was a partner of Arthur Andersen LLP where he last served as worldwide managing partner for Arthur Andersen's corporate restructuring practice and U.S. managing partner for that firm's corporate finance practice. Before joining Arthur Andersen, from June 1980 to February 1993, Mr. Ladd served in various capacities for First City Bancorporation of Texas, Inc., a bank holding company, and its subsidiaries, including serving as president of First City Asset Servicing Company, an asset management business and executive vice president for the Texas Banking Division. He serves on the Board of Trustees of Rice University and is a board member of Rice Management Company which oversees Rice University's endowment. He is a member of the Council of Overseers of the Jesse H. Jones Graduate School of Business of Rice University, as well as a member of the University of Texas Health Science Center Development Board and the University of Texas Medical School of Houston Advisory Council. Mr. Ladd received a B.A. in managerial studies and economics from Rice University, and an M.B.A. from The University of Texas at Austin, where he was a Sord Scholar and recipient of the Dean's Award for Academic Achievement. We believe Mr. Ladd's extensive investing, finance, and restructuring experience bring important and valuable skills to our Board.

Dean D Angelo has served as a member of our Board since 2012. Mr. D Angelo is a founding partner of Stellus Capital Management, the external investment manager of the Company, and co-head of its Private Credit strategy and serves on its investment committee. He has over 25 years of experience in investment banking and principal investing. From August 2005 to January 2012, Mr. D Angelo was a director in the Direct Capital Group at the D. E. Shaw group, a global investment and technology development firm. Prior to joining the D. E. Shaw group, Mr. D Angelo was a principal of Allied Capital Corporation, a publicly-traded business development company (BDC), where he focused on making debt and equity investments in middle-market companies from May 2003 to August 2005. From September 2000 to April 2003, Mr. D Angelo served as a principal of Duke Capital Partners, LLC, a merchant banking subsidiary of Duke Energy Corporation, where he focused on providing mezzanine, equity, and senior debt financing to businesses in the energy sector. From January 1998 to September 2000, Mr. D Angelo was a product specialist for Banc of America Securities, LLC where he provided banking services to clients principally in the energy sector. Mr. D Angelo began his career in the bankruptcy and consulting practice of Coopers & Lybrand L.L.P. in Washington, D.C. Mr. D Angelo received his B.B.A. in accounting from The College of William and Mary, his M.A. in international economics and relations from The Paul H. Nitze School of Advanced International Studies at The Johns Hopkins University, and his M.B.A., with a concentration in finance, from the Wharton School of the University of Pennsylvania. We believe Mr. D Angelo's extensive investment banking and principal investing experience bring important and valuable skills to our Board.

Joshua T. Davis has served as a member of our Board since 2012. Mr. Davis is a founding partner of Stellus Capital Management, the external investment manager of the Company and co-head of its Private Credit strategy and serves on its investment committee. He has more than 20 years of investing, finance, and restructuring experience. Prior to joining Stellus Capital Management, Mr. Davis was a director in the Direct Capital Group at the D. E. Shaw group, a global investment and technology development firm, since March 2004. Prior to joining the D. E. Shaw group, Mr. Davis served as a managing director at Milestone Merchant Partners, LLC, a boutique merchant bank from May 2003

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to February 2004 and a vice president of Duke Capital Partners, LLC, a merchant banking subsidiary of Duke Energy Corporation, from May 2002 to May 2003. Mr. Davis also served as a director of Arthur Andersen LLP, a consulting firm, from May 1995 to

TABLE OF CONTENTS

May 2002. Mr. Davis received a B.B.A. in accounting and finance from Texas A&M University. We believe Mr. Davis' extensive investing, finance, and restructuring experience bring important and valuable skills to our Board.

Executive Officers Who Are Not Directors

W. Todd Huskinson has served as our Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary since 2012. Mr. Huskinson is also a founding partner of Stellus Capital Management, the external investment manager of the Company. He has over 29 years of experience in finance, accounting and operations. From August 2005 to January 2012, Mr. Huskinson was a director in the D. E. Shaw group's Direct Capital Group, a global investment and technology development firm. Prior to joining the D. E. Shaw group, Mr. Huskinson was a Managing Director at BearingPoint (formerly KPMG Consulting), a management consulting firm, where he led the Houston office's middle-market management consulting practice from July 2002 to July 2005. Prior to BearingPoint, Mr. Huskinson was a partner of Arthur Andersen, LLP, an accounting firm, where he served clients in the audit, corporate finance and consulting practices from December 1987 to June 2002. Mr. Huskinson received a B.B.A in accounting from Texas A&M University and is a certified public accountant.

Board of Directors and Its Leadership Structure

Our business and affairs are managed under the direction of our Board. The Board consists of seven members, four of whom are not interested persons of the Company, or its affiliates as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. The Board elects our officers, who serve at the discretion of the Board. The responsibilities of the Board include quarterly valuation of our assets, corporate governance activities, oversight of our financing arrangements and oversight of our investment activities.

Oversight of our investment activities extends to oversight of the risk management processes employed by Stellus Capital Management as part of its day-to-day management of our investment activities. The Board reviews risk management processes at both regular and special board meetings throughout the year, consulting with appropriate representatives of Stellus Capital Management as necessary and periodically requesting the production of risk management reports or presentations. The goal of the Board's risk oversight function is to ensure that the risks associated with our investment activities are accurately identified, thoroughly investigated and responsibly addressed. Stockholders should note, however, that the Board's oversight function cannot eliminate all risks or ensure that particular events do not adversely affect the value of investments.

The Board has established an audit committee, a compensation committee and a nominating and corporate governance committee, and may establish additional committees from time to time as necessary. The scope of the responsibilities assigned to each of these committees is discussed in greater detail below. Mr. Ladd serves as Chief Executive Officer, Chairman of the Board and a member of Stellus Capital Management's investment committee and Messrs. D'Angelo and Davis are each a member of Stellus Capital Management's investment committee and a member of our Board. We believe that Mr. Ladd's history with Stellus Capital Management, his familiarity with its investment platform, and his extensive knowledge of and experience in the financial services industry qualify him to serve as the Chairman of our Board.

The Board does not have a lead independent director. We are aware of the potential conflicts that may arise when a non-independent director is Chairman of the Board, but believe these potential conflicts are offset by our strong corporate governance practices. Our corporate governance practices include regular meetings of the independent directors in executive session without the presence of interested directors and management, the establishment of an audit committee and a nominating and corporate governance committee, each of which is comprised solely of

independent directors, and the appointment of a Chief Compliance Officer, with whom the independent directors meet without the presence of interested directors and other members of management, for administering our compliance policies and procedures. The Chairman of the Audit Committee or his designee preside over the executive sessions of our independent directors.

TABLE OF CONTENTS

The Board believes that its leadership structure is appropriate in light of our characteristics and circumstances because the structure allocates areas of responsibility among the individual directors and the committees in a manner that affords effective oversight. Specifically, the Board believes that the relationship of Messrs. Ladd, D'Angelo and Davis with Stellus Capital Management provides an effective bridge between the Board and management, and encourages an open dialogue between management and our Board, ensuring that these groups act with a common purpose. The Board also believes that its small size creates a highly efficient governance structure that provides ample opportunity for direct communication and interaction between our management, Stellus Capital Management and the Board.

