UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(**Mark One**)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

COMMISSION FILE NUMBER: 1-35730

STELLUS CAPITAL INVESTMENT CORPORATION

(**Exact Name of Registrant as Specified in Its Charter)**

Maryland	**46-0937320**
(State or other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

4400 Post Oak Parkway, Suite 2200
Houston, Texas 77027
(Address of Principal Executive Offices) (Zip Code)
(713) 292-5400
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	SCM	New York Stock Exchange
5.75% Notes Due 2022	SCA	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the issuer's Common Stock, $0.001 par value per share, outstanding as of October 29, 2020 was 19,486,003.

STELLUS CAPITAL INVESTMENT CORPORATION
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PART I — FINANCIAL INFORMATION

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	September 30, 2020 (Unaudited)	December 31, 2019
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of $647,253,034 and $642,707,824, respectively)	$ 622,438,345	$ 628,948,077
Cash and cash equivalents	38,617,969	16,133,315
Receivable for sales and repayments of investments	145,359	123,409
Interest receivable	1,870,260	2,914,710
Other receivables	60,495	25,495
Prepaid expenses	189,760	368,221
Total Assets	$ 663,322,188	$ 648,513,227
LIABILITIES		
Notes payable	$ 48,223,734	$ 47,974,202
Credit facility payable	184,611,294	160,510,633
SBA-guaranteed debentures	158,059,560	157,543,853
Dividends payable	6,040,664	2,167,630
Management fees payable	5,540,073	2,695,780
Income incentive fees payable	584,881	1,618,509
Capital gains incentive fees payable	—	880,913
Interest payable	838,077	2,322,314
Unearned revenue	594,066	559,768
Administrative services payable	776,884	413,278
Deferred tax liability	257,412	134,713
Income tax payable	806,000	917,000
Other accrued expenses and liabilities	439,716	203,461
Total Liabilities	$ 406,772,361	$ 377,942,054
Commitments and contingencies (Note 7)		
Net Assets	$ 256,549,827	$ 270,571,173
NET ASSETS		
Common stock, par value $0.001 per share (100,000,000 shares authorized; 19,486,003 and 19,131,746 issued and outstanding, respectively)	$ 19,486	$ 19,132
Paid-in capital	277,116,729	272,117,091
Accumulated undistributed deficit	(20,586,388)	(1,565,050)
Net Assets	$ 256,549,827	$ 270,571,173
Total Liabilities and Net Assets	$ 663,322,188	$ 648,513,227
Net Asset Value Per Share	$ 13.17	$ 14.14

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
INVESTMENT INCOME				
Interest income	$ 13,707,343	$ 15,134,874	$ 42,192,411	$ 42,366,134
Other income	309,406	380,353	926,661	1,154,277
Total Investment Income	$ 14,016,749	$ 15,515,227	$ 43,119,072	$ 43,520,411
OPERATING EXPENSES				
Management fees	$ 2,796,878	$ 2,480,918	$ 8,259,127	$ 7,007,925
Valuation fees	134,246	109,296	263,080	238,246
Administrative services expenses	431,894	425,849	1,335,423	1,246,754
Income incentive fees	461,590	1,583,145	1,969,976	4,339,813
Capital gains incentive (reversal) fees	-	533,920	(880,913)	1,811,533
Professional fees	224,517	166,802	761,745	840,683
Directors' fees	77,500	83,000	320,316	300,000
Insurance expense	94,094	87,601	280,236	259,947
Interest expense and other fees	3,861,072	3,774,316	12,245,870	10,808,373
Income tax expense	367,836	350,549	853,631	705,677
Other general and administrative expenses	238,177	121,172	706,559	413,742
Total Operating Expenses	$ 8,687,804	$ 9,716,568	$ 26,115,050	$ 27,972,693
Net Investment Income	$ 5,328,945	$ 5,798,659	$ 17,004,022	$ 15,547,718
Net realized gain (loss) on non-controlled, non-affiliated investments	$ 151,697	$ 6,200,367	$ (2,444,759)	$ 19,142,603
Net change in unrealized appreciation (depreciation) on non-controlled, non-affiliated investments	$ 2,120,787	$ (3,534,972)	$ (11,054,942)	$ (10,049,241)
(Provision) benefit for taxes on net unrealized gain on investments	$ (92,749)	$ 4,200	$ (122,699)	$ (35,701)
Net Increase in Net Assets Resulting from Operations	$ 7,508,680	$ 8,468,254	$ 3,381,622	$ 24,605,379
Net Investment Income Per Share	$ 0.27	$ 0.31	$ 0.87	$ 0.86
Net Increase in Net Assets Resulting from Operations Per Share	$ 0.39	$ 0.45	$ 0.17	$ 1.36
Weighted Average Shares of Common Stock Outstanding	19,486,030	18,905,959	19,466,647	18,056,271
Distributions Per Share	$ 0.56	$ 0.34	$ 1.15	$ 1.02

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Increase in Net Assets Resulting from Operations				
Net investment income	$ 5,328,945	$ 5,798,659	$ 17,004,022	$ 15,547,718
Net realized gain (loss) on non-controlled, non-affiliated investments	151,697	6,200,367	(2,444,759)	19,142,603
Net change in unrealized appreciation (depreciation) on non-controlled, non-affiliated investments	2,120,787	(3,534,972)	(11,054,942)	(10,049,241)
(Provision) benefit for taxes on unrealized appreciation on investments	(92,749)	4,200	(122,699)	(35,701)
Net Increase in Net Assets Resulting from Operations	$ 7,508,680	$ 8,468,254	$ 3,381,622	$ 24,605,379
Stockholder Distributions From:				
Net investment income	$ (10,912,161)	$ (6,426,113)	$ (22,402,959)	$ (18,586,471)
Total Distributions	$ (10,912,161)	$ (6,426,113)	$ (22,402,959)	$ (18,586,471)
Capital Share Transactions				
Issuance of common stock	$ —	$ —	$ 5,023,937	$ 42,599,510
Sales load	—	—	(5,681)	(1,003,731)
Offering costs	—	—	(18,169)	(293,072)
Partial share transactions	—	(237)	(96)	945
Net Increase (Decrease) in Net Assets Resulting From Capital Share Transactions	$ —	$ (237)	$ 4,999,991	$ 41,303,652
Total (Decrease) Increase in Net Assets	$ (3,403,481)	$ 2,041,904	$ (14,021,346)	$ 47,322,560
Net Assets at Beginning of Period	$ 259,953,308	$ 270,125,663	$ 270,571,173	$ 224,845,007
Net Assets at End of Period	$ 256,549,827	$ 272,167,567	$ 256,549,827	$ 272,167,567

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Cash flows from operating activities		
Net increase in net assets resulting from operations	$ 3,381,622	$ 24,605,379
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:		
Purchases of investments	(87,193,368)	(172,852,479)
Proceeds from sales and repayments of investments	82,360,666	101,491,694
Net change in unrealized appreciation on investments	11,054,942	10,049,241
Increase in investments due to PIK	(568,028)	(378,119)
Amortization of premium and accretion of discount, net	(1,611,189)	(1,273,680)
Deferred tax provision	122,699	35,701
Amortization of loan structure fees	500,495	377,741
Amortization of deferred financing costs	249,532	248,621
Amortization of loan fees on SBA-guaranteed debentures	515,707	452,804
Net realized loss (gain) on investments	2,444,759	(19,142,603)
Changes in other assets and liabilities		
Decrease in interest receivable	1,044,450	969,165
(Increase) decrease in other receivable	(35,000)	59,751
Decrease in prepaid expenses	178,461	257,265
Increase in management fees payable	2,844,293	296,943
Decrease in incentive fees payable	(1,033,628)	(134,195)
(Decrease) increase in capital gains incentive fees payable	(880,913)	1,811,532
Increase in administrative services payable	363,606	10,169
Decrease in interest payable	(1,484,237)	(1,011,486)
Increase in unearned revenue	34,298	102,157
(Decrease) increase in income tax payable	(111,000)	400,908
Increase in other accrued expenses and liabilities	236,255	99,798
Net Cash Provided by (Used in) Operating Activities	$ 12,414,422	$ (53,523,693)
Cash flows from Financing Activities		
Proceeds from the issuance of common stock	$ 4,794,994	$ 42,599,510
Sales load for common stock issued	(5,681)	(1,003,731)
Offering costs paid for common stock	(18,169)	(485,209)
Stockholder distributions paid	(18,300,982)	(18,251,993)
Financing costs paid on SBA Debentures	—	(200,000)
Borrowings under Credit Facility	97,450,000	173,000,000
Repayments of Credit Facility	(72,000,000)	(136,500,000)
Financing costs paid on Credit facility	(1,849,834)	(92,500)
Partial share transactions	(96)	945
Net Cash Provided by Financing Activities	$ 10,070,232	$ 59,067,022
Net Increase in Cash and Cash Equivalents	$ 22,484,654	$ 5,543,329
Cash and cash equivalents balance at beginning of period	16,133,315	17,467,146
Cash and Cash Equivalents Balance at End of Period	$ 38,617,969	$ 23,010,475
Supplemental and Non-Cash Activities		
Cash paid for interest expense	$ 12,433,551	$ 10,735,379
Excise tax paid	940,000	280,000
Shares issued pursuant to Dividend Reinvestment Plan	228,943	—
Increase in dividends payable	3,873,034	334,478
Increase in deferred offering costs	—	192,137

Stellus Capital Investment Corporation

Consolidated Schedule of Investments (unaudited)

September 30, 2020

Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value [1]	% of Net Assets
Non-controlled, non-affiliated investments	(2)(9)												
Adams Publishing Group, LLC									Greenville, TN				
Term Loan	(35)	First Lien	1M L+7.00%	1.75%	8.75%		8/3/2018	6/30/2023	Media: Advertising, Printing & Publishing	$ 5,177,580	5,145,918	5,151,692	2.01%
Delayed Draw Term Loan	(35)	First Lien	1M L+7.00%	1.75%	8.75%		8/3/2018	6/30/2023		$ 167,010	167,010	166,175	0.06%
Total											$ 5,312,928	$ 5,317,867	2.07%
Advanced Barrier Extrusions, LLC									Rhinelander, WI				
Term Loan (SBIC)	(2)(35)	First Lien	3M L+5.75%	1.00%	6.75%		8/8/2018	8/8/2023	Containers, Packaging & Glass	$ 13,404,736	13,228,077	13,404,736	5.23%
Revolver	(8)(35)	First Lien	3M L+5.75%	1.00%	6.75%		8/8/2018	8/8/2023		$ 1,000,000	1,000,000	1,000,000	0.39%
GP ABX Holdings Partnership, L.P. Common Stock	(4)	Equity					8/8/2018			250,000 units	250,000	280,000	0.11%
Total											$ 14,478,077	$ 14,684,736	5.73%
APE Holdings, LLC									Deer Park, TX				
Class A Common Units	(4)	Equity					9/5/2014		Chemicals, Plastics, & Rubber	375,000 units	375,000	110,000	0.04%
Atmosphere Aggregator Holdings II, LP									Atlanta, GA				
Common Units	(4)	Equity					1/26/2016		Services: Business	254,250 units	0	1,310,000	0.51%
Stratose Aggregator Holdings, LP Common Units	(4)	Equity					6/30/2015			750,000 units	0	3,880,000	1.51%
Total											$ 0	$ 5,190,000	2.02%
ASC Communications, LLC	(17)								Chicago, IL				
Term Loan (SBIC)	(2)(35)	First Lien	1M L+6.25%	1.00%	7.25%		6/29/2017	6/29/2023	Healthcare & Pharmaceuticals	$ 4,259,259	4,242,007	4,088,889	1.59%
Term Loan	(35)	First Lien	1M L+6.25%	1.00%	7.25%		2/4/2019	6/29/2023		$ 7,240,741	7,180,913	6,951,111	2.71%
ASC Communications Holdings, LLC Class A Preferred Units (SBIC)	(2)(4)	Equity					6/29/2017			73,529 shares	79,813	340,000	0.13%
Total											$ 11,502,733	$ 11,380,000	4.43%
BFC Solmetex, LLC									Nashville, TN				
Revolver	(35)	First Lien	3M L+8.50%	1.00%	9.50%		4/2/2018	9/26/2023	Environmental Industries	$ 2,139,364	2,139,364	1,936,125	0.75%
Term Loan (SBIC)	(2)(35)	First Lien	3M L+8.50%	1.00%	9.50%		4/2/2018	9/26/2023		$ 11,504,156	11,405,535	10,411,262	4.06%
Bonded Filter Co. LLC, Term Loan (SBIC)	(2)(35)	First Lien	3M L+8.50%	1.00%	9.50%		4/2/2018	9/26/2023		$ 1,196,363	1,186,107	1,082,709	0.42%
Total											$ 14,731,006	$ 13,430,096	5.23%
BW DME Acquisition, LLC									Tempe, AZ				
Term Loan (SBIC)	(2)(13)(22)	First Lien	3M L+6.00%	1.00%	8.60%		8/24/2017	8/24/2022	Healthcare & Pharmaceuticals	$ 16,695,804	16,469,741	16,695,804	6.51%
BW DME Holdings, LLC, Term Loan	(6)	Unsecured	17.50%			17.50%	6/1/2018	6/30/2020		$ 374,586	374,586	374,586	0.15%
BW DME Holdings, LLC Class A-1 Preferred Units	(4)	Equity					8/24/2017			1,000,000 shares	1,000,000	1,500,000	0.58%
BW DME Holdings, LLC Class A-2 Preferred Units	(4)	Equity					1/26/2018			937,261 shares	937,261	1,410,000	0.55%
Total											$ 18,781,588	$ 19,980,390	7.79%
Café Valley, Inc.									Phoenix, AZ				
Term Loan	(35)	First Lien	1M L+7.00%	1.25%	8.25%		8/28/2019	8/28/2024	Beverage, Food, & Tobacco	$ 17,442,857	17,157,895	16,919,571	6.60%
CF Topco LLC, Common Units	(4)	Equity					8/28/2019			8,810 shares	880,952	690,000	0.27%
Total											$ 18,038,847	$ 17,609,571	6.87%

Stellus Capital Investment Corporation

Consolidated Schedule of Investments (unaudited)

September 30, 2020

C.A.R.S. Protection Plus, Inc.								Murrysville, PA				
Term Loan	(35)	First Lien	1M L+8.50%	0.50%	9.00%	12/31/2015	12/31/2020	Automotive	$ 94,003	93,887	94,003	0.04%
Term Loan (SBIC)	(2)(35)	First Lien	1M L+8.50%	0.50%	9.00%	12/31/2015	12/31/2020		$ 7,332,210	7,323,114	7,332,210	2.86%
CPP Holdings LLC Class A Common Units	(4)	Equity				12/31/2015			149,828 shares	149,828	410,000	0.16%
Total										$ 7,566,829	$ 7,836,213	3.06%
Colford Capital Holdings, LLC								New York, NY				
Preferred Units	(4)(5)	Equity				8/20/2015		Finance	38,893 units	195,036	20,000	0.01%
Condor Top Holdco Limited								Clifton, NJ				
Convertible Preferred Shares	(4)	Equity				10/27/2017			500,000 shares	442,197	1,240,000	0.48%
Condor Holdings Limited Preferred Shares, Class B	(4)	Equity				10/27/2017			500,000 shares	57,804	160,000	0.06%
Total										$ 500,001	$ 1,400,000	0.54%
Convergence Technologies, Inc.								Indianpolis, IN				
Term Loan (SBIC)	(2)(35)	First Lien	3M L+6.75%	1.50%	8.25%	8/31/2018	8/30/2024	Services: Business	$ 7,000,000	6,900,637	7,000,000	2.73%
Term Loan	(35)	First Lien	3M L+6.75%	1.50%	8.25%	2/28/2019	8/30/2024		$ 1,407,143	1,385,776	1,407,143	0.55%
Term Loan B (SBIC)	(2)(35)	First Lien	3M L+6.75%	1.50%	8.25%	8/14/2020	8/30/2024		$ 3,750,000	3,677,563	3,750,000	1.46%
Delayed Draw Term Loan	(35)	First Lien	3M L+6.75%	1.50%	8.25%	8/31/2018	8/30/2024		$ 5,263,393	5,263,393	5,263,393	2.05%
Tailwind Core Investor, LLC Class A Preferred Units	(4)	Equity				8/31/2018			5,282 units	547,795	620,000	0.24%
Total										$ 17,775,164	$ 18,040,536	7.03%
Data Centrum Communications, Inc.								Montvale, NJ				
Term Loan	(35)	First Lien	3M L+5.50%	1.00%	6.50%	5/15/2019	5/15/2024	Media: Advertising, Printing & Publishing	$ 16,046,875	15,804,305	15,485,234	6.04%
Health Monitor Holdings, LLC Seires A Preferred Units	(4)	Equity				5/15/2019			1,000,000 shares	1,000,000	650,000	0.25%
Total										$ 16,804,305	$ 16,135,234	6.29%
Douglas Products Group, LP								Liberty, MO				
Class A Common Units	(4)	Equity				12/27/2018		Chemicals, Plastics, & Rubber	322 shares	139,656	840,000	0.33%
DRS Holdings III, Inc.	(10)							St. Louis, MO				
Term Loan	(35)	First Lien	3M L+5.75%	1.00%	6.75%	11/1/2019	11/1/2025	Consumer Goods: Durable	$ 9,925,000	9,838,163	9,925,000	3.87%
DTE Enterprises, LLC	(18)							Roselle, IL				
Term Loan	(35)	First Lien	3M L+7.50%	1.50%	9.00%	4/13/2018	4/13/2023	Energy: Oil & Gas	$ 10,991,941	10,867,089	10,662,183	4.16%
DTE Holding Company, LLC Common Shares, Class A-2	(4)	Equity				4/13/2018			776,316 shares	466,204	420,000	0.16%
DTE Holding Company, LLC Preferred Shares, Class AA	(4)	Equity				4/13/2018			723,684 shares	723,684	400,000	0.16%
Total										$ 12,056,977	$ 11,482,183	4.48%
Elliott Aviation, LLC								Moline, IL				
Term Loan	(35)	First Lien	3M L+6.00%	1.75%	7.75%	1/31/2020	1/31/2025	Aerospace & Defense	$ 18,545,625	18,215,823	18,360,169	7.16%
Revolver	(3)(35)	First Lien	3M L+6.00%	1.75%	7.75%	1/31/2020	1/31/2025		$ 450,000	450,000	445,500	0.17%
SP EA Holdings, LLC Preferred Shares, Class A	(4)	Equity				1/31/2020			900,000 shares	900,000	710,000	0.28%
Total										$ 19,565,823	$ 19,515,669	7.61%
Empirix Holdings I, Inc.								Billerica, MA				
Common Shares, Class A	(4)	Equity				11/1/2013		Software	1,304 shares	1,304,232	1,280,000	0.50%
Common Shares, Class B	(4)	Equity				11/1/2013			1,317,406 shares	13,174	10,000	0.00%
Total										$ 1,317,406	$ 1,290,000	0.50%

Stellus Capital Investment Corporation

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Energy Labs Holding Corp.									Houston, TX				
Common Stock	(4)	Equity					9/29/2016		Energy: Oil & Gas	598 shares	598,182	970,000	0.38%
Exacta Land Surveyors, LLC	(25)								Cleveland, OH				
Term Loan (SBIC)	(2) (35)	First Lien	3M L+5.75%	1.50%	7.25%		2/8/2019	2/8/2024	Services: Business	$ 16,756,875	16,514,654	16,589,306	6.47%
Revolver	(35)	First Lien	3M L+5.75%	1.50%	7.25%		2/8/2019	2/8/2024		$ 1,500,000	1,500,000	1,485,000	0.58%
SP ELS Holdings LLC, Class A Common Units	(4)	Equity					2/8/2019			1,069,143 shares	1,069,143	780,000	0.30%
Total											$ 19,083,797	$ 18,854,306	7.35%
EOS Fitness Holdings, LLC									Phoenix, AZ				
Preferred Units	(4)	Equity					12/30/2014		Hotel, Gaming, & Leisure	118 shares	0	110,000	0.04%
Class B Common Units	(4)	Equity					12/30/2014			3,017 shares	0	0	0.00%
Total											$ 0	$ 110,000	0.04%
Fast Growing Trees, LLC	(16)								Fort Mill, SC				
Term Loan (SBIC)	(2) (35)	First Lien	3M L+7.75%	1.00%	8.75%		2/5/2018	02/05/23	Retail	$ 15,092,490	14,934,306	15,092,490	5.88%
SP FGT Holdings, LLC, Class A Common	(4)	Equity					2/5/2018			1,000,000 shares	1,000,000	2,450,000	0.95%
Total											$ 15,934,306	$ 17,542,490	6.83%
FB Topco, Inc.									Camden, NJ				
Term Loan	(13) (22)	First Lien	6M L+6.35%	1.00%	9.52%		6/27/2018	4/24/2023	Education	$ 20,645,877	20,395,821	20,439,418	7.97%
Delayed Draw Term Loan	(13) (22)	First Lien	6M L+6.35%	1.00%	9.55%		6/27/2018	4/24/2023		$ 1,131,959	1,131,959	1,120,640	0.44%
Total											$ 21,527,780	$ 21,560,058	8.41%
Furniture Factory Outlet, LLC									Fort Smith, AR				
Term Loan	(23)	First Lien	7.00%		0.00%		6/10/2016	6/10/2021	Consumer Goods: Durable	$ 12,878,667	12,824,229	2,060,587	0.80%
Furniture Factory Holdings, LLC Term Loan	(6) (29)	Unsecured	11.00%			0.00%	6/10/2016	2/3/2021		$ 163,423	163,423	0	0.00%
Furniture Factory Ultimate Holding, LP Common Units	(4)	Equity					6/10/2016			13,445 shares	94,569	0	0.00%
Total											$ 13,082,221	$ 2,060,587	0.80%
GK Holdings, Inc.									Cary, NC				
Term Loan	(33) (35)	Second Lien	3M L+10.25%	1.00%	0.00%		1/30/2015	1/20/2022	Education	$ 5,000,000	4,974,680	2,925,000	1.14%
General LED OPCO, LLC									San Antonio, TX				
Term Loan	(35)	Second Lien	3M L+9.00%	1.50%	10.50%		5/1/2018	11/1/2023	Services: Business	$ 4,500,000	4,443,680	3,667,500	1.43%
GS HVAM Intermediate, LLC									Carlsbad, CA				
Term Loan	(35)	First Lien	1M L+5.75%	1.00%	6.75%		10/18/2019	10/2/2024	Beverage, Food, & Tobacco	$ 13,158,144	13,047,385	13,158,144	5.13%
Revolver	(34) (35)	First Lien	1M L+5.75%	1.00%	6.75%		10/18/2019	10/2/2024		$ 265,152	265,152	265,152	0.10%
HV GS Acquisition, LP Class A Interests	(4)	Equity					6/29/2018			1,796 shares	1,618,844	1,660,000	0.65%
Total											$ 14,931,381	$ 15,083,296	5.88%
Grupo HIMA San Pablo, Inc., et al									San Juan, PR				
Term Loan	(27) (35)	First Lien	3M L+7.00%	1.50%	8.50%		2/1/2013	1/31/2018	Healthcare & Pharmaceuticals	$ 4,503,720	4,503,720	2,589,639	1.01%
Term Loan	(15) (27)	Second Lien	13.75%		0.00%		2/1/2013	7/31/2018		$ 4,109,524	4,109,524	0	0.00%
Total											$ 8,613,244	$ 2,589,639	1.01%

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I2P Holdings, LLC								Cleveland, OH				
Series A Preferred	(4)	Equity				1/31/2018		Services: Business	750,000 shares	750,000	2,860,000	1.11%
Ian, Evan & Alexander Corporation	(36)							Reston, VA				
Term Loan (SBIC)	(2) (35)	First Lien	3M L+8.50%	1.00%	9.50%	7/31/2020	7/31/2025	Services: Business	$ 7,231,571	7,090,689	7,090,689	2.76%
EC Defense Holding, Class B Units	(2)(4)	Equity				7/31/2020			20,054 shares	500,000	500,000	0.19%
Total										$ 7,590,689	$ 7,590,689	2.95%
ICD Holdings, LLC								San Francisco, CA				
Class A Preferred	(4)(5)	Equity				1/1/2018			9,962 shares	474,182	1,690,000	0.66%
Industry Dive, Inc.	(37)							Washington, D.C.				
Term Loan (SBIC)	(2) (35)	First Lien	1M L+6.75%	1.00%	7.75%	7/17/2020	8/30/2024	Services: Business	$ 7,040,927	6,904,971	6,904,971	2.69%
Integrated Oncology Network, LLC	(30)							Newport Beach, CA				
Term Loan	(35)	First Lien	3M L+5.50%	1.50%	7.00%	7/17/2019	6/24/2024	Healthcare & Pharmaceuticals	$ 16,512,110	16,253,267	16,512,110	6.44%
Revolver	(35)	First Lien	3M L+5.50%	1.50%	7.00%	7/17/2019	6/24/2024		$ 553,517	553,517	553,517	0.22%
Total										$ 16,806,784	$ 17,065,627	6.66%
Interstate Waste Services, Inc.								Amsterdam, OH				
Common Units	(4)	Equity				10/30/2015		Environmental Industries	21,925 shares	946,125	370,000	0.14%
Intuitive Health, LLC								Plano, TX				
Term Loan (SBIC II)	(9) (35)	First Lien	3M L+6.00%	1.50%	7.50%	10/18/2019	10/18/2024	Healthcare & Pharmaceuticals	$ 5,955,000	5,854,342	5,955,000	2.32%
Term Loan	(35)	First Lien	3M L+6.00%	1.50%	7.50%	10/18/2019	10/18/2024		$ 11,413,750	11,220,822	11,413,750	4.45%
Total										$ 17,075,164	$ 17,368,750	6.77%
Invincible Boat Company, LLC	(28)							Opa Locka, FL				
Term Loan (SBIC II)	(9) (35)	First Lien	3M L+6.50%	1.50%	8.00%	8/28/2019	8/28/2025	Consumer Goods: Durable	$ 5,850,000	5,750,011	5,850,000	2.28%
Term Loan	(35)	First Lien	3M L+6.50%	1.50%	8.00%	8/28/2019	8/28/2025		$ 6,337,500	6,166,490	6,337,500	2.47%
Invincible Parent Holdco, LLC Class A Common Units	(4)	Equity				8/28/2019			1,000,000 shares	968,105	660,000	0.26%
Total										$ 12,884,606	$ 12,847,500	5.01%
J.R. Watkins, LLC								San Francisco, CA				
Term Loan (SBIC)	(2)	First Lien	7.00%		7.00%	12/22/2017	12/22/2022	Consumer Goods: non-durable	$ 12,250,000	12,127,262	11,270,000	4.39%
J.R. Watkins Holdings, Inc. Class A Preferred	(4)	Equity				12/22/2017			1,133 shares	1,132,576	220,000	0.09%
Total										$ 13,259,838	$ 11,490,000	4.48%
Jurassic Acquisiton Corp.								Sparks, MD				
Term Loan	(12)	First Lien	3M L+5.50%	0.00%	5.72%	12/28/2018	11/15/2024	Metals & Mining	$ 17,193,750	17,003,162	16,935,844	6.60%
Kelleyamerit Holdings, Inc.								Walnut Creek, CA				
Term Loan (SBIC)	(2) (13) (22)	First Lien	3M L+7.50%	1.00%	9.02%	3/30/2018	3/30/2023	Automotive	$ 9,750,000	9,639,161	9,701,250	3.78%
KidKraft, Inc.								Dallas, TX				
Term Loan	(6) (21) (22) (38)	First Lien	3M L+6.00%		0.00% 0.00%	9/30/2016	8/15/2022	Consumer Goods: Durable	$ 1,500,000	1,500,000	1,500,000	0.58%
KidKraft Group Holdings, LLC Preferred B Units	(4)	Equity				4/3/2020			4,000,000 shares	4,000,000	0	0.00%
Total										$ 5,500,000	$ 1,500,000	0.58%

Lynx FBO Operating, LLC	(31)							Houston, TX				
Term Loan	(35)	First Lien	3M L+5.75%	1.50%	7.25%	9/30/2019	9/30/2024	Aerospace & Defense	$ 13,612,500	13,385,555	13,612,500	5.31%
Lynx FBO Investments, LLC Class A-1 Common Units	(4)	Equity				9/30/2019			3,704 shares	500,040	510,000	0.20%
Total										$ 13,885,595	$ 14,122,500	5.51%
Madison Logic, Inc.								New York, NY				
Term Loan (SBIC)	(2) (35)	First Lien	1M L+8.00%	0.50%	8.50%	11/30/2016	11/30/2021	Media: Broadcasting & Subscription	$ 4,495,060	4,482,757	4,495,060	1.75%
Madison Logic Holdings, Inc. Common Stock (SBIC)	(2)(4)	Equity				11/30/2016			5,000 shares	50,000	60,000	0.02%
Madison Logic Holdings, Inc. Series A Preferred Stock (SBIC)	(2)(4)	Equity				11/30/2016			4,500 shares	450,000	540,000	0.21%
Total										$ 4,982,757	$ 5,095,060	1.98%
Mobile Acquisition Holdings, LP								Santa Clara, CA				
Class A Common Units	(4)	Equity				11/1/2016		Software	750 units	455,385	2,010,000	0.78%
Munch's Supply, LLC								New Lenox, IL				
Term Loan	(35)	First Lien	3M L+6.25%	1.00%	7.25%	4/11/2019	4/11/2024	Capital Equipment	$ 7,247,478	7,193,610	7,247,478	2.82%
Delayed Draw Term Loan	(20) (35)	First Lien	3M L+6.25%	1.00%	7.25%	4/11/2019	4/11/2024		$ 650,744	641,423	650,744	0.25%
Cool Supply Holdings, LLC Class A Common Units	(4)	Equity				4/11/2019			500,000 units	496,362	650,000	0.25%
Total										$ 8,331,395	$ 8,548,222	3.32%
National Trench Safety, LLC, et al								Houston, TX				
Term Loan (SBIC)	(2)	Second Lien	11.50%		11.50%	3/31/2017	3/31/2022	Construction & Building	$ 10,000,000	9,936,197	10,000,000	3.90%
NTS Investors, LP Class A Common Units	(4)	Equity				3/31/2017			2,335 units	500,000	580,000	0.23%
Total										$ 10,436,197	$ 10,580,000	4.13%
Naumann/Hobbs Material Handling Corporation II, Inc.	(32)							Phoenix, AZ				
Term Loan (SBIC II)	(9) (35)	First Lien	3M L+6.25%	1.50%	7.75%	8/30/2019	8/30/2024	Services: Business	$ 5,914,773	5,818,156	5,914,773	2.31%
Term Loan	(35)	First Lien	3M L+6.25%	1.50%	7.75%	8/30/2019	8/30/2024		$ 9,379,540	9,226,326	9,379,540	3.66%
CGC NH, Inc. Common Units	(4)	Equity				8/30/2019			123 shares	440,758	490,000	0.19%
Total										$ 15,485,240	$ 15,784,313	6.16%
NGS US Finco, LLC								Bradford, PA				
Term Loan (SBIC)	(2) (35)	Second Lien	1M L+8.50%	1.00%	9.50%	10/1/2018	4/1/2026	Utilities: Oil & Gas	$ 10,000,000	9,879,974	9,850,000	3.84%
NS412, LLC								Dallas, TX				
Term Loan	(35)	Second Lien	3M L+8.50%	1.00%	9.50%	5/6/2019	11/6/2025	Services: Consumer	$ 7,615,000	7,488,106	7,424,625	2.89%
NS Group Holding Company, LLC Class A Common Units	(4)	Equity				5/6/2019			750 shares	750,000	540,000	0.21%
Total										$ 8,238,106	$ 7,964,625	3.10%
NuMet Machining Techniques, LLC								Birmingham, UK				
Term Loan	(5) (35)	Second Lien	3M L+9.00%	2.00%	11.00%	11/5/2019	5/5/2026	Aerospace & Defense	$ 11,700,000	11,489,069	11,349,000	4.42%
Bromford Industries Limited Term Loan	(5) (35)	Second Lien	3M L+9.00%	2.00%	11.00%	11/5/2019	5/5/2026		$ 7,800,000	7,659,380	7,566,000	2.95%
Bromford Holdings, L.P. Class A Membership Units	(4)(5)	Equity				11/5/2019			1,000,000 shares	1,000,000	400,000	0.16%
Total										$ 20,148,449	$ 19,315,000	7.53%

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Nutritional Medicinals, LLC	(24)								Centerville, OH				
Term Loan	(35)	First Lien	3M L+6.00%	1.00%	7.00%		11/15/2018	11/15/2023	Healthcare & Pharmaceuticals	$ 13,847,951	13,663,324	13,847,951	5.40%
Functional Aggregator, LLC Common Units	(4)	Equity					11/15/2018			12,500 shares	1,250,000	1,230,000	0.48%
Total											$ 14,913,324	$ 15,077,951	5.88%
PCP MT Aggregator Holdings, L.P.									Oak Brook, IL				
Common LP Units	(4)	Equity					3/29/2019		Finance	750,000 shares	0	1,340,000	0.52%
PCS Software, Inc.									Shenandoah, Tx				
Term Loan (SBIC)	(2) (35)	First Lien	3M L+5.75%	1.50%	7.25%		7/1/2019	7/1/2024	Transportation & Logistics	$ 1,975,000	1,943,830	1,975,000	0.77%
Term Loan	(35)	First Lien	3M L+5.75%	1.50%	7.25%		7/1/2019	7/1/2024		$ 15,059,375	14,821,704	15,059,375	5.87%
Delayed Draw Term Loan	(35)	First Lien	3M L+5.75%	1.50%	7.25%		7/1/2019	7/1/2024		$ 995,000	995,000	995,000	0.39%
Revolver	(35) (11)	First Lien	3M L+5.75%	1.50%	7.25%		7/1/2019	7/1/2024		$ 241,660	241,660	241,660	0.09%
PCS Software Holdings, LLC Class A Preferred Units	(4)	Equity					7/1/2019			325,000 shares	325,000	300,000	0.12%
Total											$ 18,327,194	$ 18,571,035	7.24%
Pioneer Transformers, L.P.									Franklin, WI				
Term Loan (SBIC II)	(9) (35)	First Lien	6M L+6.00%	1.50%	7.50%		11/22/2019	8/16/2024	Capital Equipment	$ 4,950,000	4,876,316	4,950,000	1.93%
Premiere Digital Services, Inc.									Los Angeles, CA				
Term Loan (SBIC)	(2) (13) (22)	First Lien	3M L+5.50%	1.50%	8.25%		10/18/2018	10/18/2023	Media: Broadcasting & Subscription	$ 9,992,518	9,793,223	9,992,518	3.89%
Term Loan	(13) (22)	First Lien	3M L+5.50%	1.50%	8.25%		10/18/2018	10/18/2023		$ 2,428,772	2,381,802	2,428,772	0.95%
Premiere Digital Holdings, Inc., Common Stock	(4)	Equity					10/18/2018			5,000 shares	50,000	140,000	0.05%
Premiere Digital Holdings, Inc., Preferred Stock	(4)	Equity					10/18/2018			4,500 shares	450,000	1,270,000	0.50%
Total											$ 12,675,025	$ 13,831,290	5.39%
Protect America, Inc.									Austin TX				
Term Loan (SBIC)	(2)(6) (26) (35)	Second Lien	3M L+7.75%	1.00%	0.00%		8/30/2017	10/30/2020	Services: Consumer	$ 17,979,749	17,966,447	2,876,760	1.12%
Sales Benchmark Index, LLC	(7) (14)								Dallas, TX				
Term Loan	(35)	First Lien	3M L+6.00%	1.75%	7.75%		1/7/2020	1/7/2025	Services: Business	$ 14,352,036	14,100,199	14,352,036	5.59%
SBI Holdings Investments, LLC Class A Preferred Units	(4)	Equity					1/7/2020			66,573 units	665,730	670,000	0.26%
Total											$ 14,765,929	$ 15,022,036	5.85%
Skopos Financial, LLC									Irving, TX				
Term Loan	(5)	Unsecured	12.00%		12.00%		1/31/2014	1/31/2021	Finance	$ 15,500,000	15,500,000	14,415,000	5.62%
Skopos Financial Group, LLC Series A Preferred Units	(4)(5)	Equity					1/31/2014			1,120,684 units	1,162,544	500,000	0.19%
Total											$ 16,662,544	$ 14,915,000	5.81%
SQAD, LLC									Tarrytown, NY				
Term Loan (SBIC)	(2) (35)	First Lien	3M L+6.50%	1.00%	7.50%		12/22/2017	12/22/2022	Media: Broadcasting & Subscription	$ 14,382,094	14,343,947	14,382,094	5.61%
SQAD Holdco, Inc. Preferred Shares, Series A (SBIC)	(2)(4)	Equity					10/31/2013			5,624 shares	156,001	800,000	0.31%
SQAD Holdco, Inc. Common Shares (SBIC)	(2)(4)	Equity					10/31/2013			5,800 shares	62,485	90,000	0.04%
Total											$ 14,562,433	$ 15,272,094	5.96%
TechInsights, Inc.									Ottawa, Ontario				
Term Loan	(5) (13) (22)	First Lien	3M L+6.00%	1.00%	8.33%		8/16/2017	10/2/2023	High Tech Industries	$ 21,540,925	21,288,231	21,433,220	8.35%
Time Manufacturing Acquisition, LLC									Waco, TX				
Term Loan	(6)	Unsecured	11.50%		10.75%	0.75%	2/3/2017	8/3/2023	Capital Equipment	$ 6,385,182	6,316,850	6,385,182	2.49%
Time Manufacturing Investments, LLC Class A Common Units	(4)	Equity					2/3/2017			5,000 units	500,000	700,000	0.27%
Total											$ 6,816,850	$ 7,085,182	2.76%