Board Meetings

Our Board met seven times during 2017. Each director attended at least 75% of the total number of meetings of the Board and committees on which the director served that were held while the director was a member. The Board's standing committees are set forth below. We require each director to make a diligent effort to attend all Board and committee meetings, as well as each Annual Meeting of Stockholders. All of the Board members attended, in person or via teleconference, the Company's 2017 Annual Meeting of Stockholders.

Audit Committee

The members of the audit committee are Messrs. Keglevic, Bilger and Repko, each of whom meets the independence standards established by the SEC and the New York Stock Exchange (the "NYSE") for audit committees and is independent for purposes of the 1940 Act. Mr. Keglevic serves as chairman of the audit committee. Our Board has determined that Mr. Keglevic is an audit committee financial expert as that term is defined under Item 407 of Regulation S-K of the Securities Exchange Act of 1934, as amended. The Board has adopted a charter of the audit committee, which is available in print to any stockholder who requests it and it is also available on the Company's website at www.stelluscapital.com (under the Public Investors section). The audit committee met six times during 2017.

The audit committee is responsible for approving our independent accountants, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls. The audit committee is also responsible for aiding our Board in fair value pricing debt and equity securities that are not publicly traded or for which current market values are not readily available. The Board and audit committee utilizes the services of an independent valuation firm to help them determine the fair value of these securities.

Nominating and Corporate Governance Committee

The members of the nominating and corporate governance committee are Messrs. Arnoult, Bilger and Keglevic, each of whom is independent for purposes of the 1940 Act and the NYSE corporate governance regulations. Mr. Arnoult serves as chairman of the nominating and corporate governance committee. The nominating and corporate governance committee met twice during 2017. The nominating and corporate governance committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the Board or a committee of the Board, developing and recommending to the Board a set of corporate governance principles and overseeing the evaluation of the Board and our management. The Board has adopted a charter of the nominating and corporate governance committee, which is available in print to any stockholder who requests it and it is also available on the Company's website at www.stelluscapital.com (under the Public Investors section).

The nominating and corporate governance committee will consider nominees to the Board recommended by a stockholder if such stockholder complies with the advance notice provisions of our bylaws. Our bylaws provide that a stockholder who wishes to nominate a person for election as a director at a meeting of stockholders must deliver written notice to our corporate secretary. This notice must contain, as to each nominee, all of the information relating to such person as would be required to be disclosed in a proxy statement meeting the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended, and certain other information set forth in the bylaws. In order to be eligible to be a nominee for election as a director by a stockholder, such potential nominee must deliver to our corporate secretary a

TABLE OF CONTENTS

written questionnaire providing the requested information about the background and qualifications of such person, and would be in compliance with all of our publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines.

The nominating and corporate governance committee seeks candidates who possess the background, skills and expertise to make a significant contribution to the Board, the Company and its stockholders. In considering possible candidates for election as a director, the nominating committee will take into account, in addition to such other factors as it deems relevant, the desirability of selecting directors who:

are of high character and integrity and have an inquiring mind, vision, a willingness to ask hard questions and the ability to work well with others;
are free of any conflict of interest that would violate applicable law or regulation or interfere with the proper performance of the responsibilities of a director;
are willing and able to devote sufficient time to the affairs of the Company and be diligent in fulfilling the responsibilities of a member of the Board of Directors and a member of any committees thereof (including developing and maintaining sufficient knowledge of the Company and the specialty finance industry in general; reviewing and analyzing reports and other information important to responsibilities of the Board of Directors and any committee thereof; preparing for, attending and participating in meetings of the Board of Directors and meetings of any committee thereof; and satisfying appropriate orientation and continuing education guidelines); and
Have the capacity and desire to represent the balanced, best interests of the stockholders of the Company as a whole and not primarily a special interest group or constituency.

The nominating and corporate governance committee has not adopted a formal policy with regard to the consideration of diversity in identifying individuals for election as members of the Board, but the committee will consider such factors as it may deem are in our best interests and those of our stockholders. Those factors may include a person's differences of viewpoint, professional experience, education and skills, as well as his or her race, gender and national origin. In addition, as part of the board's annual self-assessment, the members of the nominating and corporate governance committee will evaluate the membership of the Board and whether the board maintains satisfactory policies regarding membership selection.

Compensation Committee

The members of the Compensation Committee are Messrs. Repko, Bilger and Arnoult, each of whom is independent for purposes of the 1940 Act and the NYSE corporate governance regulations. Mr. Repko serves as chairman of the Compensation Committee. The compensation committee met twice during 2017. The compensation committee is responsible for overseeing our compensation policies generally and making recommendations to the Board with respect to evaluating executive officer performance, overseeing and setting compensation for our directors and, as applicable, our executive officers and, as applicable, preparing the report on executive officer compensation that SEC rules require to be included in our annual proxy statement. Currently, none of our executive officers is compensated by us and as such the compensation committee is not required to produce a report on executive officer compensation for inclusion in our annual proxy statement.

The compensation committee has the sole authority to retain and terminate any compensation consultant assisting the compensation committee, including sole authority to approve all such compensation consultants' fees and other retention terms. The compensation committee may delegate its authority to subcommittees or the chairman of the compensation committee when it deems appropriate and in our best interests. The Board has adopted a charter of the compensation committee, which is available in print to any stockholder who requests it and it is also available on the Company's website at www.stelluscapital.com (under the Public Investors section).

TABLE OF CONTENTS**Compensation of Directors**

The following table shows information regarding the compensation received by our independent directors for the calendar year ending December 31, 2017. No compensation is paid to directors who are interested persons for their service as directors.

Name	Aggregate Cash Compensation from Stellus Capital Investment Company ⁽¹⁾	Total Compensation from Stellus Capital Investment Company Paid to Director ⁽¹⁾
Interested Directors		
Robert T. Ladd	\$	\$
Dean D Angelo	\$	\$
Joshua T. Davis	\$	\$
Independent Directors		
J. Tim Arnoult	\$ 80,000	\$ 80,000
Bruce R. Bilger	\$ 80,000	\$ 80,000
Paul Keglevic	\$ 88,000	\$ 88,000
William C. Repko	\$ 83,000	\$ 83,000

(1) For a discussion of the independent directors' compensation, see below. We do not have a profit-sharing or retirement plan, and directors do not receive any pension or retirement benefits.

The independent directors receive an annual fee of \$55,000. They also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending in person or telephonically each regular

Board meeting and each special telephonic Board meeting. They also receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with each committee meeting attended in person and each telephonic committee meeting. The chairmen of the audit committee, the compensation committee and the nominating and corporate governance committee receive an annual fee of \$10,000, \$5,000 and \$5,000, respectively. We have obtained directors' and officers' liability insurance on behalf of our directors and officers. Independent directors have the option of having their directors' fees paid in shares of our common stock issued at a price per share equal to the greater of NAV per share or the market price at the time of payment. No compensation is paid to directors who are interested persons.

Corporate Governance**Corporate Governance Documents**

We maintain a corporate governance webpage at the Corporate Governance link under the Stellus Capital Investment Corporation link at www.stelluscapital.com (under the Public Investors section).

Our Corporate Governance Policy, Code of Business Conduct, Code of Ethics and Board committee charters are available at our corporate governance webpage at www.stelluscapital.com (under the Public Investors section) and are also available to any stockholder who requests them by writing to our Secretary, W. Todd Huskinson, at Stellus Capital Investment Corporation, 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027.

Director Independence

In accordance with rules of the NYSE, the Board annually determines the independence of each director. No director is considered independent unless the Board has determined that he or she has no material relationship with the Company. The Company monitors the status of its directors and officers through the activities of the Company's Nominating and Corporate Governance Committee and through a questionnaire to be completed by each director no less frequently than annually, with updates periodically if information provided in the most recent questionnaire has changed.

In order to evaluate the materiality of any such relationship, the Board uses the definition of director independence set forth in the NYSE Listed Company Manual. Section 303A.00 of the NYSE Listed Company Manual provides that BDCs, such as the Company, are required to comply with all of the provisions of

TABLE OF CONTENTS

Section 303A applicable to domestic issuers other than Sections 303A.02, the section that defines director independence. Section 303A.00 provides that a director of a BDC shall be considered to be independent if he or she is not an interested person of the Company, as defined in Section 2(a)(19) of the 1940 Act. Section 2(a)(19) of the 1940 Act defines an interested person to include, among other things, any person who has, or within the last two years had, a material business or professional relationship with the Company.

The Board has determined that each of the directors is independent and has no relationship with the Company, except as a director and stockholder of the Company, with the exception of Messrs. Ladd, D Angelo and Davis, who are interested persons of the Company due to their positions as officers of the Company and/or Stellus Capital Management, our external investment manager.

Annual Evaluation

Our directors perform an evaluation, at least annually, of the effectiveness of the Board and its committees. This evaluation may include a questionnaire and/or Board and committee discussion.

Communication with the Board

We believe that communications between our Board, our stockholders and other interested parties are an important part of our corporate governance process. Stockholders with questions about the Company are encouraged to contact our Secretary, W. Todd Huskinson, at (713) 292-5400. However, if stockholders believe that their questions have not been addressed, they may communicate with the Company's Board by sending their communications to Stellus Capital Investment Corporation, 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027, Attn.: Board of Directors. All stockholder communications received in this manner will be delivered to one or more members of the Board.

All communications involving accounting, internal accounting controls and auditing matters, possible violations of, or non-compliance with, applicable legal and regulatory requirements or policies, or retaliatory acts against anyone who makes such a complaint or assists in the investigation of such a complaint, will be referred to our Audit Committee.

The acceptance and forwarding of a communication to any director does not imply that the director owes or assumes any fiduciary duty to the person submitting the communication, all such duties being only as prescribed by applicable law.

Code of Business Conduct and Ethics

Our code of ethics, which is signed by directors and executive officers of the Company, requires that directors and executive officers avoid any conflict, or the appearance of a conflict, between an individual's personal interests and the interests of the Company. Pursuant to the code of ethics which is available on our website under the Corporate Governance link under the Stellus Capital Investment Corporation link at www.stelluscapital.com (under the Public Investors section), each director and executive officer must disclose any conflicts of interest, or actions or relationships that might give rise to a conflict, to the Audit Committee. Certain actions or relationships that might give rise to a conflict of interest are reviewed and approved by the Board.

Compensation Committee Interlocks and Insider Participation

All members of the Compensation Committee are independent directors and none of the members are present or past employees of the Company. No member of the Compensation Committee: (i) has had any relationship with the

Company requiring disclosure under Item 404 of Regulation S-K under the Securities Exchange Act of 1934, as amended; or (ii) is an executive officer of another entity, at which one of our executive officers serves on the Board.

TABLE OF CONTENTS

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has procedures in place for the review, approval and monitoring of transactions involving the Company and certain persons related to the Company. As a BDC, the 1940 Act generally restricts the Company's ability to participate in transactions with persons affiliated with the Company, including our officers, directors, and employees and any person controlling or under common control with us.

We have entered into an investment advisory agreement with Stellus Capital Management. Pursuant to this agreement, we have agreed to pay to Stellus Capital Management a management fee and incentive fee. Messrs. Ladd, D'Angelo and Davis, each an interested member of our board of directors, and Mr. Huskinson, our Chief Financial Officer and Chief Compliance Officer, have a direct or indirect pecuniary interest in Stellus Capital Management.

In addition, Messrs. Ladd, D'Angelo, Davis and Huskinson and the partners of Stellus Capital Management may serve as officers, directors or principals of other investment funds managed by Stellus Capital Management. We received exemptive relief from the SEC to co-invest with investment funds managed by Stellus Capital Management (other than D. E. Shaw & Co., L.P. and its associated investment funds and affiliated entities) 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 private credit funds managed by Stellus Capital Management that have an investment strategy that is identical to our investment strategy. We believe that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification. Stellus Capital Management has adopted an allocation policy to ensure the equitable distribution of investment opportunities.

In order to ensure that we do not engage in any prohibited transactions with any persons affiliated with the Company, our officers screen each of our transactions for any possible affiliations, close or remote, between the proposed portfolio investment, the Company, companies controlled by us and our employees and directors.

The Company will not enter into any agreements unless and until we are satisfied that no affiliations prohibited by the 1940 Act exist or, if such affiliations exist, the Company has taken appropriate actions to seek Board review and approval or additional exemptive relief from the SEC for such transaction.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, and the disclosure requirements of Item 405 of SEC Regulation S-K require that our directors and executive officers, and any persons holding more than 10% of any class of our equity securities report their ownership of such equity securities and any subsequent changes in that

ownership to the SEC, the NYSE and to us. Based solely on a review of the written statements and copies of such reports furnished to us by our executive officers, directors and greater than 10% beneficial owners, we believe that during fiscal year ended December 31, 2017 all Section 16(a) filing requirements applicable to the executive officers, directors and stockholders were timely satisfied, except for one Form 4 that was not timely filed by Bruce Bilger.

EXECUTIVE COMPENSATION

Currently, none of our executive officers are compensated by us. We currently have no employees, and each of our executive officers is also an employee of Stellus Capital Management. Services necessary for our business are provided by individuals who are employees of Stellus Capital Management, pursuant to the terms of the investment advisory and management agreement and the administration agreement.

TABLE OF CONTENTS

**PROPOSAL 2: AUTHORIZE THE COMPANY TO SELL
OR OTHERWISE ISSUE UP TO 25%
OF THE COMPANY S OUTSTANDING COMMON STOCK
AT AN OFFERING PRICE
PER SHARE THAT IS BELOW THE COMPANY S THEN
CURRENT NAV PER SHARE**

The Company is a closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. The 1940 Act prohibits the Company from selling shares of its common stock at a price below the current NAV per share of such stock, with certain exceptions. One such exception would permit the Company to sell or otherwise issue shares of its common stock during the next year at a price below the Company s then current NAV per share if its stockholders approve such a sale and the Company s directors make certain determinations.

Pursuant to this provision, the Company is seeking the approval of its common stockholders so that it may, in one or more public or private offerings of its common stock, sell or issue shares of its common stock in an amount up to 25% of the outstanding common stock as of the date when this proposal is approved by the stockholders at an offering price per share that is below its then current NAV per share, subject to certain conditions discussed below. There will be no limit on the percentage below NAV per share at which shares may be sold by the Company under this proposal. If approved, the authorization would be effective for a period expiring on the earlier of the one year anniversary of the date of the Company s 2018 Annual Meeting of Stockholders and the date of the Company s 2019 Annual Meeting of Stockholders, which is expected to be held in [June] 2019. The latest date at which such authorization would expire is June 28, 2019.