TFH Reliability, LLC								Houston, TX				
Term Loan (SBIC)	(2) (35)	Second Lien	3M L+10.75%	0.80%	11.55%	10/21/2016	9/30/2023	Chemicals, Plastics, & Rubber	$ 5,875,000	5,831,333	5,757,500	2.24%
TFH Reliability Group, LLC Class A-1 Units	(4)	Equity				6/29/2020			27,129 shares	21,511	10,000	0.00%
TFH Reliability Group, LLC Class A Common Units	(4)	Equity				10/21/2016			250,000 shares	231,521	170,000	0.07%
Total										$ 6,084,365	$ 5,937,500	2.31%
U.S. Auto Sales, Inc. et al								Lawrenceville, GA				
USASF Blocker II, LLC Common Units	(4)(5)	Equity				6/8/2015		Finance	441 units	441,000	690,000	0.27%
USASF Blocker III, LLC Series C Preferred Units	(4)(5)	Equity				2/13/2018			125 units	125,000	200,000	0.08%
USASF Blocker IV, LLC Units	(4)(5)	Equity				5/27/2020			110 units	110,000	170,000	0.07%
USASF Blocker LLC Common Units	(4)(5)	Equity				6/8/2015			9,000 units	9,000	10,000	0.00%
Total										$ 685,000	$ 1,070,000	0.42%
Venbrook Buyer, LLC	(19)							Los Angeles, CA				
Term Loan (SBIC)	(2) (35)	First Lien	3M L+6.50%	1.50%	8.00%	3/13/2020	3/13/2026	Services: Business	$ 13,117,417	12,874,828	12,920,655	5.04%
Term Loan	(35)	First Lien	3M L+6.50%	1.50%	8.00%	3/13/2020	3/13/2026		$ 149,250	146,490	147,011	0.06%
Revolver	(35)	First Lien	6M L+6.50%	1.50%	8.00%	3/13/2020	3/13/2026		$ 2,222,222	2,222,222	2,188,889	0.85%
Venbrook Holdings, LLC Common Units	(4)	Equity				3/13/2020			500,000 shares	500,000	450,000	0.18%
Total										$ 15,743,540	$ 15,706,555	6.13%
VRI Ultimate Holdings, LLC								Franklin, OH				
Class A Preferred Units	(4)	Equity				5/31/2017		Healthcare & Pharmaceuticals	326,797 shares	500,000	640,000	0.25%
Whisps Acquisiton Corp.								Elgin, IL				
Term Loan	(35)	First Lien	6M L+6.00%	1.00%	7.00%	4/26/2019	4/18/2025	Beverage, Food, & Tobacco	$ 8,125,000	8,003,352	8,125,000	3.17%
Whisps Holding LP Class A Common Units	(4)	Equity				4/18/2019			500,000 shares	500,000	830,000	0.32%
Total										$ 8,503,352	$ 8,955,000	3.49%
Wise Parent Company, LLC								Salt Lake City, UT				
Membership Units	(4)	Equity				8/27/2018		Beverage, Food, & Tobacco	6 units	35,894	610,000	0.24%
Total Non-controlled, non-affiliated investments										$ 647,253,034	$ 622,438,345	242.62%
Net Investments										$ 647,253,034	$ 622,438,345	242.62%
LIABILITIES IN EXCESS OF OTHER ASSETS											$ (365,888,518)	(142.62)%
NET ASSETS											$ 256,549,827	100.00%

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

(2) Investments held by the SBIC subsidiary (as defined in Note 1), which include $18,510,108 of cash and $219,994,657 of investments (at cost), are excluded from the obligations to the lenders of the Credit Facility (as defined in Note 9). The Company's obligations to the lenders of the Credit Facility are secured by a first priority security interest in all investments and cash and cash equivalents, except for cash and investments held by the SBIC subsidiaries (as defined in Note 1).

(3) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $2,250,000, with an interest rate of LIBOR plus 6.00% and a maturity of January 31, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.

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(4) Security is non-income producing.

(5) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended. The Company may not acquire any non-qualifying assets unless, at the time of the acquisition, qualifying assets represent at least 70% of the Company's total assets. Qualifying assets represent approximately 91% of the Company's total assets as of September 30, 2020.

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

(7) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,331,461, with an interest rate of LIBOR plus 6.00% and a maturity of January 7, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.

(8) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,000,000, with an interest rate of LIBOR plus 5.75% and a maturity of August 8, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

(9) Investments held by the SBIC II subsidiary (as defined in Note 1), which include $512,278 of cash and $22,298,824 of investments (at cost), are excluded from the obligations to the lenders of the Credit Facility. The Company's obligations to the lenders of the Credit Facility are secured by a first priority security interest in all investments and cash and cash equivalents, except for cash and investments held by the SBIC subsidiaries.

(10) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $909,091, with an interest rate of LIBOR plus 5.75% and a maturity of November 1, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.

(11) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,076,484, with an interest rate of LIBOR plus 5.75% and a maturity of July 1, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

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

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

(14) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $3,328,652, with an interest rate of LIBOR plus 6.00% and a maturity of January 7, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.

(15) Investment has been on non-accrual since October 31, 2017.

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

(17) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $666,667, with an interest rate of LIBOR plus 5.00% and a maturity of June 29, 2022. This investment is accruing an unused commitment fee of 0.50% per annum.

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

(19) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $4,444,444, with an interest rate of LIBOR plus 6.50% and a maturity of March 13, 2026. This investment is accruing an unused commitment fee of 0.50% per annum.

(20) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $1,511,111, with an interest rate of LIBOR plus 6.25% and a maturity of April 11, 2024. This investment is accruing an unused commitment fee of 1.00% per annum

(21) Investment has been on non-accrual since January 1, 2020.

(22) This loan is a unitranche investment.

(23) Investment has been on non-accrual since April 1, 2020.

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

(25) Excluded from the investment is an undrawn delayed draw term commitment in an amount not to exceed $4,000,000, with an interest rate of LIBOR plus 5.75% and a maturity of February 8, 2024. The Company has full discretion to fund the delayed draw term loan commitment.

(26) Investment has been on non-accrual since June 28, 2019.

(27) Maturity date is under ongoing negotiations with portfolio company and other lenders.

(28) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,420,455, with an interest rate of LIBOR plus 6.50% and a maturity of August 28, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.

(29) Investment has been on non-accrual since April 1, 2020.

(30) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $2,767,584, with an interest rate of LIBOR plus 5.50% and a maturity of June 24, 2024. This investment is accruing an unused commitment fee of 1.00% per annum.

(31) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,875,000, with an interest rate of LIBOR plus 5.75% and a maturity of September 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

(32) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,763,033, with an interest rate of LIBOR plus 6.25% and a maturity of August 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

(33) Investment has been on non-accrual since January 1, 2020.

(34) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $2,386,364, with an interest rate of LIBOR plus 5.75% and a maturity of October 2, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

(35) These loans have LIBOR Floors which are higher than the current applicable LIBOR rates; therefore, the floors are in effect.

(36) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $100,000, with an interest rate of LIBOR plus 8.50% and a maturity of July 31, 2025. This investment is accruing an unused commitment fee of 0.50% per annum. This undrawn revolver commitment is held by the SBIC.

(37) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $100,000, with an interest rate of LIBOR plus 6.75% and a maturity of August 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

(38) These loans are last-out term loans with contractual rates lower than the applicable LIBOR rates; therefore, the floors are in effect.

Abbreviation Legend
PIK — Payment-In-Kind
L — LIBOR
Euro — Euro Dollar

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Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value(1)	% of Net Assets
Non-controlled, non-affiliated investments	(2)(9)												
Abrasive Products & Equipment, LLC, et al									Deer Park, TX				
Term Loan (SBIC)	(2)(12)	Second Lien	3M L+10.50%	1.00%	12.45%		9/5/2014	3/5/2021	Chemicals, Plastics, & Rubber	$ 5,325,237	$ 5,320,277	$ 5,112,228	1.89%
APE Holdings, LLC Class A Common Units	(4)	Equity					9/5/2014			375,000 units	375,000	160,000	0.06%
Total											$ 5,695,277	$ 5,272,228	1.95%
Adams Publishing Group, LLC	(3)								Greenville, TN				
Term Loan	(12)	First Lien	3M L+7.50%	1.00%	9.44%		8/3/2018	6/30/2023	Media: Advertising, Printing & Publishing	$ 5,411,955	5,371,128	5,222,536	1.93%
Delayed Draw Term Loan	(12)	First Lien	3M L+7.50%	1.00%	9.45%		8/3/2018	6/30/2023		$ 173,277	173,277	167,213	0.06%
Total											$ 5,544,405	$ 5,389,749	1.99%
Advanced Barrier Extrusions, LLC	(8)								Rhinelander, WI				
Term Loan (SBIC)	(2)(12)	First Lien	3M L+5.75%	1.00%	7.70%		8/8/2018	8/8/2023	Containers, Packaging & Glass	$ 14,286,000	14,056,286	14,214,570	5.25%
GP ABX Holdings Partnership, L.P. Common Stock	(4)	Equity					8/8/2018			250,000 units	250,000	350,000	0.13%
Total											$ 14,306,286	$ 14,564,570	5.38%
Apex Environmental Resources Holdings, LLC									Amsterdam, OH				
Common Units	(4)	Equity					10/30/2015		Environmental Industries	945 shares	945	0	0.00%
Preferred Units	(4)	Equity					10/30/2015			945 shares	945,179	540,000	0.20%
Total											$ 946,124	$ 540,000	0.20%
APG Intermediate Sub 2 Corp.									Castle Rock, CO				
Term Loan	(22)	First Lien	P+5.00%	1.00%	9.75%		11/30/2018	11/30/2023	Aerospace & Defense	$ 9,925,000	9,740,191	10,024,250	3.70%
APG Holdings, LLC Class A Preferred Units	(4)	Equity					11/30/2018			1,127,652 units	1,127,652	2,420,000	0.89%
Total											$ 10,867,843	$ 12,444,250	4.59%
Atmosphere Aggregator Holdings II, LP									Atlanta, GA				
Common Units	(4)	Equity					1/26/2016		Services: Business	254,250 units	0	1,100,000	0.41%
Stratose Aggregator Holdings, LP Common Units	(4)	Equity					6/30/2015			750,000 units	0	3,250,000	1.20%
Total											$ 0	$ 4,350,000	1.61%
ASC Communications, LLC	(7)								Chicago, IL				
Term Loan (SBIC)	(2)(12)	First Lien	1M L+6.25%	1.00%	8.05%		6/29/2017	6/29/2023	Healthcare & Pharmaceuticals	$ 4,537,037	4,511,837	4,514,352	1.67%
Term Loan	(12)	First Lien	1M L+6.25%	1.00%	8.05%		2/4/2019	6/29/2023		$ 7,712,963	7,634,025	7,674,398	2.84%
ASC Communications Holdings, LLC Class A Preferred Units (SBIC)	(2)(4)	Equity					6/29/2017			73,529 shares	90,895	580,000	0.21%
Total											$ 12,236,757	$ 12,768,750	4.72%
BFC Solmetex, LLC	(23)								Nashville, TN				
Revolver	(12)(19)	First Lien	3M L+6.50%	1.00%	8.45%		4/2/2018	9/26/2023	Environmental Industries	$ 1,650,367	1,650,367	1,584,352	0.59%
Term Loan (SBIC)	(2)(12)	First Lien	3M L+6.50%	1.00%	8.45%		4/2/2018	9/26/2023		$ 11,592,818	11,468,077	11,129,105	4.11%
Bonded Filter Co. LLC, Term Loan (SBIC)	(2)(12)	First Lien	3M L+6.50%	1.00%	8.45%		4/2/2018	9/26/2023		$ 1,205,073	1,192,107	1,156,870	0.43%
Total											$ 14,310,551	$ 13,870,327	5.13%
BW DME Acquisition, LLC									Tempe, AZ				
Term Loan (SBIC)	(2)(13) (22)	First Lien	3M L+6.00%	1.00%	9.59%		8/24/2017	8/24/2022	Healthcare & Pharmaceuticals	$ 16,695,804	16,392,213	16,445,367	6.08%
BW DME Holdings, LLC, Term Loan	(6)	Unsecured	17.50%			17.50%	6/1/2018	6/30/2020		$ 329,504	329,504	329,504	0.12%
BW DME Holdings, LLC Class A-1 Preferred Units	(4)	Equity					8/24/2017			1,000,000 shares	1,000,000	1,110,000	0.41%
BW DME Holdings, LLC Class A-2 Preferred Units	(4)	Equity					1/26/2018			937,261 shares	937,261	1,040,000	0.38%
Total											$ 18,658,978	$ 18,924,871	6.99%
Café Valley, Inc.									Phoenix, AZ				
Term Loan	(12)	First Lien	3M L+6.00%	1.25%	7.95%		8/28/2019	8/28/2024	Beverage, Food, & Tobacco	$ 17,575,000	17,242,956	17,399,250	6.43%
CF Topco LLC, Common Units	(4)	Equity					8/28/2019			8,810 shares	880,952	860,000	0.32%
Total											$ 18,123,908	$ 18,259,250	6.75%

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C.A.R.S. Protection Plus, Inc.									Murrysville, PA				
Term Loan	(12)	First Lien	1M L+8.50%	0.50%	10.30%		12/31/2015	12/31/2020	Automotive	$ 94,003	$ 93,553	$ 94,003	0.03%
Term Loan (SBIC)	(2)(12)	First Lien	1M L+8.50%	0.50%	10.30%		12/31/2015	12/31/2020		$ 7,332,210	7,297,083	7,332,210	2.71%
CPP Holdings LLC Class A Common Units	(4)	Equity					12/31/2015			149,828 shares	149,828	240,000	0.09%
Total											$ 7,540,464	$ 7,666,213	2.83%
Colford Capital Holdings, LLC									New York, NY				
Preferred Units	(4)(5)	Equity					8/20/2015		Finance	38,893 units	195,036	20,000	0.01%
Condor Borrower, LLC									Clifton, NJ				
Term Loan	(12)	Second Lien	3M L+8.75%	1.00%	10.68%		10/27/2017	4/27/2025	Software	$13,750,000	13,534,399	13,406,250	4.95%
Condor Top Holdco Limited Convertible Preferred Shares	(4)	Equity					10/27/2017			500,000 shares	442,197	330,000	0.12%
Condor Holdings Limited Preferred Shares, Class B	(4)	Equity					10/27/2017			500,000 shares	57,804	40,000	0.01%
Total											$ 14,034,400	$ 13,776,250	5.08%
Convergence Technologies, Inc.									Indianpolis, IN				
Term Loan (SBIC)	(2)(12)	First Lien	3M L+6.75%	1.50%	8.70%		8/31/2018	8/30/2024	Services: Business	$ 7,053,571	6,937,850	6,983,036	2.58%
Term Loan	(12)	First Lien	3M L+6.75%	1.50%	8.70%		2/28/2019	8/30/2024		$ 1,417,857	1,392,977	1,403,679	0.52%
Delayed Draw Term Loan	(12)	First Lien	3M L+6.75%	1.50%	8.70%		8/31/2018	8/30/2024		$ 5,303,571	5,303,571	5,250,536	1.94%
Tailwind Core Investor, LLC Class A Preferred Units	(4)	Equity					8/31/2018			4,275 units	429,614	360,000	0.13%
Total											$ 14,064,012	$ 13,997,251	5.17%
Data Centrum Communications, Inc.									Montvale, NJ				
Term Loan	(12)	First Lien	3M L+5.50%	1.00%	7.44%		5/15/2019	5/15/2024	Media: Advertising, Printing & Publishing	$ 16,168,750	15,881,567	15,845,375	5.86%
Health Monitor Holdings, LLC Seires A Preferred Units	(4)	Equity					5/15/2019			1,000,000 shares	1,000,000	730,000	0.27%
Total											$ 16,881,567	$ 16,575,375	6.13%
Douglas Products Group, LP									Liberty, MO				
Class A Common Units	(4)	Equity					12/27/2018		Chemicals, Plastics, & Rubber	322 shares	139,656	490,000	0.18%
DRS Holdings III, Inc.									St. Louis, MO				
Term Loan	(12)	First Lien	1M L+5.75%	1.00%	7.55%		11/1/2019	11/1/2025	Consumer Goods: Durable	$ 10,000,000	9,902,215	9,902,215	3.66%
Revolver	(10)(12)	First Lien	1M L+5.75%	1.00%	7.55%		11/1/2019	11/1/2025		$36,364	36,364	36,008	0.01%
Total											$ 9,938,579	$ 9,938,223	3.67%
DTE Enterprises, LLC	(18)								Roselle, IL				
Term Loan	(12)	First Lien	1M L+7.50%	1.50%	9.24%		4/13/2018	4/13/2023	Energy: Oil & Gas	$ 10,991,941	10,836,199	10,772,102	3.98%
DTE Holding Company, LLC Common Shares, Class A-2	(4)	Equity					4/13/2018			776,316 shares	466,204	1,000,000	0.37%
DTE Holding Company, LLC Preferred Shares, Class AA	(4)	Equity					4/13/2018			723,684 shares	723,684	940,000	0.35%
Total											$ 12,026,087	$ 12,712,102	4.70%
Empirix Holdings I, Inc.									Billerica, MA				
Common Shares, Class A	(4)	Equity					11/1/2013		Software	1,304 shares	1,304,232	0	0.00%
Common Shares, Class B	(4)	Equity					11/1/2013			1,317,406 shares	13,174	0	0.00%
Total											$ 1,317,406	$ 0	0.00%
Energy Labs Holding Corp.									Houston, TX				
Common Stock	(4)	Equity					9/29/2016		Energy: Oil & Gas	598 shares	598,182	870,000	0.32%
Exacta Land Surveyors, LLC	(14)(25)								Cleveland, OH				
Term Loan (SBIC)	(2)(12)	First Lien	3M L+5.75%	1.50%	7.70%		2/8/2019	2/8/2024	Services: Business	$ 16,884,375	16,594,835	16,715,532	6.18%
SP ELS Holdings LLC, Class A Common Units	(4)	Equity					2/8/2019			1,069,143 shares	1,069,143	880,000	0.33%
Total											$ 17,663,978	$ 17,595,532	6.51%
EOS Fitness Holdings, LLC									Phoenix, AZ				
Preferred Units	(4)	Equity					12/30/2014		Hotel, Gaming, & Leisure	118 shares	0	530,000	0.20%
Class B Common Units	(4)	Equity					12/30/2014			3,017 shares	0	10,000	0.00%
Total											$ 0	$ 540,000	0.20%