Effect of Approval

Generally, equity securities sold in public securities offerings are priced based on market prices, quoted on exchanges such as the NYSE, rather than NAV per share. The Company is seeking the approval of a majority of its common stockholders of record to offer and sell shares of its common stock at prices that, net of underwriting discount or commissions, may be less than NAV per share so as to permit management the flexibility in pricing new share issuances it may require from time to time during the authorized period as a result of market conditions.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from NAV per share or at premiums that are unsustainable over the long term are separate and distinct from the risk that our NAV per share will decrease. Although the Company s shares of common stock has had a limited trading history, the shares of common stock have traded at both a premium to NAV per share and at a discount to the net assets attributable to those shares. Given the volatility in the stock market, we cannot predict whether our common stock will trade at a premium to NAV per share or trade at a discount to NAV per share in the future.

TABLE OF CONTENTS

The following table, representing the public trading history of our common stock for the two most recent fiscal years and the most recent quarter, lists the high and low closing sales prices for our common stock and the sales price as a percentage of NAV per share. On April 5, 2018, the last reported closing sale price of our common stock was \$[] per share which represents a premium of approximately []% to the NAV per share reported as of December 31, 2017.

Fiscal Year Ended	NAV Per Share ⁽¹⁾	Closing Sales Price ⁽²⁾		Premium or Discount of High Sales to NAV Per Share ⁽³⁾		Premium or Discount of Low Sales to NAV Per Share ⁽³⁾	
		High	Low				
<i>December 31, 2018</i>							
Second Quarter (as of April , 2018)	*	\$ []	\$ []	*		*	
First Quarter	*	\$ 13.00	\$ 11.34	*		*	
<i>December 31, 2017</i>							
Fourth Quarter	\$ 13.81	\$ 14.29	\$ 12.19	3.48	%	-11.73	%
Third Quarter	\$ 13.85	\$ 13.85	\$ 13.30		%	-3.97	%
Second Quarter	\$ 13.84	\$ 14.55	\$ 13.25	5.13	%	-4.26	%
First Quarter	\$ 13.84	\$ 14.57	\$ 12.09	5.27	%	-12.64	%
<i>December 31, 2016</i>							
Fourth Quarter	\$ 13.69	\$ 12.33	\$ 10.35	-9.93	%	-24.40	%
Third Quarter	\$ 13.57	\$ 11.54	\$ 10.35	-14.96	%	-23.73	%
Second Quarter	\$ 13.12	\$ 10.59	\$ 9.82	-19.28	%	-25.15	%
First Quarter	\$ 13.06	\$ 10.22	\$ 7.85	-21.75	%	-39.89	%

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

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

(3) Calculated as of the respective high or low sales price divided by the quarter end NAV per share.

*

Not determinable at the time of filing.

Reasons for Approval

The Board believes that having the flexibility for the Company to issue or sell its common stock, in one or more public or private offerings, in an amount up to 25% of the outstanding common stock as of the date when this proposal is approved by the stockholders at an offering price per share that is below its then current NAV per share in certain instances is in the Company's best interests and the best interests of its stockholders. If the Company were unable to access the capital markets when attractive investment opportunities arise, the Company's ability to grow over time and to pay dividends to stockholders could be adversely affected. In reaching that conclusion, the Board considered the following possible benefits to its stockholders:

Status as a BDC and RIC and Maintaining a Favorable Asset-to-Debt Ratio

As a BDC and a regulated investment company (RIC) for tax purposes, the Company is dependent on its ability to raise capital through the issuance of common stock. RICs generally must distribute substantially all of their earnings

to stockholders as dividends in order to achieve pass-through tax treatment, which prevents the Company from using those earnings to support new investments. Further, BDCs must comply with an asset to debt ratio requirement that prohibits the Company from incurring debt or issuing senior securities if the ratio is greater than 2:1, which requires the Company to finance its investments with at least as much equity as debt in the aggregate. Therefore, to continue to build the Company's investment portfolio, and thereby support maintenance and growth of the Company's dividends, the Company strives to maintain consistent access to capital through the public and private equity markets enabling it to take advantage of investment opportunities as they arise.

Even though the underlying performance of a particular portfolio company may not indicate an impairment or its inability to repay all principal and interest in full, volatility in the capital markets may

TABLE OF CONTENTS

negatively impact the valuations of investments and result in unrealized write-downs of those investments. These unrealized write-downs, as well as unrealized write-downs based on the underlying performance of the Company's portfolio companies, if any, negatively impact stockholders' equity and the resulting asset to debt ratio.

Exceeding the 2:1 asset to debt ratio could have severe negative consequences for a BDC, including the inability to pay dividends, breaching debt covenants and failure to qualify for tax treatment as a RIC. Although the Company does not currently expect that it will exceed this ratio, the markets it operates in and the general economy may be volatile and uncertain. Volatility in the capital markets could result in negative pressure on investment valuations, potentially negatively impacting the Company's stockholders' equity and the Company's asset to debt ratio.

Capitalize on Attractive Investment Opportunities

Dislocations and more frequent volatility in the credit markets have in the past created, and may in the future create, favorable opportunities to invest at attractive risk-adjusted returns. While the current market is not experiencing market dislocation and volatility, there can be no assurance that they will not worsen again in the future. If these adverse market conditions return, the Company and other companies in the financial services sector may not have access to sufficient debt and equity capital in order to take advantage of favorable investment opportunities. In addition, the debt capital that will be available, if any, may be at a higher cost and on less favorable terms and conditions in the future.

Without the approval of a majority of its common stockholders to sell stock at prices below its current NAV per share, the Company would be precluded from selling shares of its common stock to raise capital during periods where the market price for its common stock is below its current per share and may be precluded from selling shares when the market price for its common stock is not sufficiently above its current NAV per share so that the price at which shares would be sold, net of underwriting discounts or commissions, would not be less than its current NAV per share.

The Company believes that having the flexibility to issue its common stock below NAV per share in certain instances will benefit all of its stockholders. The Company expects that it will be periodically presented with attractive opportunities that require the Company to make an investment commitment quickly. As discussed above, the Company may not have sufficient access to capital to take advantage of investment opportunities presented to it unless it is able to quickly raise additional capital. In the future, the market value of the Company's common stock may trade below NAV per share resulting in a net price per share below NAV per share, which has not been uncommon for BDCs like the Company. Alternatively, the Company's NAV per share could increase without a commensurate increase in the Company's stock price.

The ability to issue shares below NAV per share also minimizes the likelihood that the Company would consider selling assets it would not otherwise sell at times that may be disadvantageous to the Company.

Further, to the extent the Company issues shares of its common stock below NAV per share in a publicly registered transaction, the Company's market capitalization and the number of its publicly tradable common stock will increase, thus potentially affording all common stockholders greater liquidity.