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Fast Growing Trees, LLC	(16)								Fort Mill, SC				
Term Loan (SBIC)	(2)(12)	First Lien	3M L+7.75%	1.00%	9.70%		2/5/2018	02/05/23	Retail	$ 19,192,490	$ 18,935,337	$ 18,616,716	6.88%
SP FGT Holdings, LLC, Class A Common	(4)	Equity					2/5/2018			1,000,000 shares	1,000,000	750,000	0.28%
Total											$ 19,935,337	$ 19,366,716	7.16%
FB Topco, Inc.									Camden, NJ				
Term Loan	(13)(22)	First Lien	3M L+6.35%	1.00%	10.45%		6/27/2018	4/24/2023	Education	$ 20,803,881	20,492,224	20,179,764	7.46%
Delayed Draw Term Loan	(13)(22)	First Lien	3M L+6.35%	1.00%	10.48%		6/27/2018	4/24/2023		$ 1,140,578	1,140,578	1,106,361	0.41%
Total											$ 21,632,802	$ 21,286,125	7.87%
Furniture Factory Outlet, LLC									Fort Smith, AR				
Term Loan		First Lien	7.00%		7.00%		6/10/2016	6/10/2021	Consumer Goods: Durable	$ 14,801,785	14,678,894	11,989,446	4.43%
Furniture Factory Holdings, LLC Term Loan	(6)	Unsecured	11.00%			11.00%	6/10/2016	2/3/2021		$ 147,231	147,231	0	0.00%
Furniture Factory Ultimate Holding, LP Common Units	(4)	Equity					6/10/2016			13,445 shares	94,569	0	0.00%
Total											$ 14,920,694	$ 11,989,446	4.43%
GK Holdings, Inc.									Cary, NC				
Term Loan	(12)	Second Lien	3M L+10.25%	1.00%	12.19%		1/30/2015	1/20/2022	Education	$ 5,000,000	4,961,969	4,375,000	1.62%
General LED OPCO, LLC									San Antonio, TX				
Term Loan	(12)	Second Lien	3M L+9.00%	1.50%	10.95%		5/1/2018	11/1/2023	Services: Business	$ 4,500,000	4,432,260	4,230,000	1.56%
GS HVAM Intermediate, LLC	(21)(34)								Carlsbad, CA				
Term Loan	(12)	First Lien	1M L+5.75%	1.00%	7.56%		10/18/2019	10/2/2024	Beverage, Food, & Tobacco	$ 13,257,576	13,128,716	13,128,716	4.85%
HV GS Acquisition, LP Class A Interests	(4)	Equity					6/29/2018			1,796 shares	1,618,844	1,620,000	0.60%
Total											$ 14,747,560	$ 14,748,716	5.45%
Grupo HIMA San Pablo, Inc., et al									San Juan, PR				
Term Loan	(12)(27)	First Lien	3M L+7.00%	1.50%	8.94%		2/1/2013	1/31/2018	Healthcare & Pharmaceuticals	$ 4,503,720	4,503,720	3,490,383	1.29%
Term Loan	(15)(27)	Second Lien	13.75%		0.00%		2/1/2013	7/31/2018		$ 4,109,524	4,109,524	0	0.00%
Total											$ 8,613,244	$ 3,490,383	1.29%
ICD Intermediate Holdco 2, LLC									San Francisco, CA				
Term Loan (SBIC)	(2)(5)(12)	Second Lien	3M L+9.00%	1.00%	10.95%		1/1/2018	7/1/2024	Finance	$ 10,000,000	9,847,895	10,000,000	3.70%
ICD Holdings, LLC, Class A Preferred	(4)(5)	Equity					1/1/2018			9,962 shares	496,405	1,030,000	0.38%
Total											$ 10,344,300	$ 11,030,000	4.08%
Integrated Oncology Network, LLC	(29)(30)								Newport Beach, CA				
Term Loan	(12)	First Lien	3M L+5.50%	1.50%	7.43%		7/17/2019	6/24/2024	Healthcare & Pharmaceuticals	$ 16,637,202	16,332,432	16,387,644	6.06%
Intuitive Health, LLC									Plano, TX				
Term Loan (SBIC II)	(9)(12)	First Lien	3M L+6.00%	1.50%	7.95%		10/18/2019	10/18/2024	Healthcare & Pharmaceuticals	$ 6,000,000	5,883,278	5,883,278	2.17%
Term Loan	(12)	First Lien	3M L+6.00%	1.50%	7.95%		10/18/2019	10/18/2024		$ 11,500,000	11,276,284	11,276,284	4.17%
Total											$ 17,159,562	$ 17,159,562	6.34%
Invincible Boat Company, LLC									Opa Locka, FL				
Term Loan (SBIC II)	(9)(12)	First Lien	3M L+6.50%	1.50%	8.45%		8/28/2019	8/28/2025	Consumer Goods: Durable	$ 5,962,500	5,848,418	5,843,250	2.16%
Term Loan	(12)	First Lien	3M L+6.50%	1.50%	8.45%		8/28/2019	8/28/2025		$ 6,459,375	6,264,417	6,330,188	2.34%
Revolver	(12)(28)	First Lien	3M L+6.50%	1.50%	8.45%		8/28/2019	8/28/2025		$ 568,182	568,182	556,818	0.21%
Invincible Parent Holdco, LLC Class A Common Units	(4)	Equity					8/28/2019			1,000,000 shares	982,099	1,090,000	0.40%
Total											$ 13,663,116	$ 13,820,256	5.11%
J.R. Watkins, LLC									San Francisco, CA				
Revolver	(12)	First Lien	1M L+6.50%	1.25%	8.30%		12/22/2017	12/22/2022	Consumer Goods: non-durable	$ 1,750,000	1,750,000	1,470,000	0.54%
Term Loan (SBIC)	(2)(12)	First Lien	1M L+6.50%	1.25%	8.30%		12/22/2017	12/22/2022		$ 12,250,000	12,091,135	10,290,000	3.80%
J.R. Watkins Holdings, Inc. Class A Preferred	(4)	Equity					12/22/2017			1,133 shares	1,132,576	10,000	0.00%
Total											$ 14,973,711	$ 11,770,000	4.34%

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Jurassic Acquisiton Corp.									Sparks, MD				
Term Loan	(12)	First Lien	1M L+5.50%	0.00%	7.30%		12/28/2018	11/15/2024	Metals & Mining	$ 17,325,000	$ 17,103,044	$ 17,325,000	6.40%
Kelleyamerit Holdings, Inc.									Walnut Creek, CA				
Term Loan (SBIC)	(2)(13)(22)	First Lien	3M L+7.50%	1.00%	10.03%		3/30/2018	3/30/2023	Automotive	$ 9,750,000	9,611,438	9,555,000	3.53%
KidKraft, Inc.									Dallas, TX				
Term Loan	(6)	Second Lien	12.00%		11.00%	1.00%	9/30/2016	3/30/2022	Consumer Goods: Durable	$ 9,503,655	9,411,079	8,410,735	3.11%
Lynx FBO Operating, LLC	(31)								Houston, TX				
Term Loan	(12)	First Lien	3M L+5.75%	1.50%	7.86%		9/30/2019	9/30/2024	Aerospace & Defense	$ 13,750,000	13,486,379	13,486,379	4.98%
Lynx FBO Investments, LLC Class A-1 Common Units	(4)	Equity					9/30/2019			3,704 shares	500,040	500,000	0.18%
Total											$ 13,986,419	$ 13,986,379	5.16%
Madison Logic, Inc.									New York, NY				
Term Loan (SBIC)	(2)(12)	First Lien	1M L+8.00%	0.50%	9.80%		11/30/2016	11/30/2021	Media: Broadcasting & Subscription	$ 4,581,402	4,561,449	4,581,402	1.69%
Madison Logic Holdings, Inc. Common Stock (SBIC)	(2)(4)	Equity					11/30/2016			5,000 shares	50,000	60,000	0.02%
Madison Logic Holdings, Inc. Series A Preferred Stock (SBIC)	(2)(4)	Equity					11/30/2016			4,500 shares	450,000	520,000	0.19%
Total											$ 5,061,449	$ 5,161,402	1.90%
Mobile Acquisition Holdings, LP									Santa Clara, CA				
Class A Common Units	(4)	Equity					11/1/2016		Software	750 units	455,385	1,740,000	0.64%
Munch's Supply, LLC	(20)								New Lenox, IL				
Term Loan	(12)	First Lien	3M L+6.25%	1.00%	8.35%		4/11/2019	4/11/2024	Capital Equipment	$ 7,960,000	7,890,332	7,880,400	2.91%
Cool Supply Holdings, LLC Class A Common Units	(4)	Equity					4/11/2019			500,000 units	498,779	410,000	0.15%
Total											$ 8,389,111	$ 8,290,400	3.06%
National Trench Safety, LLC, et al									Houston, TX				
Term Loan (SBIC)	(2)	Second Lien	11.50%		11.50%		3/31/2017	3/31/2022	Construction & Building	$ 10,000,000	9,908,323	10,000,000	3.70%
NTS Investors, LP Class A Common Units	(4)	Equity					3/31/2017			2,335 units	500,000	500,000	0.18%
Total											$ 10,408,323	$ 10,500,000	3.88%
Naumann/Hobbs Material Handling Corporation II, Inc.	(32)								Phoenix, AZ				
Term Loan (SBIC II)	(9)(12)	First Lien	3M L+6.25%	1.50%	8.20%		8/30/2019	8/30/2024	Services: Business	$ 5,978,693	5,865,655	5,859,119	2.17%
Term Loan	(12)	First Lien	3M L+6.25%	1.50%	8.20%		8/30/2019	8/30/2024		$ 9,480,904	9,301,650	9,291,286	3.43%
CGC NH, Inc. Common Units	(4)	Equity					8/30/2019			123 shares	440,758	400,000	0.15%
Total											$ 15,608,063	$ 15,550,405	5.75%
NGS US Finco, LLC									Bradford, PA				
Term Loan (SBIC)	(2)(12)	Second Lien	1M L+8.50%	1.00%	10.30%		10/1/2018	4/1/2026	Utilities: Oil & Gas	$ 10,000,000	9,868,044	9,900,000	3.66%
NS412, LLC									Dallas, TX				
Term Loan	(12)	Second Lien	3M L+8.50%	1.00%	10.45%		5/6/2019	11/6/2025	Services: Consumer	$ 7,615,000	7,474,214	7,500,775	2.77%
NS Group Holding Company, LLC Class A Common Units	(4)	Equity					5/6/2019			750 shares	750,000	810,000	0.30%
Total											$ 8,224,214	$ 8,310,775	3.07%
NuMet Machining Techniques, LLC									Birmingham, UK				
Term Loan	(5)(35)	Second Lien	6M L+9.00%	2.00%	11.00%		11/5/2019	5/5/2026	Aerospace & Defense	$ 11,700,000	11,470,017	11,470,017	4.24%
Bromford Industries Limited Term Loan	(5)(35)	Second Lien	6M L+9.00%	2.00%	11.00%		11/5/2019	5/5/2026		$7,800,000	7,646,678	7,646,678	2.83%
Bromford Holdings, L.P. Class A Membership Units	(4)(5)	Equity					11/5/2019			1,000,000 shares	1,000,000	1,000,000	0.37%
Total											$ 20,116,695	$ 20,116,695	7.44%
Nutritional Medicinals, LLC	(24)								Centerville, OH				
Term Loan	(12)	First Lien	3M L+6.00%	1.00%	7.95%		11/15/2018	11/15/2023	Healthcare & Pharmaceuticals	$ 14,845,000	14,606,657	14,399,650	5.32%
Functional Aggregator, LLC Common Units	(4)	Equity					11/15/2018			12,500 shares	1,250,000	1,260,000	0.47%
Total											$ 15,856,657	$ 15,659,650	5.79%
PCP MT Aggregator Holdings, L.P.									Oak Brook, IL				
Common LP Units	(4)	Equity					3/29/2019		Finance	750,000 shares	0	1,080,000	0.40%

See accompanying notes to these consolidated financial statements.

Stellus Capital Investment Corporation
Consolidated Schedule of Investments
December 31, 2019

Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value(1)	% of Net Assets
PCS Software, Inc.	(11)(33)								Shenandoah, Tx				
Term Loan (SBIC)	(2)(12)	First Lien	3M L+5.75%	1.50%	7.70%		7/1/2019	7/1/2024	Transportation & Logistics	$ 1,990,000	$ 1,953,461	$ 1,960,150	0.72%
Term Loan	(12)	First Lien	3M L+5.75%	1.50%	7.70%		7/1/2019	7/1/2024		$ 15,173,750	14,895,138	14,946,144	5.52%
PCS Software Holdings, LLC Class A Preferred Units	(4)	Equity					7/1/2019			325,000 shares	325,000	320,000	0.12%
Total											$ 17,173,599	$ 17,226,294	6.36%
Pioneer Transformers, L.P.									Franklin, WI				
Term Loan (SBIC II)	(9)(12)	First Lien	1M L+6.00%	1.50%	7.79%		11/22/2019	8/16/2024	Capital Equipment	$ 4,987,500	4,901,484	4,901,484	1.81%
Premiere Digital Services, Inc.									Los Angeles, CA				
Term Loan (SBIC)	(2)(13)(22)	First Lien	3M L+5.50%	1.50%	8.73%		10/18/2018	10/18/2023	Media: Broadcasting & Subscription	$ 9,992,518	9,753,256	9,842,630	3.64%
Term Loan	(13)(22)	First Lien	3M L+5.50%	1.50%	8.73%		10/18/2018	10/18/2023		$ 2,428,772	2,372,392	2,392,341	0.88%
Premiere Digital Holdings, Inc., Common Stock	(4)	Equity					10/18/2018			5,000 shares	50,000	70,000	0.03%
Premiere Digital Holdings, Inc., Preferred Stock	(4)	Equity					10/18/2018			4,500 shares	450,000	600,000	0.22%
Total											$ 12,625,648	$ 12,904,971	4.77%
Price for Profit, LLC	(17)								Cleveland, OH				
Term Loan (SBIC)	(2)(12)	First Lien	3M L+6.50%	1.00%	8.45%		1/31/2018	1/31/2023	Services: Business	$ 3,887,657	3,836,120	3,887,657	1.44%
I2P Holdings, LLC, Series A Preferred	(4)	Equity					1/31/2018			750,000 shares	750,000	2,800,000	1.03%
Total											$ 4,586,120	$ 6,687,657	2.47%
Protect America, Inc.									Austin TX				
Term Loan (SBIC)	(2)(6)(12)(26)	Second Lien	3M L+7.75%	1.00%	0.00%		8/30/2017	10/30/2020	Services: Consumer	$ 17,979,749	17,851,392	5,034,330	1.86%
Skopos Financial, LLC									Irving, TX				
Term Loan	(5)	Unsecured	12.00%		12.00%		1/31/2014	1/31/2021	Finance	$ 15,500,000	15,500,000	15,422,500	5.70%
Skopos Financial Group, LLC Series A Preferred Units	(4)(5)	Equity					1/31/2014			1,120,684 units	1,162,544	1,110,000	0.41%
Total											$ 16,662,544	$ 16,532,500	6.11%
Specified Air Solutions, LLC									Buffalo, NY				
Class A Common Units	(4)	Equity					6/30/2017		Construction & Building	3,846 shares	0	250,000	0.09%
SQAD, LLC									Tarrytown, NY				
Term Loan (SBIC)	(2)(12)	First Lien	3M L+6.50%	1.00%	8.44%		12/22/2017	12/22/2022	Media: Broadcasting & Subscription	$ 14,497,594	14,447,718	14,352,618	5.30%
SQAD Holdco, Inc. Preferred Shares, Series A (SBIC)	(2)(4)	Equity					10/31/2013			5,624 shares	156,001	720,000	0.27%
SQAD Holdco, Inc. Common Shares (SBIC)	(2)(4)	Equity					10/31/2013			5,800 shares	62,485	80,000	0.03%
Total											$ 14,666,204	$ 15,152,618	5.60%
TechInsights, Inc.									Ottawa, Ontario				
Term Loan	(5)(13)(22)	First Lien	3M L+6.00%	1.00%	9.33%		8/16/2017	10/2/2023	High Tech Industries	$ 21,540,925	21,201,137	21,217,811	7.84%
Time Manufacturing Acquisition, LLC									Waco, TX				
Term Loan	(6)	Unsecured	11.50%		10.75%	0.75%	2/3/2017	8/3/2023	Capital Equipment	$ 6,385,182	6,302,784	6,385,182	2.36%
Time Manufacturing Investments, LLC Class A Common Units	(4)	Equity					2/3/2017			5,000 units	500,000	660,000	0.24%
Total											$ 6,802,784	$ 7,045,182	2.60%
TFH Reliability, LLC									Houston, TX				
Term Loan (SBIC)	(2)(12)	Second Lien	3M L+10.75%	0.50%	12.70%		10/21/2016	4/21/2022	Chemicals, Plastics, & Rubber	$ 5,875,000	5,814,371	5,875,000	2.17%
TFH Reliability Group, LLC Class A Common Units	(4)	Equity					10/21/2016			250,000 shares	231,521	220,000	0.08%
Total											$ 6,045,892	$ 6,095,000	2.25%
U.S. Auto Sales, Inc. et al									Lawrenceville, GA				
USASF Blocker II, LLC Common Units	(4)(5)	Equity					6/8/2015		Finance	441 units	441,000	690,000	0.26%
USASF Blocker III, LLC Series C Preferred Units	(4)(5)	Equity					2/13/2018			125 Units	125,000	200,000	0.07%
USASF Blocker LLC Common Units	(4)(5)	Equity					6/8/2015			9,000 units	9,000	10,000	0.00%
Total											$ 575,000	$ 900,000	0.33%

See accompanying notes to these consolidated financial statements.

Stellus Capital Investment Corporation
Consolidated Schedule of Investments
December 31, 2019

Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value(1)	% of Net Assets
VRI Intermediate Holdings, LLC									Franklin, OH				
Term Loan (SBIC)	(2)(12)	Second Lien	3M L+9.25%	1.00%	11.20%		5/31/2017	10/31/2020	Healthcare & Pharmaceuticals	$ 9,000,000	$ 8,949,730	$ 9,000,000	3.33%
VRI Ultimate Holdings, LLC Class A Preferred Units	(4)	Equity					5/31/2017			326,797 shares	500,000	610,000	0.23%
Total											$ 9,449,730	$ 9,610,000	3.56%
Whisps Acquisiton Corp.									Elgin, IL				
Term Loan	(12)	First Lien	3M L+6.00%	0.00%	7.95%		4/26/2019	4/18/2025	Beverage, Food, & Tobacco	$ 8,875,000	8,717,992	8,875,000	3.28%
Whisps Holding LP Class A Common Units	(4)	Equity					4/18/2019			500,000 shares	500,000	680,000	0.25%
Total											$ 9,217,992	$ 9,555,000	3.53%
Wise Parent Company, LLC									Salt Lake City, UT				
Membership Units	(4)	Equity					8/27/2018		Beverage, Food, & Tobacco	6 units	41,894	30,000	0.01%
Total Non-controlled, non-affiliated investments											642,707,824	628,948,077	232.45%
Net Investments											642,707,824	628,948,077	232.45%
LIABILITIES IN EXCESS OF OTHER ASSETS												(358,376,904)	(132.45)%
NET ASSETS												$ 270,571,173	100.00%

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

(2) Investments held by the SBIC subsidiaries (as defined in Note 1), which include $8,445,923 of cash and $222,009,613 of investments (at cost), are excluded from the obligations to the lenders of the Credit Facility (as defined in Note 9). The Company's obligations to the lenders of the Credit Facility are secured by a first priority security interest in all investments and cash and cash equivalents, except for investments held by the SBIC subsidiaries (as defined in Note 1).

(3) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $669,231, with an interest rate of LIBOR plus 7.50% and a maturity of June 30, 2023. This investment is accruing an unused commitment fee of 0.375% per annum.

(4) Security is non-income producing.

(5) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended. The Company may not acquire any non-qualifying assets unless, at the time of the acquisition, qualifying assets represent at least 70% of the Company's total assets. Qualifying assets represent approximately 89% of the Company's total assets as of December 31, 2019.

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

(7) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $666,666, with an interest rate of LIBOR plus 6.25% and a maturity of June 29, 2022. This investment is accruing an unused commitment fee of 0.50% per annum.

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

(9) Investments held by the SBIC II subsidiary (as defined in Note 1), which include $477,392 of cash and $22,498,836 of investments (at cost), are excluded from the obligations to the lenders of the Credit Facility (as defined in Note 9). The Company's obligations to the lenders of the Credit Facility are secured by a first priority security interest in all investments and cash and cash equivalents, except for cash and investments held by the SBIC subsidiaries.

See accompanying notes to these consolidated financial statements.

(10) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $872,727, with an interest rate of LIBOR plus 5.75% and a maturity of November 1, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.

(11) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,500,000, with an interest rate of LIBOR plus 5.75% and a maturity of July 1, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

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

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

(14) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,500,000, with an interest rate of LIBOR plus 5.75% and a maturity of February 8, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

(15) Investment has been on non-accrual since October 31, 2017.

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

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

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

(19) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $488,998, with an interest rate of LIBOR plus 6.50% and a maturity of September 26, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

(20) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $2,222,222, with an interest rate of LIBOR plus 6.25% and a maturity of April 11, 2024. This investment is accruing an unused commitment fee of 1.00% per annum

(21) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $2,651,515, with an interest rate of LIBOR plus 5.75% and a maturity of October 2, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

(22) This loan is a unitranche investment.

(23) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $1,662,592, with an interest rate of LIBOR plus 6.50% and a maturity of September 26, 2023. This investment is not accruing an unused commitment fee.

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

(25) Excluded from the investment is an undrawn delayed draw term commitment in an amount not to exceed $4,000,000, with an interest rate of LIBOR plus 5.75% and a maturity of February 8, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

See accompanying notes to these consolidated financial statements.

(26) Investment has been on non-accrual since June 28, 2019.

(27) Maturity date is under on-going negotiations with portfolio company and other lenders, if applicable.

(28) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $852,273, with an interest rate of LIBOR plus 6.50% and a maturity of August 28, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.

(29) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $553,517, with an interest rate of LIBOR plus 5.50% and a maturity of June 24, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

(30) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $2,767,584, with an interest rate of LIBOR plus 5.50% and a maturity of June 24, 2024. This investment is accruing an unused commitment fee of 1.00% per annum.

(31) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $1,875,000, with an interest rate of LIBOR plus 5.75% and a maturity of September 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

(32) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed $2,644,550, with an interest rate of LIBOR plus 6.25% and a maturity of August 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.

(33) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $3,750,000, with an interest rate of LIBOR plus 5.75% and a maturity of March 31, 2020. This investment is not accruing an unused commitment fee.

(34) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed $1,590,909, with an interest rate of LIBOR plus 5.75% and a maturity of October 2, 2024. This investment is accruing an unused commitment fee of 1.00% per annum.

(35) These loans have LIBOR Floors which are higher than the current applicable LIBOR rates; therefore, the floors are in effect.

Abbreviation Legend
PIK — Payment-In-Kind
L — LIBOR
Euro — Euro Dollar

See accompanying notes to these consolidated financial statements.

NOTE 1 — NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Stellus Capital Investment Corporation ("we", "us", "our" and the "Company") was formed as a Maryland corporation on May 18, 2012 ("Inception") and is an externally managed, closed-end, non-diversified investment management company. The Company is applying the guidance of Accounting Standards Codification ("ASC") Topic 946, *Financial Services Investment Companies*. The Company has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"), and treated as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), for U.S. federal income tax purposes. The Company's investment activities are managed by our investment adviser, Stellus Capital Management, LLC ("Stellus Capital" or the "Advisor").

As of September 30, 2020, the Company had issued a total of 19,486,003 shares and raised $286,629,818 in gross proceeds since Inception, incurring $9,127,228 in offering expenses and sales load fees for net proceeds from offerings of $277,502,590. The Company's shares are currently listed on the New York Stock Exchange under the symbol "SCM". See Note 4 for further details.

The Company has established the following wholly owned subsidiaries: SCIC — Consolidated Blocker 1, Inc., SCIC – ICD Blocker 1, Inc., SCIC — Invincible Blocker 1, Inc., SCIC — FBO Blocker 1, Inc., SCIC — SKP Blocker 1, Inc., SCIC — APE Blocker 1, Inc., SCIC — Venbrook Blocker 1, Inc., SCIC — CC Blocker 1, Inc., SCIC — ERC Blocker 1, Inc., and SCIC — Hollander Blocker 1, Inc., which are structured as Delaware entities, to hold equity or equity-like investments in portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities) (collectively, the "Taxable Subsidiaries"). The Taxable Subsidiaries are consolidated for U.S. generally accepted accounting principles ("U.S. GAAP") reporting purposes, and the portfolio investments held by them are included in the consolidated financial statements.

On June 14, 2013, the Company formed Stellus Capital SBIC, LP (the "SBIC subsidiary"), a Delaware limited partnership, and its general partner, Stellus Capital SBIC GP, LLC, a Delaware limited liability company, as wholly owned subsidiaries of the Company. On June 20, 2014, the SBIC subsidiary received a license from the U.S. Small Business Administration ("SBA") to operate as a Small Business Investment Company ("SBIC") under Section 301(c) of the Small Business Investment Company Act of 1958, as amended (the "SBIC Act"). The SBIC subsidiary and its general partner are consolidated for U.S. GAAP reporting purposes, and the portfolio investments held by it are included in the consolidated financial statements.

On November 29, 2018, the Company formed Stellus Capital SBIC II, LP (the "SBIC II subsidiary"), a Delaware limited partnership, and its general partner, Stellus Capital SBIC II GP, LLC, a Delaware limited liability company, as wholly owned subsidiaries of the Company. On August 14, 2019, the SBIC II subsidiary received a license from the SBA to operate as an SBIC under Section 301(c) of the SBIC Act. The SBIC II subsidiary and its general partner are consolidated for U.S. GAAP reporting purposes, and the portfolio investments held by it are included in the consolidated financial statements.

The SBIC licenses allow the SBIC subsidiary and SBIC II subsidiary (together, "the SBIC subsidiaries") to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, will have a superior claim to the SBIC subsidiaries' assets over the Company's stockholders in the event the Company liquidates one or both of the SBIC subsidiaries or the SBA exercises its remedies under the SBA-guaranteed debentures issued by the SBIC subsidiaries upon an event of default. For the SBIC subsidiary, SBA regulations limit the amount that a single licensee may borrow to a maximum of $150,000,000 when it has at least $75,000,000 in regulatory capital, as such term is defined by the SBA, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. For the SBIC II subsidiary, SBA regulations limit these amounts for two SBICs to an aggregate of $175,000,000 of borrowings when it has an aggregate of at least $87,500,000 of regulatory capital.

As of both September 30, 2020 and December 31, 2019, the SBIC subsidiary had $75,000,000 in regulatory capital and $150,000,000 of SBA-guaranteed debentures outstanding. As of both September 30, 2020 and December 31, 2019, the SBIC II subsidiary had $20,000,000 in regulatory capital and $11,000,000 of SBA-guaranteed debentures outstanding. See footnote (2) of the Consolidated Schedule of Investments as of September 30, 2020 for additional information regarding the treatment of the SBIC subsidiaries' investments with respect to the Credit Facility (as defined in Note 9).

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

On April 4, 2018, the Company's board of directors (the "Board"), including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. The Board also approved the submission of a proposal to approve the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, which was approved by shareholders at the Company's 2018 annual meeting of stockholders. As a result, the asset coverage ratio test applicable to the Company was decreased from 200% to 150%, effective June 28, 2018. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing. As of September 30, 2020, our asset coverage ratio was 209%.

The Company's investment objective is to maximize the total return to its stockholders in the form of current income and capital appreciation through debt and related equity investments in middle-market companies. The Company seeks to achieve its investment objective by originating and investing primarily in private U.S. middle-market companies (typically those with $5,000,000 to $50,000,000 of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien, second lien, unitranche and unsecured debt financing, with corresponding equity co-investments. The Company sources investments primarily through the extensive network of relationships that the principals of Stellus Capital have developed with financial sponsor firms, financial institutions, middle-market companies, management teams and other professional intermediaries.

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, certain disclosures accompanying the annual financial statements prepared in accordance with U.S. GAAP are omitted. The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of the financial statements for the interim periods included herein. The results of operations for the three and nine months ended September 30, 2020 and September 30, 2019 are not necessarily indicative of the operating results to be expected for the full year. Also, the unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2019. In accordance with Regulation S-X under the Exchange Act, the Company does not consolidate portfolio company investments. The accounting records of the Company are maintained in U.S. dollars.

COVID-19 Developments

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and recommended containment and mitigation measures worldwide. As of the three and nine months ended September 30, 2020, and subsequent to September 30, 2020, the COVID-19 pandemic has had a significant impact on the U.S. and global economy. Each portfolio company has been assessed on an individual basis to identify the impact of the COVID-19 pandemic on the valuation of our investments in such company. The Company believes that any such COVID-19 pandemic impacts have been reflected in the valuation of its investments.

The global impact of the outbreak continues to evolve, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of the COVID-19 pandemic, have created significant disruption in supply chains and economic activity. The impact of COVID-19 has led to significant volatility in the global public equity markets and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, remain uncertain and difficult to assess. The extent of the impact of the COVID-19 pandemic on the financial performance of our current and future investments will depend on future developments, including the duration and spread of the virus, related advisories and restrictions, and the health of the financial markets and economy, all of which are highly uncertain and cannot be predicted. To the extent the Company's portfolio companies are adversely impacted by the effects of the COVID-19 pandemic, it may have a material adverse impact on the Company's future net investment income, the fair value of the Company's portfolio investments and the Company's financial condition.

Portfolio Investment Classification

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

Cash and Cash Equivalents

At September 30, 2020, cash balances totaling $327,783 exceeded the FDIC insurance protection levels of $250,000 by $77,783. In addition, at September 30, 2020, the Company held $38,290,186 in cash equivalents, which are carried at cost, which approximates the fair value of the cash equivalents. All of the Company's cash deposits are held at large established high credit quality financial institutions and management believes that risk of loss associated with any uninsured balances is remote.

Cash consists of bank demand deposits. We deem certain U.S. Treasury Bills and other high-quality, short-term debt securities as cash equivalents.

Fair Value Measurements

We account for substantially all of our financial instruments at fair value in accordance with ASC Topic 820 — Fair Value Measurements and Disclosures ("ASC Topic 820"). ASC Topic 820 defines fair value, establishes a framework used to measure fair value, and requires disclosures for fair value measurements, including the categorization of financial instruments into a three-level hierarchy based on the transparency of valuation inputs. ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. We believe that the carrying amounts of our financial instruments such as cash, receivables and payables approximate the fair value of these items due to the short maturity of these instruments. This is considered a Level 1 valuation technique. The carrying values of our Credit Facility and SBA-guaranteed debentures approximate fair value because the interest rates adjusts to the market interest rates (Level 3 input). The carrying value of our 2022 Notes (as defined in Note 11 below) is based on the closing price of the security (Level 2 input). See Note 6 to the consolidated financial statements for further discussion regarding the fair value measurements and hierarchy.

The COVID-19 pandemic is an unprecedented circumstance that could materially impact the fair value of the Company's investments. As a result, the fair value of the Company's portfolio investments may be further negatively impacted after September 30, 2020, by circumstances and events that are not yet known.

The COVID-19 pandemic may also impact the Company's portfolio companies' ability to pay their respective contractual obligations, including principal and interest due to the Company, and some portfolio companies could require interest or principal deferrals in order to fulfill short-term liquidity needs. The Company is working with each of its portfolio companies, as necessary, to help them access short-term liquidity through potential interest deferrals, funding on unused lines of credit, and other sources of liquidity. For the nine months ended September 30, 2020, no interest deferrals have been made; related to COVID-19 or otherwise.

Consolidation

As permitted under Regulation S-X under the Exchange Act and ASC Topic 946, we generally do not consolidate our investment in a portfolio company other than an investment company subsidiary. Accordingly, we consolidated the results of the SBIC subsidiaries and the Taxable Subsidiaries. All intercompany balances have been eliminated upon consolidation.

Use of Estimates

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

Deferred Financing Costs, Prepaid Loan Fees on SBA Debentures and Prepaid Loan Structure Fees

Deferred financing costs, prepaid loan fees on SBA-guaranteed debentures and prepaid loan structure fees consist of fees and expenses paid in connection with the closing of the 2022 Notes, our Credit Facility, and SBA-guaranteed debentures and are capitalized at the time of payment. These costs are presented as a direct deduction to the carrying amount of the respective liability and amortized using the straight-line method over the term of the respective instrument and presented as an offset to the corresponding debt on the Consolidated Statements of Assets and Liabilities.

Offering Costs

Deferred offering costs consist of fees and expenses incurred in connection with the offer and sale of the Company's common stock, including legal, accounting, printing fees and other related expenses, as well as costs incurred in connection with the filing of a shelf registration statement. These costs are capitalized when incurred and recognized as a reduction of offering proceeds when the offering is consummated and shown on the Consolidated Statement of Changes in Net Assets and Liabilities as a reduction to Paid-in-Capital.

Investments

As a BDC, the Company will generally invest in illiquid loans and securities including debt and equity securities of private middle-market companies. Under procedures established by our Board, the Company intends to value investments for which market quotations are readily available at such market quotations. The Company will obtain these market values from an independent pricing service or at the median between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). Debt and equity securities that are not publicly traded or whose market prices are not readily available will be valued at fair value as determined in good faith by our Board. Such determination of fair values may involve subjective judgments and estimates. The Company also engages independent valuation providers to review the valuation of each portfolio investment that does not have a readily available market quotation at least twice annually.

Investments purchased within approximately 90 days of the valuation date will typically be valued at cost plus accreted discount, or minus amortized premium, which approximates fair value. With respect to unquoted securities, our Board will value each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the Board will use the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because the Company expects that there will not be a readily available market for many of the investments in our portfolio, the Company expects to value most of our portfolio investments at fair value as determined in good faith by the Board using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

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

Revenue Recognition

The Company records interest income on an accrual basis to the extent such interest is deemed collectible. Payment-in-kind (“PIK”) interest, represents contractual interest accrued and added to the loan balance that generally becomes due at maturity. We will not accrue any form of interest on loans and debt securities if there is reason to doubt our ability to collect such interest. Loan origination fees, original issue discount and market discount or premium are capitalized, and we then accrete or amortize such amounts using the effective interest method as interest income. Upon the prepayment of a loan or debt security, any unamortized loan origination fee is recorded as interest income. We record prepayment premiums on loans and debt securities as other income. Dividend income, if any, will be recognized on the declaration date.

A presentation of the interest income we have received from portfolio companies for the three and nine months ended September 30, 2020 and 2019 is as follows:

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Loan interest	$ 12,651,487	$ 13,970,645	$ 38,986,585	$ 39,725,547
PIK income	15,783	312,762	568,028	378,118
Fee amortization income[(1)]	597,153	524,288	1,826,982	1,465,356
Fee income acceleration[(2)]	442,920	327,179	810,816	797,113
Total Interest Income	$ 13,707,343	$ 15,134,874	$ 42,192,411	$ 42,366,134

(1) Includes amortization of fees on unfunded commitments.

(2) Unamortized loan origination fees recognized upon realization.

To maintain our treatment as a RIC, substantially all of this income must be paid to stockholders in the form of distributions, even if we have not collected any cash.

Management considers portfolio-specific circumstances as well as other economic factors in determining collectability. As of September 30, 2020, loans to five portfolio companies were on non-accrual status, which represented approximately 6.8% of our loan portfolio at cost and 1.6% at fair value. As of December 31, 2019, loans to two portfolio companies were on non-accrual status, which represented approximately 3.6% of our loan portfolio at cost and 0.9% at fair value. As of September 30, 2020 and December 31, 2019, $6,671,756 and $3,779,593 of income from investments on non-accrual has not been accrued. If a loan or debt security’s status significantly improves regarding the debtor’s ability to service the debt or other obligations, or if a loan or debt security is sold or written off, it will be removed from non-accrual status.

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

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

The net change in depreciation for the nine months ended September 30, 2020 resulted primarily from company-specific write-downs.

The net change in appreciation for the three months ended September 30, 2020 resulted primarily from spread tightening and unrealized appreciation on certain equity positions.

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

Receivables and Payables for Unsettled Securities Transaction

The Company records all investments on a trade date basis.

U.S. Federal Income Taxes

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

To avoid a 4% U.S federal excise tax on undistributed earnings, the Company is required to distribute each calendar year the sum of (i) 98% of its ordinary income for such calendar year (ii) 98.2% of its net capital gains for the one-year period ending December 31 (iii) any income recognized, but not distributed, in preceding years and on which the Company paid no U.S. federal income tax or the Excise Tax Avoidance Requirement. For this purpose, however, any net ordinary income or capital gain net income retained by us that is subject to corporate income tax for the tax year ending in that calendar year will be considered to have been distributed by year end (or earlier if estimated taxes are paid). The Company, at its discretion, may choose not to distribute all of its taxable income for the calendar year and pay a non-deductible 4% excise tax on this income. If the Company chooses to do so, all other things being equal, this would increase expenses and reduce the amount available to be distributed to stockholders. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, the Company accrues excise taxes on estimated excess taxable income as taxable income is earned. The amount of taxable income subject to the excise tax in 2020 from prior years is $21,444,320.

Income tax expense of $367,836 and $853,631 for the three and nine months ended September 30, 2020, respectively, was related mostly to excise tax; as was income tax expense of $350,549 and $705,677 for the three and nine months ended September 30, 2019.

The Company evaluates tax positions taken or expected to be taken while preparing its tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions deemed to meet a "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the applicable period.

As of September 30, 2020 and December 31, 2019, the Company had not recorded a liability for any unrecognized tax positions. Management's evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. The Company's policy is to include interest and penalties related to income taxes, if applicable, in general and administrative expenses. Any expenses for the three and nine months ended September 30, 2020 and 2019, were de minimis.

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

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

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

For the three and nine months ended September 30, 2020, the Company recorded deferred income tax provision of ($92,749) and ($122,699), respectively, related to the Taxable Subsidiaries. For the three and nine months ended September 30, 2019, the Company recorded deferred income tax benefit (provision) of $4,200 and ($35,701), respectively, related to the Taxable Subsidiaries. In addition, as of September 30, 2020 and December 31, 2019, the Company had a deferred tax liability of $257,412 and $134,713, respectively.