Conditions to Sales Below NAV Per Share

If this proposal is approved, the Company will only sell shares of its common stock at a net price below NAV per share during the specified one year period if the following conditions are met:

a majority of the Company's independent directors who have no financial interest (other than ownership of shares of the Company's common stock) in the sale have determined that such sale would be in the best interests of the Company and its stockholders;

majority of the Company's independent directors, in consultation with the underwriter or underwriters of the offering if it is to be underwritten, have determined in good faith, and as of a time immediately prior to the first solicitation by or on behalf of the Company of firm commitments to purchase such securities or immediately prior to the issuance of such securities, that the price at which such securities are to be sold is not less than a price which closely approximates the market value of those securities, less any underwriting commission or discount; and

20

TABLE OF CONTENTS

following such issuance, not more than 25% of the Company's then outstanding shares as of the date of stockholder approval will have been issued at a price less than the Company's then current NAV per share.

Key Stockholder Considerations and Risk Factors

Before voting on this proposal or giving proxies with regard to this matter, stockholders should consider the following factors:

Dilutive Effect

Any sale of common stock at a price below NAV per share would result in an immediate dilution to existing common stockholders. This dilution would include reduction in the NAV per share as a result of the issuance of shares at a price below the NAV per share and a proportionately greater decrease in a stockholder's interest in the earnings and assets of the Company and voting interest in the Company than the increase in the assets of the Company resulting from such issuance. There will be no limit on the percentage below NAV per share at which shares may be sold by the Company under this proposal. The Board will consider the potential dilutive effect of the issuance of shares at a price below the NAV per share when considering whether to authorize any such issuance.

Stockholders should also consider that they will have no subscription, preferential or preemptive rights to additional shares of the common stock proposed to be authorized for issuance, and thus any future issuance of common stock at a price below NAV per share will dilute a stockholder's holdings of common stock as a percentage of shares outstanding to the extent the stockholder does not purchase sufficient shares in the offering or otherwise to maintain the stockholder's percentage interest. Further, if the stockholder does not purchase any shares to maintain the stockholder's percentage interest, regardless of whether such offering is at a price above or below the then current NAV per share, the stockholder's voting power, as well as other interests, will be diluted.

Per Share Amount Available for Distributions Upon Our Liquidation, Winding-up or Dissolution Will Decrease

When stock is sold at a sale price below NAV per share, the resulting increase in the number of outstanding shares is not accompanied by a proportionate increase in the net assets of the issuer. Thus, the per share amount available for distributions upon our liquidation, winding-up or dissolution will decrease following the increase in the number of outstanding shares.

Potential Effects on Market Price

Before voting on this proposal or giving a proxy with regard to this matter, stockholders should also consider that the Company is not limited to a certain number of offerings and that the Company will not solicit for other stockholder approval even if the dilution resulting from any such offering or offerings is significant or substantial. Any sale of substantial amounts of the Company's common stock or other securities in the open market may adversely affect the market price of the Company's common stock and may adversely affect the Company's ability to obtain future financing in the capital markets. In addition, future sales of the Company's common stock to the public or in a private offering may create a potential market overhang, which is the existence of a large block of shares readily available for sale that could lead the market to discount the value of shares held by other investors. In the event the Company were to continue to sell its common stock at prices below net value for sustained periods of time, such offerings may result in sustained discounts in the marketplace. In addition, the expenses of any offering by the Company will be borne by the Company's stockholders regardless of whether a stockholder purchased shares in such offering.

Expiration of Approval to Sell Shares Below NAV Per Share

If this proposal is approved by the stockholders, the Company will be permitted, but not required or otherwise obligated, to sell shares of its common stock at a price below the then current NAV per share of such common stock until the earlier of the one year anniversary of the date of the stockholder approval or the date of the Company's 2018 Annual Meeting of Stockholders. If this proposal is not approved, the Company may be unable to raise capital when it would be beneficial and desirable, or may be limited in the manner in which it raises capital (for example, by being required to utilize a rights offering).

TABLE OF CONTENTS**Examples of Dilutive Effect**

The following table illustrates the reduction to NAV and dilution that would be experienced by a nonparticipating stockholder in different hypothetical offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Sales prices and discounts are hypothetical in the presentation below.

The examples assume that Company XYZ has 16,000,000 common shares outstanding, \$400,000,000 in total assets and \$180,000,000 in total liabilities. The current net asset value and net asset value per share are thus \$220,000,000 and \$13.75. The table illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 1,600,000 shares (10% of the outstanding shares) at \$12.38 per share after offering expenses and commissions (a 10% discount from net asset value), (2) an offering of 4,000,000 shares (25% of the outstanding shares) at \$11.69 per share after offering expenses and commissions (a 15% discount from net asset value) and (3) an offering of 4,000,000 shares (25% of the outstanding shares) at \$0.00 per share after offering expenses and commissions (a 100% discount from net asset value).

	Prior to Sale Below NAV Per Share	Example 1 10% Offering at 10% Discount Following Sale	Percent Change	Example 2 25% Offering at 15% Discount Following Sale	Percent Change	Example 3 25% Offering at 100% Discount	Percent Change
Offering Price							
Price per Share to Public		13.03		12.30		0.00	
Net Proceeds per Share to Issuer		12.38		11.69		0.00	
Increase in Shares and Decrease to NAV Per Share							
Total Shares Outstanding	16,000,000	17,600,000	10 %	20,000,000	25 %	20,000,000	25 %
NAV per Share	\$13.75	\$13.63	-0.91 %	\$13.34	-3.00 %	\$11.00	-20.00 %
Dilution to Nonparticipating Stockholder A Share Dilution							
Shares Held by Stockholder A	160,000	160,000		160,000		160,000	
Percentage of Shares Held by Stockholder A	1 %	0.91 %	9.0 %	0.80 %	20.0 %	0.80 %	20.0 %
NAV Dilution							
Total NAV Held by Stockholder A	\$2,200,000	\$2,180,000	-0.91 %	\$2,134,000	-5.00 %	\$1,760,000	-20.00 %
Total Investment by Stockholder A (Assumed to Be \$13.60 per Share)	\$2,200,000	\$2,200,000		\$2,200,000		\$2,200,000	
Total Dilution to Stockholder A (Change in		-\$20,000		-\$66,000		-\$440,000	

Total NAV Held By
Stockholder)

NAV Dilution Per Share

NAV per Share Held by Stockholder A		\$ 13.63	\$ 13.34	\$ 11.00
Investment per Share Held by Stockholder A	13.75	\$ 13.75	\$ 13.75	\$ 13.75
NAV Dilution per Share Experienced by Stockholder A (NAV per Share Less Investment per Share)		-\$0.13	-\$0.41	-\$2.75
Percentage NAV Dilution Experienced by Stockholder A (NAV Dilution per Share Divided by Investment per Share)			-0.91%	-3.00%
				-20.00%

(1)

Assumes a 5% selling compensation and expenses paid by us.

22

TABLE OF CONTENTS

Required Vote

Approval of this proposal requires the affirmative vote of (i) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting; and (ii) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting which are not held by affiliated persons of the Company.