Earnings per Share

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

Paid In Capital

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

Distributable Earnings (Accumulated Undistributed Deficit)

The components that make up distributable earnings (accumulated undistributed deficit) on the Statement of Assets and Liabilities as of September 30, 2020 and December 31, 2019 are as follows:

	September 30, 2020	December 31, 2019
Accumulated net realized loss from investments, net of cumulative dividends of $24,557,535 for both periods	$ (8,703,269)	$ (6,258,510)
Net unrealized depreciation on non-controlled non-affiliated investments and cash equivalents, net of provision for taxes of $257,412 and $134,713, respectively	(25,072,101)	(13,894,460)
Accumulated undistributed net investment income	13,188,983	18,587,920
Accumulated undistributed deficit	$ (20,586,387)	$ (1,565,050)

Recently Issued Accounting Standards

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, Reference Rate Reform. The amendments in ASU 2020-04 provide optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The standard is effective as of March 12, 2020 through December 31, 2022. Management is currently evaluating the impact of the optional guidance on the Company's consolidated financial statements and disclosures. The Company did not utilize the optional expedients and exceptions provided by ASU 2020-04 during the nine months ended September 30, 2020.

SEC Securities Offering Reform for Closed-End Investment Companies

The SEC recently adopted a final rule under SEC Release No. 34-88365 (the “Final Rule”), amending the Accelerated Filer and Large Accelerated Filer definitions in Exchange Act Rule 12b-2 to exclude an issuer that is eligible to be a smaller reporting company and had annual revenues of less than $100 million. The amendments include a provision under which a BDC will be excluded from the “accelerated filer” and “large accelerated filer” definitions if the BDC has (1) less than $700 million in public float, and (2) investment income of less than $100 million. In addition, BDCs are subject to the same transition provisions for accelerated filer and large accelerated filer status as other issuers, but instead substituting investment income for revenue. The amendments will reduce the number of issuers required to comply with the auditor attestation on the internal control over financial reporting requirement provided under Section 404(b) of the Sarbanes-Oxley Act of 2002. The Final Rule became effective as of April 27, 2020. The impact of the Final Rule is not material to the Company’s financial statements.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by the Company as of the specified effective date. We believe the impact of the recently issued standards and any that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

NOTE 2 — RELATED PARTY ARRANGEMENTS

Investment Advisory Agreement

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

For the three and nine months ended September 30, 2020, the Company recorded an expense for base management fees of $2,796,878 and $8,259,127, respectively. For the three and nine months ended September 30, 2019, the Company recorded an expense for base management fees of $2,480,918 and $7,007,925, respectively. As of September 30, 2020 and December 31, 2019, $5,540,073 and $2,695,780, respectively, were payable to Stellus Capital.

The incentive fee has two components, investment income and capital gains, as follows:

Income Incentive Fee

The investment income component (“Income Incentive Fee”) is calculated, and payable to the Advisor, quarterly in arrears based on the Company’s pre-incentive fee net investment income for the immediately preceding calendar quarter, subject to a cumulative total return requirement and to deferral of non-cash amounts. The pre-incentive fee net investment income, which is expressed as a rate of return on the value of the Company’s net assets attributable to the Company’s common stock, for the immediately preceding calendar quarter, will have a 2.0% (which is 8.0% annualized) hurdle rate (also referred to as the “Hurdle”). Pre-incentive fee net investment income means interest income, dividend income and any other income accrued during the calendar quarter, minus the Company’s operating expenses for the quarter excluding the incentive fee. Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that the Company has not yet received in cash. The Advisor receives no incentive fee for any calendar quarter in which the Company’s pre-incentive fee net investment income does not exceed the Hurdle. Subject to the cumulative total return requirement described below, the Advisor receives 100% of the Company’s pre-incentive fee net investment income for any calendar quarter with respect to that portion of the pre-incentive net investment income for such quarter, if any, that exceeds the Hurdle but is less than 2.5% (which is 10.0% annualized) of net assets (also referred to as the “Catch-up”) and 20.0% of the Company’s pre-incentive fee net investment income for such calendar quarter, if any, greater than 2.5% (10.0% annualized) of net assets.

The foregoing Income Incentive Fee is subject to a total return requirement, which provides that no incentive fee in respect of the Company's pre-incentive fee net investment income is payable except to the extent 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding quarters. In other words, any Income Incentive Fee that is payable in a calendar quarter is limited to the lesser of (i) 20% of the amount by which the Company's pre-incentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the Catch-up, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding quarters minus (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the "cumulative net increase in net assets resulting from operations" is the amount, if positive, of the sum of pre-incentive fee net investment income, realized gains and losses and unrealized appreciation and depreciation of the Company for the then current and 11 preceding calendar quarters. In addition, the Advisor is not paid the portion of such incentive fee that is attributable to deferred interest until the Company actually receives such interest in cash.

For the three and nine months ended September 30, 2020, the Company incurred $461,590 and $1,969,976, respectively, of Income Incentive Fees. For the three and nine months ended September 30, 2019, the Company incurred $1,583,145 and $4,339,813, respectively, of Income Incentive Fees. As of September 30, 2020 and December 31, 2019, $584,881 and $1,618,509, respectively, of such Income Incentive Fees were payable to the Advisor, of which $461,058 and $1,463,003, respectively, were currently payable (as explained below). As of September 30, 2020 and December 31, 2019, $123,823 and $152,476 respectively, of Income Incentive Fees incurred but not paid by the Company were generated from deferred interest (i.e. PIK interest, certain discount accretion and deferred interest) and are not payable until such deferred amounts are received by the Company in cash.

Capital Gains Incentive Fee

The Company also pays the Advisor an incentive fee based on capital gains (the "Capital Gains Incentive Fee"). The Capital Gains Incentive Fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment management agreement, as of the termination date). The Capital Gains Incentive Fee is equal to 20.0% of the Company's cumulative aggregate realized capital gains from Inception through the end of that calendar year, computed net of the cumulative aggregate realized capital losses and cumulative aggregate unrealized capital depreciation through the end of such year. The aggregate amount of any previously paid Capital Gains Incentive Fees is subtracted from such Capital Gains Incentive Fee calculated.

U.S. GAAP requires that the incentive fee accrual considers the cumulative aggregate realized gains and losses and unrealized capital appreciation or depreciation of investments or other financial instruments in the calculation, as an incentive fee would be payable if such realized gains and losses and unrealized capital appreciation or depreciation were realized, even though such realized gains and losses and unrealized capital appreciation or depreciation is not permitted to be considered in calculating the fee actually payable under the investment advisory agreement. There can be no assurance that unrealized appreciation or depreciation will be realized in the future. Accordingly, such fees, as calculated and accrued, would not necessarily be payable under the investment advisory agreement, and may never be paid based upon the computation of incentive fees in subsequent periods. For the three and nine months ended September 30, 2020, the Company accrued $0 and ($880,913), respectively, related to the Capital Gains Incentive Fee. The Company accrued $533,920 and $1,811,533 of Capital Gains Incentive Fee for the three and nine months ended September 30, 2019, respectively. As of September 30, 2020 and December 31, 2019, $0 and $880,913, respectively, of Capital Gains Incentive Fees were accrued but not currently payable to the Advisor.

The following tables summarize the components of the incentive fees discussed above:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Income incentive fees incurred	$ 461,590	$ 1,583,145	$ 1,969,976	$ 4,339,813
Capital gains incentive fees incurred (reversed)	—	533,920	(880,913)	1,811,533
Incentive fee expense	$ 461,590	$ 2,117,065	$ 1,089,063	$ 6,151,346

	September 30, 2020	December 31, 2019
Income incentive fee currently payable	$ 461,058	$ 1,466,033
Income incentive fee deferred	123,823	152,476
Capital gains incentive fee deferred	—	880,913
Incentive fee payable	$ 584,881	$ 2,499,422

Director Fees

For the three and nine months ended September 30, 2020, the Company recorded an expense relating to director fees of $77,500 and $320,316, respectively. For the three and nine months ended September 30, 2019, the Company recorded an expense relating to director fees of $83,000 and $300,000, respectively. As of September 30, 2020 and December 31, 2019, there were no fees payable to the Company's independent directors.

Co-Investments

On October 23, 2013, the Company received an exemptive order (the "Prior Order") from the SEC to co-invest with private funds managed by Stellus Capital where doing so is consistent with the Company's investment strategy as well as applicable law (including the terms and conditions of the exemptive order issued by the SEC). On December 18, 2018, the Company received a new exemptive order (the "Order") that supersedes the Prior Order and permits the Company greater flexibility to enter into co-investment transactions. The Order expands on the Prior Order and allows the Company to co-invest with additional types of private funds, other BDCs, and registered investment companies managed by Stellus Capital or an adviser that is controlled, controlling, or under common control with Stellus Capital, subject to the conditions included therein. Pursuant to the Order, a "required majority" (as defined in Section 57(o) of the 1940 Act) of the Company's 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 the Company and its stockholders and do not involve overreaching of the Company or its stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of the Company's stockholders and is consistent with its investment objectives and strategies. The Company co-invests, subject to the conditions in the Order, with private credit funds managed by Stellus Capital that have an investment strategy that is similar or identical to the Company's investment strategy, and the Company may co-invest with other BDCs and registered investment companies managed by Stellus Capital or an adviser that is controlled, controlling, or under common control with Stellus Capital in the future. The Company believes that such co-investments may afford it additional investment opportunities and an ability to achieve greater diversification.

Additionally, pursuant to an exemptive order applicable to all BDCs that was issued by the SEC on April 8, 2020, we may, through December 31, 2020, and subject to the satisfaction of certain conditions, co-invest in our existing portfolio companies with the private funds, other BDCs, and registered investment companies covered by the Order (the "Affiliated Funds"), even if such Affiliated Funds have not previously invested in such existing portfolio company. Without this order, these Affiliated Funds would not be able to participate in such co-investments with us unless the Affiliated Funds had previously acquired securities of the portfolio company in a co-investment transaction with us.

Administrative Agent

The Company serves as the administrative agent on certain investment transactions, including co-investments with its affiliates under the Order. As of both September 30, 2020 and December 31, 2019, there was no cash due to other investment funds related to interest paid by a borrower to the Company as administrative agent. Any such amount would be included in "Other Accrued Expenses and Liabilities" on the Consolidated Statement of Assets and Liabilities.

License Agreement

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

Administration Agreement

The Company has entered into an administration agreement with Stellus Capital pursuant to which Stellus Capital will furnish the Company with office facilities and equipment and will provide the Company with the clerical, bookkeeping, recordkeeping and other administrative services necessary to conduct day-to-day operations. Under this administration agreement, Stellus Capital will perform, or oversee the performance of, the administrative services required to be performed for the Company, which include, among other things, being responsible for the financial records which the Company is required to maintain and preparing reports to its stockholders and reports filed with the SEC.

For the three and nine months ended September 30, 2020, the Company recorded expenses of $378,409 and $1,167,938, respectively, relating to the administration agreement with Stellus Capital. For the three and nine months ended September 30, 2019, the Company recorded expenses of $368,519 and $1,097,182, respectively, relating to the administration agreement with Stellus Capital. These amounts are included in administrative service expenses on the Statement of Operations. As of September 30, 2020 and December 31, 2019, $768,339 and $372,524, respectively, remained payable to Stellus Capital relating to the administration agreement.

Indemnifications

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

The Company has also entered into indemnification agreements with its directors. The indemnification agreements are intended to provide the Company's directors the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that the Company shall indemnify the director who is a party to the agreement (an "Indemnitee"), including the advancement of legal expenses, if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, other than a proceeding by or in the right of the Company.

NOTE 3 — DISTRIBUTIONS

Distributions are generally declared by the Company's Board each calendar quarter and recognized as distribution liabilities on the declaration date. The stockholder distributions, if any, will be determined by the Board. Any distribution to stockholders will be declared out of assets legally available for distribution.

For the three and nine months ended September 30, 2020, the Company has declared distributions of $0.56 and $1.15 per share, respectively, on its common stock and paid $0.50 and $0.84 per share, respectively. The $0.56 in distributions declared during the three months ended September 30, 2020 represent the normal quarterly distribution of $0.25 per share each for the third and fourth quarter, as well as a special distribution of $0.06. The Company has declared distributions of $10.91 per share on its common stock from Inception through September 30, 2020.

Year/Date Declared	Record Date	Payment Date	Per Share[(1)]
Fiscal 2012	**Various**		$ 0.18
Fiscal 2013			$ 1.36
Fiscal 2014			$ 1.42
Fiscal 2015			$ 1.36
Fiscal 2016			$ 1.36
Fiscal 2017			$ 1.36
Fiscal 2018			$ 1.36
Fiscal 2019			$ 1.36
Fiscal 2020			
January 10, 2020	January 31, 2020	February 14, 2020	$ 0.11
January 10, 2020	February 28, 2020	March 13, 2020	$ 0.11
January 10, 2020	March 31, 2020	April 15, 2020	$ 0.11
June 30, 2020	July 15, 2020	July 31, 2020	$ 0.25
July 29, 2020	September 15, 2020	September 30, 2020	$ 0.25
September 13, 2020	December 15, 2020	December 29, 2020	$ 0.25
September 13, 2020	December 15, 2020	December 29, 2020	$ 0.06
Total			**$ 10.91**

(1) Distributions for fiscal years 2012 through 2019 are shown as aggregate amounts

The Company has adopted an “opt out” dividend reinvestment plan (“DRIP”) pursuant to which a stockholder whose shares are held in his own name will receive distributions in shares of the Company’s common stock under the Company’s DRIP unless it elects to receive distributions in cash. Stockholders whose shares are held in the name of a broker or the nominee of a broker may have distributions reinvested only if such service is provided by the broker or the nominee, or if the broker of the nominee permits participation in our DRIP.

Although distributions paid in the form of additional shares of the Company’s common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in the Company’s DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes. Any distributions reinvested through the issuance of shares through the Company’s DRIP will increase the Company’s gross assets on which the base management fee and the incentive fee are determined and paid to Stellus Capital. The Company issued 0 and 21,666 shares through the DRIP during the three and nine months ended September 30, 2020, respectively. The Company did not issue shares in connection with the DRIP during the nine months ended September 30, 2019.

NOTE 4 — EQUITY OFFERINGS AND RELATED EXPENSES

The table below illustrates the number of common stock shares the Company issued since Inception through various equity offerings and pursuant to the Company's DRIP.

Issuance of Common Stock	Number of Shares	Gross Proceeds(1)(2)	Underwriting fees	Offering Expenses	Net Proceeds(3)	Average Offering Price
Year ended December 31, 2012	12,035,023	$ 180,522,093	$ 4,959,720	$ 835,500	$ 174,726,873	$ 14.90
Year ended December 31, 2013	63,998	899,964	—	—	899,964	14.06
Year ended December 31, 2014	380,936	5,485,780	75,510	29,904	5,380,366	14.47
Year ended December 31, 2017	3,465,922	48,741,406	1,358,880	307,021	47,075,505	14.06
Year ended December 31, 2018	7,931	93,737	—	—	93,737	11.85
Year ended December 31, 2019	3,177,936	45,862,995	1,015,127	521,715	44,326,153	14.43
Year to date September 30, 2020	354,257	5,023,842	5,681	18,169	4,999,992	14.18
Total	19,486,003	$ 286,629,817	$ 7,414,918	$ 1,712,309	$ 277,502,590	

(1) Net of partial share transactions. Such transactions impacted gross proceeds by $(96), $1,435, $(1,051), $(142), $(31) and $(29) in 2020, 2019, 2018, 2017, 2016 and 2015, respectively.

(2) Includes proceeds from common shares issued under the DRIP of $228,943 for the nine months ended September 30, 2020, $0 for the year ended December 31, 2019, $94,788 during the year ended December 31, 2018, $0 for the years ended December 31, 2017, 2016 and 2015, and $398,505, $930,385, $113,000 for the years ended December 31, 2014, 2013, and 2012, respectively.

(3) Net proceeds per this table will differ from the Statement of Assets and Liabilities as of December 31, 2019 and in subsequent periods in the amount of $366,375, which represents a tax reclassification of stockholder's equity in accordance with U.S. GAAP. This reclassification reduces paid-in capital and increases distributable earnings (reduces accumulated undistributed deficit).

The Company issued 332,591 shares during the nine months ended September 30, 2020 under the At-the-Market ("ATM") Program, for gross proceeds of $4,794,994 and underwriting and other expenses of $23,850. The average per share offering price of shares issued in the ATM Program during 2020 was $14.42.

During the nine months ended September 30, 2019, the Company issued 2,952,149 shares in a secondary offering. Gross proceeds resulting from the secondary offering totaled $42,599,510 and underwriting and other expenses totaled $1,296,803. The per share offering price for the secondary offering was $14.43.

The Company issued 21,666 and 0 shares of common stock through the DRIP for the nine months ended September 30, 2020 and 2019, respectively. See Note 3 for further information on distributions.

NOTE 5 — NET INCREASE IN NET ASSETS FROM OPERATIONS PER COMMON SHARE

The following information sets forth the computation of net increase in net assets resulting from operations per common share for the three and nine months ended September 30, 2020 and September 30, 2019.

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net increase in net assets resulting from operations	$ 7,508,680	$ 8,468,254	$ 3,381,622	$ 24,605,379
Weighted average common shares	19,486,030	18,905,959	19,466,647	18,056,271
Net increase in net assets from operations per share	$ 0.39	$ 0.45	$ 0.17	$ 1.36

NOTE 6 — PORTFOLIO INVESTMENTS AND FAIR VALUE

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

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

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

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

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

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

At September 30, 2020, the Company had investments in 66 portfolio companies. The total fair value and cost of the investments were $622,438,345 and $647,253,034, respectively. The composition of our investments as of September 30, 2020 is as follows:

	Cost	Fair Value
Senior Secured – First Lien(1)	$ 506,767,192	$ 494,697,192
Senior Secured – Second Lien	83,778,390	61,416,385
Unsecured Debt	22,354,859	21,174,768
Equity	34,352,593	45,150,000
Total Investments	$ 647,253,034	$ 622,438,345

(1) Includes unitranche investments, which account for 13.4% of our portfolio at fair value. Unitranche structures may combine characteristics of first lien senior secured as well as second lien and/or subordinated loans and our unitranche loans will expose us to the risks associated with the second lien and subordinated loans to the extent we invest in the “last-out” tranche.

At December 31, 2019, the Company had investments in 63 portfolio companies. The total cost and fair value of the investments were $642,707,824 and $628,948,077, respectively. The composition of our investments as of December 31, 2019 was as follows:

	Cost	Fair Value
Senior Secured – First Lien(1)	$ 461,107,595	$ 455,169,878
Senior Secured – Second Lien	130,600,172	111,961,013
Unsecured Debt	22,279,519	22,137,186
Equity	28,720,538	39,680,000
Total Investments	$ 642,707,824	$ 628,948,077

(1) Includes unitranche investments, which account for 14.4% of our portfolio at fair value. Unitranche structures may combine characteristics of first lien senior secured as well as second lien and/or subordinated loans and our unitranche loans will expose us to the risks associated with the second lien and subordinated loans to the extent we invest in the “last-out” tranche.