For purposes of this proposal, the 1940 Act defines a majority of the outstanding shares as the lesser of: (i) 67% or more of the voting securities present at the Annual Meeting if the holders of more than 50% of our outstanding voting securities are present or represented by proxy; or (ii) more than 50% of our outstanding voting securities. Abstentions and broker non-votes will have the effect of a vote against this proposal. An abstention represents the action by a shareholder to refrain from voting for or against a proposal. Broker non-votes represent votes that could have been cast on a particular matter by a broker, as shareholder of record, but that were not cast because the broker (i) lacked discretionary voting authority on the matter and did not receive voting instructions from the beneficial owner of the shares or (ii) had discretionary voting authority but nevertheless refrained from voting on the matter.

The Board unanimously recommends a vote for the proposal to authorize the Company to sell or otherwise issue up to 25% of the Company's outstanding common stock at an offering price per share that is below the Company's then current NAV per share.

TABLE OF CONTENTS

PROPOSAL 3: TO APPROVE THE REDUCTION OF THE COMPANY'S REQUIRED MINIMUM ASSET COVERAGE RATIO FROM 200% TO 150%

The Company is a closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. As a BDC, we are required to not exceed an asset coverage ratio, reflecting the value of our total assets to our total senior securities, which include all of our borrowings and any preferred stock issued by us (but excludes the debt of our SBIC subsidiary as permitted under exemptive relief granted by the SEC), under the 1940 Act. Prior to March 23, 2018, Section 61(a) of the 1940 Act (which incorporates the requirements of Sections 18(a)(1) and 18(a)(2) of the 1940 Act) did not permit a BDC to issue senior securities unless, at the time of issuance, the BDC had an asset coverage ratio of at least 200%, taking into account that issuance of senior securities (the Asset Coverage Ratio). However, on March 23, 2018, the Small Business Credit Availability Act (the SBCA) was signed into law by the President. The SBCA, among other things, permits BDCs to be subject to a minimum Asset Coverage Ratio of 150% (the 150% Asset Coverage), if specific conditions are satisfied, when issuing senior securities.

The SBCA provides that in order for a BDC whose common stock is traded on a national securities exchange to be subject to 150% Asset Coverage, the BDC must either obtain: (i) approval of the required majority of its non-interested directors who have no financial interest in the proposal, which would become effective one year after the date of such approval (the Board Effective Date), or (ii) obtain stockholder approval (of more than 50% of the votes cast for the proposal at a meeting in which quorum is present), which would become effective on the first day after the date of such stockholder approval.

On April 4, 2018, our board of directors (the Board), including a majority of the non-interested directors who have no financial interest in this proposal, deemed it in the best interests of the Company and its stockholders for the Company to be subject to 150% Asset Coverage. Our Board believes that having the flexibility for the Company to incur additional leverage in certain instances is in the best interests of stockholders. In connection with this determination, our Board approved a resolution permitting the Company to be subject to 150% Asset Coverage, to be effective on the Board Effective Date, or April 4, 2019.

In addition, the Board also approved and recommended that stockholders vote for a proposal to authorize the Company to be subject to 150% Asset Coverage. If our stockholders approve this proposal, the reduced Asset Coverage Ratio would be effective the day after the Meeting. Because we have received Board approval, if the proposal does not receive approval of the majority of the votes cast at the Meeting, we will be subject to the reduced Asset Coverage Ratio beginning on April 4, 2019.

We believe that having the flexibility to incur additional leverage could augment the returns to our stockholders and would be in the best interest of our stockholders because it would permit us to:

better manage our capital by giving us access to more debt capital while potentially delaying any equity capital raises until we believe market conditions are optimal for such an equity raise;
more effectively manage our debt-to-equity ratio in a way that could allow us to continue to make investments during periods when we experience lower fair values across our portfolio because of downturns in the capital markets;
grow our assets and portfolio;
increase our net investment income with a larger portfolio;
potentially increase distributions to our stockholders;

potentially provide a higher return on equity; and
invest in higher quality assets.

We believe that if we are unable to incur additional leverage at a time when issuing equity capital is disadvantageous, while simultaneously being presented attractive investment opportunities, the Company's ability to grow over time and continue to pay distributions to stockholders could be adversely affected.

TABLE OF CONTENTS

In reaching its recommendation to the stockholders of the Company to approve this proposal, the board of directors considered the following possible sources of conflict of interest:

Because the base management fee payable to our Adviser is based on the value of our total assets, our Adviser benefits when we incur additional debt or use leverage. This fee structure may encourage our Adviser to cause us to borrow more money to finance additional investments.

Because of the way the incentive fee payable to our Adviser is determined, it could encourage our Adviser to use additional leverage or take additional risk to increase the return on our investments.

Risks Related to Approval of the Proposal

In addition to the risks identified in our annual report for the year ended December 31, 2017, stockholders should consider the following risks related to the approval of this proposal:

Because we have received Board approval, we will be subject to 150% Asset Coverage beginning on April 4, 2019 if this proposal is not approved.

As described above, the SBCA provides that in order for a BDC whose common stock is traded on a national securities exchange to be subject to 150% Asset Coverage, the BDC must either obtain: (i) approval of the required majority of its non-interested directors who have no financial interest in the proposal, which would become effective one year after the date of such approval, or (ii) obtain stockholder approval (of more than 50% of the votes cast for the proposal at a meeting in which quorum is present), which would become effective on the first day after the date of such stockholder approval. Because our Board has approved the adoption of 150% Asset Coverage, we will be able to incur additional indebtedness under the 1940 Act beginning on April 4, 2019 even if this proposal is not approved at the Meeting.

Incurring additional indebtedness could increase the risk in investing in our company.

The use of leverage magnifies the potential for gain or loss on amounts invested. The use of leverage is generally considered a speculative investment technique and increases the risks associated with investing in our securities. If this proposal is approved, we will be permitted to increase our use of leverage beyond levels that were previously permitted by the 1940 Act effective the day after the Meeting. Because we have received Board approval, if the proposal is not approved at the Meeting, we will be subject to the reduced Asset Coverage Ratio beginning on April 4, 2019. If we incur such additional leverage, you will experience increased risks of investing in our common stock.

Lenders of these funds have fixed dollar claims on our assets that are superior to the claims of our common stockholders, and we would expect such lenders to seek recovery against our assets in the event of a default.

We have entered into a senior secured revolving credit agreement, dated as of October 10, 2017, with ZB, N.A., dba Amegy Bank and various other lenders (the "Credit Facility"). The Credit Facility provides for borrowings up to a maximum of \$140.0 million on a committed basis with an accordion feature that allows the Company to increase the aggregate commitments up to 195.0 million, subject to new or existing lenders agreeing to participate in the increase and other customary conditions. The Company's obligations to the lenders are secured by a first priority security interest in its portfolio of securities and cash not held at the SBIC subsidiary, but excluding short term investments. As of December 31, 2017 and April 3, 2018, we had approximately \$40.8 million and \$88.1 million outstanding under the Credit Facility, respectively.

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In August 2017, we issued \$48.9 million in aggregate principal amount of 5.75% fixed-rate notes due 2022 (the 2022 Notes). The 2022 Notes will mature on September 15, 2022, and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after September 15, 2019 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. The 2022 Notes represent unsecured obligations. As of December 31, 2017 and April 3, 2018, we had \$48.9 million and \$48.9 million of 2022 Notes outstanding, respectively.