The Company’s investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require the Company to provide funding when requested by portfolio companies in accordance with the terms and conditions of the underlying loan agreements. As of September 30, 2020 and December 31, 2019, the Company had 18 and 17 such investments with aggregate unfunded commitments of $30,680,346 and $37,517,784, respectively. The Company maintains sufficient liquidity (through cash on hand and available borrowings under the Credit Facility) to fund such unfunded commitments should the need arise.

The fair values of our investments disaggregated into the three levels of the fair value hierarchy based upon the lowest level of significant input used in the valuation as of September 30, 2020 are as follows:

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Senior Secured – First Lien	$ —	$ —	$ 494,697,192	$ 494,697,192
Senior Secured – Second Lien	—	—	61,416,385	61,416,385
Unsecured Debt	—	—	21,174,768	21,174,768
Equity	—	—	45,150,000	45,150,000
Total Investments	$ —	$ —	$ 622,438,345	$ 622,438,345

The fair values of our investments disaggregated into the three levels of the fair value hierarchy based upon the lowest level of significant input used in the valuation as of December 31, 2019 are as follows:

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Senior Secured – First Lien	$ —	$ —	$ 455,169,878	$ 455,169,878
Senior Secured – Second Lien	—	—	111,961,013	111,961,013
Unsecured Debt	—	—	22,137,186	22,137,186
Equity	—	—	39,680,000	39,680,000
Total Investments	$ —	$ —	$ 628,948,077	$ 628,948,077

The aggregate values of Level 3 portfolio investments changed during the nine months ended September 30, 2020 are as follows:

	Senior Secured Loans-First Lien	Senior Secured Loans-Second Lien	Unsecured Debt	Equity	Total
Fair value at beginning of period	$ 455,169,878	$ 111,961,013	$ 22,137,186	$ 39,680,000	$ 628,948,077
Purchases of investments	85,877,945	—	—	6,815,423	92,693,368
Payment-in-kind interest	—	506,754	61,273	—	568,027
Sales and redemptions	(41,497,598)	(43,642,752)	—	(2,748,250)	(87,888,600)
Realized (losses) gains	—	(4,003,655)	—	1,564,881	(2,438,774)
Change in unrealized depreciation included in earnings (1)	(6,132,285)	(3,722,846)	(1,037,757)	(162,054)	(11,054,942)
Amortization of premium and accretion of discount, net	1,279,252	317,871	14,066	—	1,611,189
Fair value at end of period	$ 494,697,192	$ 61,416,385	$ 21,174,768	$ 45,150,000	$ 622,438,345

(1) Includes reversal of positions during the nine months ended September 30, 2020.

There were no Level 3 transfers during the nine months ended September 30, 2020.

The aggregate values of Level 3 portfolio investments changed during the year ended December 31, 2019 are as follows:

	Senior Secured Loans-First Lien	Senior Secured Loans-Second Lien	Unsecured Debt	Equity	Total
Fair value at beginning of period	$ 292,004,982	$ 149,661,220	$ 23,697,466	$ 39,120,000	$ 504,483,668
Purchases of investments	209,966,863	26,572,699	—	9,940,714	246,480,276
Payment-in-kind interest	262,444	94,445	59,044	—	415,933
Sales and Redemptions	(48,114,716)	(51,959,386)	(5,605,908)	(22,594,613)	(128,274,623)
Realized Gains	(212,012)	—	2,364,905	17,415,227	19,568,120
Change in unrealized appreciation (depreciation) included in earnings	22,891	(12,917,767)	1,596,438	(4,201,328)	(15,499,766)
Amortization of premium and accretion of discount, net	1,239,426	509,802	25,241	—	1,774,469
Fair value at end of period	$ 455,169,878	$ 111,961,013	$ 22,137,186	$ 39,680,000	$ 628,948,077

There were no Level 3 transfers during the twelve months ended December 31, 2019.

The following is a summary of geographical concentration of our investment portfolio as of September 30, 2020:

	Cost	Fair Value	% of Total Investments at Fair Value
Texas	$ 141,175,253	$ 120,690,888	19.39%
California	83,985,296	86,578,018	13.91%
Illinois	59,960,280	61,221,074	9.84%
Arizona	52,305,675	53,484,274	8.59%
New Jersey	38,832,086	39,095,292	6.28%
Ohio	36,193,246	37,802,257	6.07%
Canada	21,288,231	21,433,220	3.44%
New York	19,740,226	20,387,154	3.28%
Wisconsin	19,354,393	19,634,736	3.15%
United Kingdom	20,148,449	19,315,000	3.10%
Tennessee	20,043,934	18,747,963	3.01%
Indiana	17,775,164	18,040,536	2.90%
Pennsylvania	17,446,803	17,686,213	2.84%
South Carolina	15,934,306	17,542,490	2.82%
Maryland	17,003,162	16,935,844	2.72%
Florida	12,884,606	12,847,500	2.06%
Missouri	9,977,819	10,765,000	1.73%
Virginia	7,590,689	7,590,689	1.22%
Washington, D.C.	6,904,971	6,904,971	1.11%
Georgia	685,000	6,260,000	1.01%
North Carolina	4,974,680	2,925,000	0.47%
Puerto Rico	8,613,244	2,589,639	0.42%
Arkansas	13,082,221	2,060,587	0.33%
Massachusetts	1,317,406	1,290,000	0.21%
Utah	35,894	610,000	0.10%
	$ 647,253,034	$ 622,438,345	100.00%

The following is a summary of geographical concentration of our investment portfolio as of December 31, 2019:

	Cost	Fair Value	% of Total Investments at Fair Value
Texas	$ 134,451,527	$ 120,672,985	19.19%
California	79,090,474	78,136,331	12.42%
Arizona	52,390,949	53,274,526	8.47%
New Jersey	52,548,769	51,637,750	8.21%
Ohio	48,502,609	50,092,839	7.96%
Illinois	41,869,947	44,406,252	7.06%
Canada	21,201,137	21,217,811	3.37%
New York	19,922,689	20,584,020	3.27%
United Kingdom	20,116,695	20,116,695	3.20%
Wisconsin	19,207,770	19,466,054	3.10%
South Carolina	19,935,337	19,366,716	3.08%
Tennessee	19,854,956	19,260,076	3.06%
Pennsylvania	17,408,508	17,566,213	2.79%
Maryland	17,103,044	17,325,000	2.75%
Indiana	14,064,012	13,997,251	2.23%
Florida	13,663,116	13,820,256	2.20%
Colorado	10,867,843	12,444,250	1.98%
Arkansas	14,920,694	11,989,446	1.91%
Missouri	10,078,235	10,428,223	1.66%
Georgia	575,000	5,250,000	0.83%
North Carolina	4,961,969	4,375,000	0.70%
Puerto Rico	8,613,244	3,490,383	0.55%
Utah	41,894	30,000	0.00%
Massachusetts	1,317,406	-	—%
	$ 642,707,824	$ 628,948,077	100.00%

The following is a summary of industry concentration of our investment portfolio as of September 30, 2020:

	Cost	Fair Value	% of Total Investments at Fair Value
Services: Business	$ 102,543,010	$ 109,620,906	17.61%
Healthcare & Pharmaceuticals	88,192,837	84,102,357	13.51%
Aerospace & Defense	53,599,867	52,953,169	8.51%
Beverage, Food, & Tobacco	41,509,474	42,257,867	6.79%
Media: Broadcasting & Subscription	32,220,215	34,198,444	5.49%
Consumer Goods: Durable	41,304,990	26,333,087	4.23%
Education	26,502,460	24,485,058	3.93%
Media: Advertising, Printing & Publishing	22,117,233	21,453,101	3.45%
High Tech Industries	21,288,231	21,433,220	3.44%
Capital Equipment	20,024,561	20,583,404	3.31%
Finance	18,016,762	19,035,000	3.06%
Transportation & Logistics	18,327,194	18,571,035	2.98%
Retail	15,934,306	17,542,490	2.82%
Automotive	17,205,990	17,537,463	2.82%
Metals & Mining	17,003,162	16,935,844	2.72%
Containers, Packaging, & Glass	14,478,077	14,684,736	2.36%
Environmental Industries	15,677,131	13,800,096	2.22%
Energy: Oil & Gas	12,655,159	12,452,183	2.00%
Consumer goods: non-durable	13,259,838	11,490,000	1.85%
Services: Consumer	26,204,553	10,841,385	1.74%
Construction & Building	10,436,197	10,580,000	1.70%
Utilities: Oil & Gas	9,879,974	9,850,000	1.58%
Chemicals, Plastics, & Rubber	6,599,021	6,887,500	1.11%
Software	2,272,792	4,700,000	0.76%
Hotel, Gaming, & Leisure	-	110,000	0.02%
	$ 647,253,034	$ 622,438,345	100.00%

The following is a summary of industry concentration of our investment portfolio as of December 31, 2019:

	Cost	Fair Value	% of Total Investments at Fair Value
Healthcare & Pharmaceuticals	$ 98,307,360	$ 94,000,860	14.95%
Services: Business	56,354,433	62,410,845	9.92%
Aerospace & Defense	44,970,957	46,547,324	7.40%
Consumer Goods: Durable	47,933,468	44,158,660	7.02%
Beverage, Food, & Tobacco	42,131,354	42,592,966	6.77%
Media: Broadcasting & Subscription	32,353,301	33,218,991	5.28%
Finance	27,776,880	29,562,500	4.70%
Education	26,594,771	25,661,125	4.08%
Media: Advertising, Printing & Publishing	22,425,972	21,965,124	3.49%
High Tech Industries	21,201,137	21,217,811	3.37%
Capital Equipment	20,093,379	20,237,066	3.22%
Retail	19,935,337	19,366,716	3.08%
Metals & Mining	17,103,044	17,325,000	2.75%
Transportation & Logistics	17,173,599	17,226,294	2.74%
Automotive	17,151,902	17,221,213	2.74%
Software	15,807,191	15,516,250	2.47%
Containers, Packaging, & Glass	14,306,286	14,564,570	2.32%
Environmental Industries	15,256,675	14,410,327	2.29%
Energy: Oil & Gas	12,624,269	13,582,102	2.16%
Services: Consumer	26,075,606	13,345,105	2.12%
Chemicals, Plastics, & Rubber	11,880,825	11,857,228	1.89%
Consumer goods: non-durable	14,973,711	11,770,000	1.87%
Construction & Building	10,408,323	10,750,000	1.71%
Utilities: Oil & Gas	9,868,044	9,900,000	1.57%
Hotel, Gaming, & Leisure	-	540,000	0.09%
	$ 642,707,824	$ 628,948,077	100.00%

The following provides quantitative information about Level 3 fair value measurements as of September 30, 2020:

Description:	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range (Average)**[(1)(3)]
			HY credit spreads,	-3.35 to 7.16% (0.88%)
		Income/Market	Risk free rates	-2.94% to -0.25% (-1.91%)
First lien debt	$ 494,697,192	approach [(2)]	Market multiples	5x to 32x (11x)[(4)]
			HY credit spreads,	0.00% to 5.54% (1.33%)
		Income/Market	Risk free rates	-2.73% to 0.00% (-1.49%)
Second lien debt	$ 61,416,385	approach [(2)]	Market multiples	6x to 15x (9x)[(4)]
			HY credit spreads,	0.17% to 0.76% (0.39%)
		Income/Market	Risk free rates	-1.91% to -1.61% (-1.77%)
Unsecured debt	$ 21,174,768	approach [(2)]	Market multiples	1x to 18x (4x)[(4)]
			Underwriting multiple/	
Equity investments	$ 45,150,000	Market approach [(5)]	EBITDA Multiple	1x to 24x (11x)
Total Long Term Level 3 Investments	$ 622,438,345			

(1) Weighted average based on fair value as of September 30, 2020.
(2) Included but not limited to (a) the market approach which is used to determine sufficient enterprise value, and (b) the income approach which is based on discounting future cash flows using an appropriate market yield.
(3) The Company calculates the price of the loan by discounting future cash flows, which include forecasted future LIBOR rates based on the published forward LIBOR curve at the valuation date, using an appropriate yield calculated as of the valuation date. This yield is calculated based on the loan's yield at the original investment and is adjusted as of the valuation date based on: changes in comparable credit spreads, changes in risk free interest rates (per swap rates), and changes in credit quality (via an estimated shadow rating). Significant movements in any of these factors could result in a significantly lower or higher fair value measurement. As an example, the "Range (Average)" for first lien debt instruments in the table above indicates that the change in the HY spreads between the date a loan closed and the valuation date ranged from -3.35% (-335 basis points) to 7.16% (716 basis points). The average of all changes was 0.88% (88 basis points).
(4) Median of LTM (last twelve months) EBITDA multiples of comparable companies.
(5) The primary significant unobservable input used in the fair value measurement of the Company's equity investments is the EBITDA multiple (the "Multiple"). Significant increases (decreases) in the Multiple in isolation could result in a significantly higher (lower) fair value measurement. To determine the Multiple for the market approach, the Company considers current market trading and/or transaction multiple, portfolio company performance (financial ratios) relative to public and private peer companies and leverage levels, among other factors. Changes in one or more of these factors can have a similar directional change on other factors in determining the appropriate Multiple to use in the market approach.

The following provides quantitative information about Level 3 fair value measurements as of December 31, 2019:

Description:		**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range (Average)** (1)(3)
First lien debt	$	455,169,878	Income/Market(2) approach	HY credit spreads,	-2.19% to 6.98% (0.57%)
				Risk free rates	-1.48% to 0.52% (-0.68%)
				Market multiples	6x to 29x (12x)(4)(4)
Second lien debt	$	111,961,013	Income/Market(2) approach	HY credit spreads,	-0.69% to 5.94% (1.19%)
				Risk free rates	-1.34% to 0.48% (-0.42%)
				Market multiples	7x to 34x (14x)(4)(4)
Unsecured debt	$	22,137,186	Income/Market approach (2)	HY credit spreads,	-0.39% to 0.00% (-0.35%)
				Risk free rates	-0.45% to -0.42% (-0.43%)
				Market multiples	2x to 20x (4x)(4)(4)
Equity investments	$	39,680,000	Market approach (5)	Underwriting multiple/ EBITDA Multiple	2x to 17x (10x)
Total Long Term Level 3 Investments	$	628,948,077			

(1) Weighted average based on fair value as of December 31, 2019.
(2) Inclusive of but not limited to (a) the market approach which is used to determine sufficient enterprise value, and (b) the income approach which is based on discounting future cash flows using an appropriate market yield.
(3) The Company calculates the price of the loan by discounting future cash flows, which include forecasted future LIBOR rates based on the published forward LIBOR curve at the valuation date, using an appropriate yield calculated as of the valuation date. This yield is calculated based on the loan's yield at the original investment and is adjusted as of the valuation date based on: changes in comparable credit spreads, changes in risk free interest rates (per swap rates), and changes in credit quality (via an estimated shadow rating). Significant movements in any of these factors would result in a significantly lower or higher fair value measurement. As an example, the "Range (Average)" for a first lien debt instruments in the table above indicates that the change in the HY spreads between the date a loan closed and the valuation date ranged from -2.19% (-219 basis points) to 6.98% (698 basis points). The average of all changes was 0.57%.
(4) Median of LTM (last twelve months) EBITDA multiples of comparable companies.
(5) The primary significant unobservable input used in the fair value measurement of the Company's equity investments is the Multiple. Significant increases (decreases) in the Multiple in isolation would result in a significantly higher (lower) fair value measurement. To determine the Multiple for the market approach, the Company considers current market trading and/or transaction multiple, portfolio company performance (financial ratios) relative to public and private peer companies and leverage levels, among other factors. Changes in one or more of these factors can have a similar directional change on other factors in determining the appropriate Multiple to use in the market approach.

NOTE 7 — COMMITMENTS AND CONTINGENCIES

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

As of September 30, 2020, the Company had $30,680,346 of unfunded commitments to provide debt financing to 18 existing portfolio companies. As of December 31, 2019, the Company had $37,517,784 of unfunded commitments to provide debt to 17 existing portfolio companies. As of September 30, 2020, the Company had sufficient liquidity (through cash on hand and available borrowings under the Credit Facility) to fund such unfunded loan commitments should the need arise.

NOTE 8 — FINANCIAL HIGHLIGHTS

	For the nine months ended September 30, 2020 (unaudited)	For the nine months ended September 30, 2019 (unaudited)
Per Share Data: [1]		
Net asset value at beginning of period	$ 14.14	$ 14.09
Net investment income	0.87	0.86
Change in unrealized depreciation	(0.57)	(0.56)
Net realized (loss) gain	(0.13)	1.06
Total from investment operations	$ 0.17	$ 1.36
Offering cost	—	(0.02)
Stockholder distributions from:		
Net investment income	(1.15)	(1.02)
Other[6]	0.01	(0.01)
Net asset value at end of period	$ 13.17	$ 14.40
Per share market value at end of period	$ 8.70	$ 13.63
Total return based on market value[2]	(32.9)%	14.0%
Weighted average shares outstanding	19,466,647	18,056,271

	For the nine months ended September 30, 2020 (unaudited)	For the nine months ended September 30, 2019 (unaudited)
Ratio/Supplemental Data:		
Net assets at end of period	$ 256,549,827	$ 272,167,567
Weighted Average net assets	$ 251,792,913	$ 254,595,844
Annualized ratio of gross operating expenses to net assets(5)	13.86%	14.70%
Annualized ratio of interest expense and other fees to net assets	6.48%	5.68%
Annualized ratio of net investment income to net assets(5)	8.95%	8.15%
Portfolio Turnover(3)	14.05%	19.01%
Notes payable	$ 48,875,000	$ 48,875,000
Credit Facility payable	$ 187,000,000	$ 136,050,000
SBA Debentures	$ 161,000,000	$ 150,000,000
Asset coverage ratio(4)	2.09x	2.47x

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

(2) Total return on market value is based on the change in market price per share since the end of the prior year and assumes enrollment in the Company's DRIP. The total returns are not annualized.

(3) Calculated as the lesser of purchases or paydowns divided by average portfolio balance and is not annualized.

(4) Asset coverage ratio is equal to total assets less all liabilities and indebtedness not represented by senior securities over the aggregate amount of the senior securities. SBA-guaranteed debentures are excluded from the numerator and denominator.

(5) These ratios include the impact of the provision for income taxes related to unrealized gain on investments in Taxable Subsidiaries of ($122,699) and ($35,701), respectively, for the nine months ended September 30, 2020 and September 30, 2019, which are not reflected in net investment income, gross operating expenses or net operating expenses. The provision for income taxes related to unrealized gain or loss on investments to net assets for the nine months ended September 30, 2020 and 2019 is .06% and .02%, respectively.