Through our SBIC subsidiary, we issue debt securities guaranteed by the SBA and sold in the capital markets. As a result of its guarantee of the SBA-guaranteed debentures, the SBA has a fixed dollar claim on the assets of our SBIC subsidiary that is superior to the claims of our common stockholders. As of

TABLE OF CONTENTS

December 31, 2017 and April 3, 2018, our SBIC subsidiary had \$90.0 million and \$90.0 million of SBA-guaranteed debentures outstanding, respectively.

If we are unable to meet the financial obligations under the 2022 Notes or the Credit Facility, the SBA, as a creditor, would have a superior claim to the assets of our SBIC subsidiary over our stockholders in the event we liquidate or the SBA exercises its remedies under such debentures as the result of a default by us. In addition, under the terms of the Credit Facility and any borrowing facility or other debt instrument we may enter into, we are likely to be required to use the net proceeds of any investments that we sell to repay a portion of the amount borrowed under such facility or instrument before applying such net proceeds to any other uses.

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

If our Asset Coverage Ratio falls below the required limit, we will not be able to incur additional debt until we are able to comply with the Asset Coverage Ratio applicable to us. This could have a material adverse effect on our operations, and we may not be able to make distributions. If this proposal is approved, the actual amount of leverage that we employ will depend on Stellus Capital Management's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to obtain credit at all or on terms acceptable to us.

We have received exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the determining our compliance with the Asset Coverage Ratio applicable to us. This relief allows us increased flexibility in complying with the required Asset Coverage Ratio by allowing us to borrow up to \$135.0 million more than we would otherwise be able to borrow absent the receipt of this exemptive relief, based on regulatory capital of \$67.5 million at our SBIC Subsidiary at December 31, 2017.

Incurring additional leverage may magnify our exposure to risks associated with changes in interest rates, including fluctuations in interest rates which could adversely affect our profitability.

If we incur additional leverage, general interest rate fluctuations may have a more significant negative impact on our investments and investment opportunities than they would have absent such approval, and, accordingly, may have a material adverse effect on our investment objective and rate of return on investment capital. A portion of our income will depend upon the difference between the rate at which we borrow funds and the interest rate on the debt securities in which we invest. Because we will borrow money to make investments and may issue debt securities, preferred stock or other securities, our net investment income is dependent upon the difference between the rate at which we borrow funds or pay interest or dividends on such debt securities, preferred stock or other securities and the rate at which we invest these funds. Typically, we anticipate that our interest earning investments will accrue and pay interest

Incurring additional leverage may magnify our exposure to risks associated with changes in interest rates, including

at both variable and fixed rates, and that our interest-bearing liabilities will accrue interest at variable and fixed rates. The benchmarks generally used to determine the floating rates earned on our interest earning investments are London Interbank Offered Rate, or LIBOR, with maturities that range between one and twelve months and alternate base rate, or ABR, (commonly based on the Prime Rate or the Federal Funds Rate), with no fixed maturity date. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. We use a combination of equity and long-term and short-term borrowings to finance our investment activities.

TABLE OF CONTENTS

A significant increase in market interest rates could harm our ability to attract new portfolio companies and originate new loans and investments. We expect that a majority of our investments in debt will continue to be at floating rates with a floor. However, in the event that we make investments in debt at variable rates, a significant increase in market interest rates could also result in an increase in our non-performing assets and a decrease in the value of our portfolio because our floating-rate loan portfolio companies may be unable to meet higher payment obligations. In periods of rising interest rates, our cost of funds would increase, resulting in a decrease in our net investment income. Incurring additional leverage will magnify the impact of an increase to our cost of funds. In addition, a decrease in interest rates may reduce net income, because new investments may be made at lower rates despite the increased demand for our capital that the decrease in interest rates may produce. To the extent our additional borrowings are in fixed-rate instruments, we may be required to invest in higher-yield securities in order to cover our interest expense and maintain our current level of return to stockholders, which may increase the risk of an investment in our securities.

The terms of our Credit Facility may contractually limit our ability to incur additional indebtedness.

We will need additional capital to fund new investments and grow our portfolio of investments. We intend to access the capital markets periodically to issue debt or equity securities or borrow from financial institutions in order to obtain such additional capital. As described above, we believe that having the flexibility to incur additional leverage could augment the returns to our stockholders and would be in the best interest of our stockholders. Even though our Board has approved a resolution permitting the Company to be subject to 150% Asset Coverage to be effective on the Board Effective Date and if we receive approval of our stockholders to be effective the day after this Meeting, contractual leverage limitations under the Credit Facility or future borrowings may limit our ability to incur additional indebtedness. Currently, the Credit Facility restricts our ability to incur additional indebtedness if after incurring such additional debt, our Asset Coverage Ratio would be below 200%. We cannot assure you that we will be able to negotiate a change to the Credit Facility to allow us to incur additional leverage or that any such an amendment will be available to us on favorable terms. An inability on our part to amend the contractual asset coverage limitation and access additional leverage could limit our ability to take advantage of the benefits described above related to our ability to incur additional leverage and could decrease our earnings, if any, which would have an adverse effect on our results of operations and the value of our shares of common stock.

Required Vote

As required by the SBCA, approval of this proposal requires the affirmative vote a majority of the votes cast for this proposal. Abstentions and broker non-votes will not be included in determining the number of votes cast and, as a result, will have no effect on this proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO AUTHORIZE THE COMPANY TO BE SUBJECT TO 150% ASSET COVERAGE RATIO.

TABLE OF CONTENTS

PROPOSAL 4: ADJOURNMENT OF THE ANNUAL MEETING

The Company's stockholders may be asked to consider and act upon one or more adjournments of the Annual Meeting, if necessary or appropriate, to solicit additional proxies in favor of any or all of the other proposals set forth in this proxy statement.

If a quorum is not present at the Annual Meeting, the Company's stockholders may be asked to vote on the proposal to adjourn the Annual Meeting to solicit additional proxies. If a quorum is present at the Annual Meeting, but there are not sufficient votes at the time of the Annual Meeting to approve one or more of the proposals, the Company's stockholders may also be asked to vote on the proposal to approve the adjournment of the Annual Meeting to permit further solicitation of proxies in favor of the other proposals. However, a stockholder vote may be taken on one of the proposals in this proxy statement prior to any such adjournment if there are sufficient votes for approval on such proposal.

If the adjournment proposal is submitted for a vote at the Annual Meeting, and if the Company's stockholders vote to approve the adjournment proposal, the meeting will be adjourned to enable the Board to solicit additional proxies in favor of one or more proposals. If the adjournment proposal is approved, and the Annual Meeting is adjourned, the Board will use the additional time to solicit additional proxies in favor of any of the proposals to be presented at the Annual Meeting, including the solicitation of proxies from stockholders that have previously voted against the relevant proposal.

The Board believes that, if the number of shares of the Company's common stock voting in favor of any of the proposals presented at the Annual Meeting is insufficient to approve a proposal, it is in the best interests of the Company's stockholders to enable the Board, for a limited period of time, to continue to seek to obtain a sufficient number of additional votes in favor of the proposal. Any signed proxies received by the Company in which no voting instructions are provided on such matter will be voted in favor of an adjournment in these circumstances. The time and place of the adjourned meeting will be announced at the time the adjournment is taken. Any adjournment of the Annual Meeting for the purpose of soliciting additional proxies will allow the Company's stockholders who have already sent in their proxies to revoke them at any time prior to their use at the Annual Meeting was adjourned or postponed.

The Board unanimously recommends a vote for the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following aggregate fees by Grant Thornton LLP were billed to the Company for work attributable to audit, tax and other services in each of the fiscal years ended December 31, 2017 and 2016.

Fiscal Year Ended	Fiscal Year Ended
December 31, 2017	December 31, 2016

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Audit Fees	\$ []	\$ 311,823
Audit-Related Fees		
Tax Fees		
All Other Fees		
Total Fees:	\$ []	\$ 311,823

Services rendered by Grant Thornton in connection with fees presented above were as follows:

Audit Fees. Audit fees include fees for services that normally would be provided by the accountant in connection with statutory and regulatory filings or engagements and that generally only the independent accountant can provide. In addition to fees for the audit of our annual financial statements, the audit of the effectiveness of our internal control over financial reporting and the review of our quarterly financial statements in accordance with generally accepted auditing standards, this category contains fees for comfort letters, statutory audits, consents, and assistance with and review of documents filed with the SEC.

Audit-Related Fees. Audit related fees are assurance related services that traditionally are performed by the independent accountant, such as attest services that are not required by statute or regulation.

Tax Fees. Tax fees include professional fees for tax compliance and tax advice.

TABLE OF CONTENTS

All Other Fees. Fees for other services would include fees for products and services other than the services reported above.

It is expected that a representative of Grant Thornton will be present at the Meeting and will have an opportunity to make a statement if he or she chooses and will be available to answer questions.

Pre-Approval Policy

The Audit Committee has established a pre-approval policy that describes the permitted audit, audit-related, tax and other services to be provided by Grant Thornton LLP, the Company's independent registered public accounting firm.

The policy requires that the Audit Committee pre-approve all audit and non-audit services performed by the independent auditor in order to assure that the provision of such service does not impair the auditor's independence. In accordance with the pre-approval policy, the Audit Committee includes every year a discussion and pre-approval of such services and the expected costs of such services for the year.

Any requests for audit, audit-related, tax and other services that have not received general pre-approval at the first Audit Committee meeting of the year must be submitted to the Audit Committee for specific pre-approval, irrespective of the amount, and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings of the Audit Committee. However, the Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent registered public accounting firm to management.

AUDIT COMMITTEE REPORT

Management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company's financial statements in accordance with auditing standards generally accepted in the United States and expressing an opinion on the conformity of those audited financial statements in accordance with accounting principles generally accepted in the United States. The Audit Committee's responsibility is to monitor and oversee these processes. The Audit Committee is also directly responsible for the appointment, compensation and oversight of the Company's independent registered public accounting firm.

Review with Management

The Audit Committee has reviewed the audited financial statements and met and held discussions with management regarding the audited financial statements. Management has represented to the Audit Committee that the Company's financial statements were prepared in accordance with accounting principles generally accepted in the United States.

Review and Discussion with Independent Registered Public Accounting Firm

The Audit Committee has discussed with Grant Thornton, the Company's independent registered public accounting firm, matters required to be discussed by Statement of Auditing Standards No. 16, Communications with Audit

Committees. SAS No. 16, requires our independent registered public accounting firm to discuss with our Audit Committee, among other things, the following:

methods used to account for significant unusual transactions;
the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;
the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditors' conclusions regarding the reasonableness of those estimates; and
disagreements with management over the application of accounting principles, the basis for management's accounting estimates and the disclosures in the consolidated financial statements.

Additionally, the Audit Committee has discussed with Grant Thornton the matters required to be discussed by Statement of Auditing Standards No. 18, Related Parties.

TABLE OF CONTENTS

The Audit Committee received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by Public Company Accounting Oversight Board Rule 3520 (Auditor Independence) and has discussed with the auditors the auditors' independence. The Audit Committee has also considered the compatibility of non-audit services with the auditors' independence.

Conclusion

Based on the Audit Committee's discussion with management and the independent registered public accounting firm, the Audit Committee's review of the audited financial statements, the representations of management and the report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended that the Board include the audited financial statements in the Company's Annual Report for the year ended December 31, 2017 for filing with the SEC. The Audit Committee also recommended the selection of Grant Thornton LLP to serve as the Company's independent registered public accounting firm for the year ending December 31, 2018 and the Board approved such recommendation.

The Audit Committee

Paul Keglevic, Chairman
Bruce R. Bilger
William C. Repko

The material contained in the foregoing Audit Committee Report is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

OTHER BUSINESS

The Board knows of no other business to be presented for action at the Annual Meeting. If any matters do come before the Annual Meeting on which action can properly be taken, it is intended that the proxies shall vote in accordance with the judgment of the person or persons exercising the authority conferred by the proxy at the Annual Meeting. The submission of a proposal does not guarantee its inclusion in the Company's proxy statement or presentation at the Annual Meeting unless certain securities law requirements are met.

SUBMISSION OF STOCKHOLDER PROPOSALS

The Company expects that the 2019 Annual Meeting of Stockholders will be held in [June] of 2019, but the exact date, time, and location of such meeting have yet to be determined. A stockholder who intends to present a proposal at that annual meeting pursuant to the SEC's Rule 14a-8 must submit the proposal in writing to the Company at its address in Houston, Texas, and the Company must receive the proposal on or before December 11, 2018, in order for the proposal to be considered for inclusion in the Company's proxy statement for that meeting. The submission of a proposal does not guarantee its inclusion in the Company's proxy statement or presentation at the meeting.

Stockholder proposals or director nominations to be presented at the 2019 Annual Meeting of Stockholders, other than stockholder proposals submitted pursuant to the SEC's Rule 14a-8, must be delivered to, or mailed and received at, the principal executive offices of the Company not less than 120 days or more than 150 days in advance of the one year

anniversary of the date the Company's proxy statement was released to stockholders in connection with the previous year's Annual Meeting of Stockholders. For the Company's 2019 Annual Meeting of Stockholders, the Company must receive such proposals and nominations between November 11, 2018 and December 11, 2018. If the date of the Annual Meeting has been changed by more than thirty (30) calendar days from the date contemplated at the time of the previous year's proxy statement, stockholder proposals or director nominations must be so received not later than the tenth day following the day on which such notice of the date of the 2019 Annual Meeting of Stockholders or such public disclosure is made. Proposals must also comply with the other requirements contained in the Company's Bylaws, including supporting documentation and other information. Proxies solicited by the Company will confer discretionary voting authority with respect to these proposals, subject to SEC rules governing the exercise of this authority.

TABLE OF CONTENTS

PRIVACY PRINCIPLES

We are committed to maintaining the privacy of our stockholders and to safeguarding their nonpublic personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any nonpublic personal information relating to our stockholders, although certain nonpublic personal information of our stockholders may become available to us. We do not disclose any nonpublic personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third-party administrator).

We restrict access to nonpublic personal information about our stockholders to employees of Stellus Capital Management and its affiliates with a legitimate business need for the information. We intend to maintain physical, electronic and procedural safeguards designed to protect the nonpublic personal information of our stockholders.

By Order of the Board

W. Todd Huskinson
Chief Financial Officer, Chief
Compliance Officer, Secretary
and Treasurer

Houston, Texas
April , 2018

TABLE OF CONTENTS

TABLE OF CONTENTS