(6) Includes the impact of different share amounts as a result of calculating certain per share data based on weighted average shares outstanding during the period and certain per share data based on shares outstanding as of the period end.

NOTE 9 — CREDIT FACILITY

On October 11, 2017, the Company entered into a senior secured revolving credit agreement, dated as of October 10, 2017, as amended on March 28, 2018, August 2, 2018, September 13, 2019, December 27, 2019, May 15, 2020, and September 18, 2020 with ZB, N.A., dba Amegy Bank and various other lenders (the "Credit Facility").

The key changes from the September 18, 2020 amendment are as follows:

	Prior to amendment	**As amended**
Maturity Date	October 10, 2021	September 18, 2025
Commitment termination date	March 10, 2021	September 18, 2024
LIBOR floor	None	0.25%
Prime rate floor	None	3.00%
Asset coverage ratio	Minimum of 1.75 to 1.00 (maximum leverage of 1.33x)	Minimum of 1.67 to 1.00 (maximum leverage of 1.5x)
Refinancing of 2022 Notes	Not required	Required by March 15, 2022

The Credit Facility, as amended, provides for borrowings up to a maximum of $230,000,000 on a committed basis with an accordion feature that allows the Company to increase the aggregate commitments up to $280,000,000, subject to new or existing lenders agreeing to participate in the increase and other customary conditions.

Borrowings under the Credit Facility bear interest, subject to the Company’s election, on a per annum basis equal to (i) LIBOR plus 2.50% (or 2.75% during certain periods in which the Company’s asset coverage ratio is equal to or below 1.90 to 1.00) with a 0.25% LIBOR floor, or (ii) 1.50% (or 1.75% during certain periods in which the Company’s asset coverage ratio is equal to or below 1.90 to 1.00) plus an alternate base rate based on the highest of the Prime Rate, Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. The Company pays unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable quarterly in arrears. The commitment to fund the revolver expires on September 18, 2024, after which the Company may no longer borrow under the Credit Facility and must begin repaying principal equal to 1/12 of the aggregate amount outstanding under the Credit Facility. Any amounts borrowed under the Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on September 18, 2025.

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 subsidiaries, but excluding short term investments. The Credit Facility contains certain covenants, including but not limited to: (i) maintaining a minimum liquidity test of at least $10,000,000, including cash, liquid investments and undrawn availability, (ii) maintaining an asset coverage ratio of at least 1.67 to 1.0, (iii) maintaining a minimum shareholder’s equity, and (iv) maintaining a minimum interest coverage ratio of at least 2.00 to 1.00.

As of September 30, 2020, the Company was in compliance with these covenants.

As of September 30, 2020 and December 31, 2019, the outstanding balance under the Credit Facility was $187,000,000 and $161,550,000, respectively. The carrying amount of the amount outstanding under the Credit Facility approximates its fair value. The fair values of the Credit Facility are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the Credit Facility is estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. The Company incurred costs of $3,974,245 in connection with the Credit Facility, of which $1,672,306 is related to the September 18, 2020 amendment, which were capitalized and are being amortized over the life of the facility. As of September 30, 2020 and December 31, 2019, $2,388,706 and $1,039,367 of such prepaid loan structure fees and administration fees had yet to be amortized, respectively. These prepaid loan fees are presented on our consolidated statement of assets and liabilities as a deduction from the debt liability.

The following is a summary of the Credit Facility, net of prepaid loan structure fees:

	September 30, 2020	December 31, 2019
Credit Facility payable	$ 187,000,000	$ 161,550,000
Prepaid loan structure fees	2,388,706	1,039,367
Credit facility payable, net of prepaid loan structure fees	$ 184,611,294	$ 160,510,633

Interest is paid quarterly in arrears. The following table summarizes the interest expense and amortized loan fees on the Credit Facility for the three and nine months ended September 30, 2020 and 2019:

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest expense	$ 1,273,878	$ 1,310,545	$ 4,666,949	$ 3,447,592
Loan fee amortization	199,233	120,244	499,867	351,877
Commitment fees on unused portion	63,031	99,089	144,907	338,238
Administration fees	9,047	8,822	26,451	26,178
Total interest and financing expenses	$ 1,545,189	$ 1,538,700	$ 5,338,174	$ 4,163,885
Weighted average interest rate	2.8%	4.9%	3.3%	5.0%
Effective interest rate[(1)]	3.4%	5.7%	3.8%	6.1%
Average debt outstanding	$ 181,141,304	$ 106,463,043	$ 187,178,467	$ 91,932,784
Cash paid for interest and unused fees	$ 1,330,262	$ 1,426,956	$ 4,979,585	$ 3,619,812

(1) Includes the impact of loan fee amortization, including agency fees and unused fees.

NOTE 10 — SBA-GUARANTEED DEBENTURES

Due to the SBIC subsidiaries' status as licensed SBICs, the Company can issue debentures guaranteed by the SBA at favorable interest rates. Under the regulations applicable to SBIC funds, a single licensee can have outstanding debentures guaranteed by the SBA subject to a regulatory leverage limit, up to two times the amount of regulatory capital. As of both September 30, 2020 and December 31, 2019, the SBIC subsidiary had $75,000,000 in regulatory capital, as such term is defined by the SBA, and $150,000,000 of SBA-guaranteed debentures outstanding.

As of both September 30, 2020 and December 31, 2019, the SBIC II subsidiary had $20,000,000 in regulatory capital, as such term is defined by the SBA, and $11,000,000 of SBA-guaranteed debentures outstanding.

On August 12, 2014, the Company obtained exemptive relief from the SEC to permit it to exclude the debt of the SBIC subsidiaries guaranteed by the SBA from its asset coverage test under the 1940 Act. The exemptive relief provides the Company with increased flexibility under the asset coverage test by permitting it to borrow up to $325,000,000 more than it would otherwise be able to absent the receipt of this exemptive relief.

On a stand-alone basis, the SBIC subsidiaries held $246,810,535 and $240,109,144 in assets at September 30, 2020 and December 31, 2019, respectively, which accounted for approximately 37.2% and 37.0% of the Company's total consolidated assets at September 30, 2020 and December 31, 2019, respectively.

Debentures guaranteed by the SBA have fixed interest rates that equal prevailing 10-year U.S. Treasury Note rates plus a market spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the debentures is not required to be paid before maturity but may be pre-paid at any time with no prepayment penalty. SBA-guaranteed debentures drawn before October 1, 2019 incur upfront fees of 3.425%, which consists of a 1.00% commitment fee and a 2.425% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. SBA-guaranteed debentures drawn after October 1, 2019 incur upfront fees of 3.435%, which consists of a 1.00% commitment fee and a 2.435% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. Once pooled, which occurs in March and September of each applicable year, the SBA-guaranteed debentures bear interest at a fixed rate that is set to the current 10-year U.S. Treasury Note rate plus a spread at each pooling date.

The following table summarizes the SBIC subsidiaries' SBA-guaranteed debentures as of September 30, 2020:

Issuance Date	Licensee	Maturity Date	Debenture Amount	Interest Rate	SBA Annual Charge
October 14, 2014	SBIC	March 1, 2025	$ 6,500,000	2.52%	0.36%
October 17, 2014	SBIC	March 1, 2025	6,500,000	2.52%	0.36%
December 24, 2014	SBIC	March 1, 2025	3,250,000	2.52%	0.36%
June 29, 2015	SBIC	September 1, 2025	9,750,000	2.83%	0.36%
October 22, 2015	SBIC	March 1, 2026	6,500,000	2.51%	0.36%
October 22, 2015	SBIC	March 1, 2026	1,500,000	2.51%	0.74%
November 10, 2015	SBIC	March 1, 2026	8,800,000	2.51%	0.74%
November 18, 2015	SBIC	March 1, 2026	1,500,000	2.51%	0.74%
November 25, 2015	SBIC	March 1, 2026	8,800,000	2.51%	0.74%
December 16, 2015	SBIC	March 1, 2026	2,200,000	2.51%	0.74%
December 29, 2015	SBIC	March 1, 2026	9,700,000	2.51%	0.74%
November 28, 2017	SBIC	March 1, 2028	25,000,000	3.19%	0.22%
April 27, 2018	SBIC	September 1, 2028	40,000,000	3.55%	0.22%
July 30, 2018	SBIC	September 1, 2028	17,500,000	3.55%	0.22%
September 25, 2018	SBIC	March 1, 2029	2,500,000	3.11%	0.22%
October 17, 2019	SBIC II	March 1, 2030	6,000,000	2.08%	0.09%
November 15, 2019	SBIC II	March 1, 2030	5,000,000	2.08%	0.09%
Total SBA-guaranteed debentures			$ 161,000,000		

As of September 30, 2020 and December 31, 2019, the carrying amount of the SBA-guaranteed debentures approximated their fair value. The fair values of the SBA-guaranteed debentures are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the SBA-guaranteed debentures are estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. At September 30, 2020 and December 31, 2019, the SBA-guaranteed debentures would be deemed to be Level 3 (as defined in Note 6).

As of September 30, 2020, the Company has incurred $5,605,350 in financing costs related to the SBA-guaranteed debentures since the SBIC subsidiaries received their licenses, which SBA-guaranteed debentures were recorded as prepaid loan fees. As of September 30, 2020 and December 31, 2019, $2,940,440 and $3,456,147 of prepaid financing costs had yet to be amortized, respectively. These prepaid loan fees are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability.

The following is a summary of the SBA-guaranteed debentures, net of prepaid loan fees:

	September 30, 2020	December 31, 2019
SBA debentures payable	$ 161,000,000	$ 161,000,000
Prepaid loan fees	2,940,440	3,456,147
SBA Debentures, net of prepaid loan fees	$ 158,059,560	$ 157,543,853

The following table summarizes the interest expense and amortized fees on the SBA-guaranteed debentures for the three and nine months ended September 30, 2020 and 2019:

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest expense	$ 1,351,364	$ 1,291,143	$ 4,029,722	$ 3,830,329
Debenture fee amortization	173,157	153,111	515,707	452,805
Total interest and financing expenses	$ 1,524,521	$ 1,444,254	$ 4,545,429	$ 4,283,134
Weighted average interest rate	3.3%	3.4%	3.3%	3.4%
Effective interest rate[1]	3.8%	3.8%	3.8%	3.8%
Average debt outstanding	$ 161,000,000	$ 150,000,000	$ 161,000,000	$ 150,000,000
Cash paid for interest	$ 2,687,018	$ 2,577,946	$ 5,346,231	$ 5,007,832

(1) Includes the impact of loan fee amortization.

NOTE 11 — NOTES

On August 21, 2017, the Company issued $42,500,000 in aggregate principal amount of 5.75% fixed-rate notes due September 15, 2022 (the “2022 Notes”). On September 8, 2017, the Company issued an additional $6,375,000 in aggregate principal amount of the 2022 Notes pursuant to a full exercise of the underwriters’ overallotment option. The 2022 Notes will mature on September 15, 2022 and may be redeemed in whole or in part at any time or from time to time at the Company’s option at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. Interest is payable quarterly.

The Company used all of the net proceeds from this offering to fully redeem the notes issued in a prior public offering and a portion of the amount outstanding under the Original Facility. As of both September 30, 2020 and December 31, 2019, the aggregate carrying amount of the 2022 Notes was approximately $48,875,000 and the fair value of the 2022 Notes was approximately $48,093,000 and $49,715,650, respectively. The 2022 Notes are listed on New York Stock Exchange under the trading symbol “SCA”. The fair value of the 2022 Notes is based on the closing price of the security, which is a Level 2 input under ASC 820 due to sufficient trading volume.

In connection with the issuance and maintenance of the 2022 Notes, the Company has incurred $1,688,961 of fees, which are being amortized over the term of the 2022 Notes, of which $651,266 and $900,798 remains to be amortized as of September 30, 2020 and December 31, 2019, respectively. These financing costs are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability.

The following table summarizes the interest expense and deferred financing costs on the 2022 Notes for the three and nine months ended September 30, 2020 and 2019:

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest expense	$ 702,578	$ 702,578	$ 2,107,734	$ 2,107,734
Deferred financing costs	88,784	88,784	254,532	253,620
Total interest and financing expenses	$ 791,362	$ 791,362	$ 2,362,266	$ 2,361,354
Weighted average interest rate	5.7%	5.7%	5.7%	5.8%
Effective interest rate[1]	6.4%	6.4%	6.4%	6.5%
Average debt outstanding	$ 48,875,000	$ 48,875,000	$ 48,875,000	$ 48,875,000
Cash paid for interest	$ 702,578	$ 702,578	$ 2,107,734	$ 2,107,734

(1) Includes the impact of loan fee amortization, including agency fees.

The following is a summary of the 2022 Notes Payable, net of deferred financing costs:

	September 30, 2020	December 31, 2019
Notes payable	$ 48,875,000	$ 48,875,000
Deferred financing costs	651,266	900,798
Notes payable, net of deferred financing costs	$ 48,223,734	$ 47,974,202

The indenture and supplements thereto relating to the 2022 Notes contain certain covenants, including but not limited to (i) a requirement that the Company comply with the asset coverage requirements of the 1940 Act or any successor provisions, and (ii) a requirement to provide financial information to the holders of the notes and the trustee under the indenture if the Company should no longer be subject to the reporting requirements under the Exchange Act.

NOTE 12 — SUBSEQUENT EVENTS

Investment Portfolio

On October 1, 2020, the Company received full repayment on the first lien term loan of C.A.R.S Protection Plus, Inc. for total proceeds of $7,426,213. The Company also received $414,809 in full realization of the equity of the company, resulting in a $264,982 gain.

Unfunded Commitments

As of October 29, 2020, the Company had unfunded commitments of $30,945,498, including unfunded delayed draw term loan commitments of $12,051,791. As of October 29, 2020, the Company had sufficient liquidity (through cash on hand and available borrowings under the Credit Facility) to fund such unfunded loan commitments should the need arise.

Credit Facility

The outstanding balance under the Credit Facility as of October 29, 2020 was $166,500,000.

SBA-guaranteed Debentures

The total consolidated balance of SBA-guaranteed debentures outstanding as of October 29, 2020 was $161,000,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties, related to the current COVID-19 pandemic and otherwise, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the effect of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with Stellus Capital Management, LLC ("Stellus Capital" or the "Advisor);
- the dependence of our future success on the general economy and its effect on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- the use of borrowed money to finance a portion of our investments;
- the adequacy of our financing sources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the ability of Stellus Capital to locate suitable investments for us and to monitor and administer our investments;
- the ability of Stellus Capital to attract and retain highly talented professionals;
- our ability to maintain our qualification as a RIC and as a BDC; and
- the effect of future changes in laws or regulations (including the interpretation of these laws and regulations by regulatory authorities) and conditions in our operating areas, particularly with respect to business development companies or RICs.

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

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

Overview

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

We are an externally managed, non-diversified, closed-end investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 Act, as amended (the "1940 Act"). Our investment activities are managed by our investment adviser, Stellus Capital.

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

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). To maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. As of September 30, 2020, we were in compliance with the RIC requirements. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any income we distribute to our stockholders.

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

On April 4, 2018, our board of directors (the "Board"), including a "required majority" (as such term is defined in Section 57(o) of the Investment Company Act of 1940, as amended (the "1940 Act")) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. The Board also approved the submission of a proposal to stockholders to approve the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, which was approved by stockholders at our 2018 annual meeting of stockholders. As a result, the asset coverage ratio applicable to us was decreased from 200% to 150%, effective June 28, 2018. As of September 30, 2020, our asset coverage ratio was 209%. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing.

COVID -19 Developments

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and recommended containment and mitigation measures worldwide. As of the three and nine months ended September 30, 2020, and subsequent to September 30, 2020, the COVID-19 pandemic has had a significant impact on the U.S. and global economy. Each portfolio company has been assessed on an individual basis to identify the impact of the COVID-19 pandemic on the valuation of our investments in such company. We believe that any such COVID-19 pandemic impacts have been reflected in the valuation of our investments.

The global impact of the outbreak continues to evolve, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of the COVID-19 pandemic, have created significant disruption in supply chains and economic activity. While several countries, as well as certain states in the United States, have begun to lift public health restrictions with the view to reopening their economies, recurring COVID-19 outbreaks have led to the re-introduction of such restrictions in certain states in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. Additionally, the absence of viable treatment options or a vaccine could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may continue to experience a recession, and we anticipate our business and operations could be materially adversely affected by a prolonged recession in the United States and other major markets.

The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, remain uncertain and difficult to assess. The extent of the impact of the COVID-19 pandemic on the financial performance of our current and future investments will depend on future developments, including the duration and spread of the virus, related advisories and restrictions, and the health of the financial markets and economy, all of which are highly uncertain and cannot be predicted. To the extent our portfolio companies are adversely impacted by the effects of the COVID-19 pandemic, it may have a material adverse impact on our future net investment income, the fair value of our portfolio investments and our financial condition.

Economic outlook

Since March 2020, the COVID-19 pandemic has severely impacted global economic activity and caused significant volatility in financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including the United States, have reacted by instituting quarantines, mandating business and school closures and restricting travel. Such actions created and continue to create disruption in global supply chains and are adversely impacting several industries. While several countries, as well as certain states in the United States, have begun to lift public health restrictions with the view to reopening their economies, recurring COVID-19 outbreaks have led to the re-introduction of such restrictions in certain states in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The COVID-19 pandemic presents material uncertainty and risks with respect to the underlying value of our portfolio companies and with respect to our business, financial condition, results of operations, and cash flows, such as the potential negative impact to financing arrangements, increased costs of operations, changes in law and/or regulation, and uncertainty regarding government and regulatory policy.

Operations

All partners and employees of Stellus Capital have been operating remotely since March 16, 2020 without disruption to its operations and are prepared to continue working remotely as long as is necessary for the health and safety of all personnel.

Our COVID-19 response

Since the onset of the COVID-19 pandemic, we have been in regular contact with all of our portfolio companies and/or their sponsors to assess among other things their ability to function in the new environment. Discussions have addressed the portfolio companies' liquidity position, expected covenant compliance, and the health of their workforce and customers.

Financial impact

All borrowers on accrual paid their principal, interest, and fees due during the third quarter ended September 30, 2020. We will continue to closely monitor the financial condition of our portfolio companies as part of our efforts to mitigate the impact of the COVID-19 pandemic. Historical information may be relatively less significant.

Portfolio Composition and Investment Activity

Portfolio Composition

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

As of September 30, 2020, we had $622.4 million (at fair value) invested in 66 portfolio companies. As of September 30, 2020, our portfolio included approximately 80% of first lien debt, 10% of second lien debt, 3% of unsecured debt and 7% of equity investments at fair value. The composition of our investments at cost and fair value as of September 30, 2020 was as follows:

	Cost	Fair Value
Senior Secured – First Lien(1)	$ 506,767,192	$ 494,697,192
Senior Secured – Second Lien	83,778,390	61,416,385
Unsecured Debt	22,354,859	21,174,768
Equity	34,352,593	45,150,000
Total Investments	$ 647,253,034	$ 622,438,345

(1) Includes unitranche investments, which account for 13.4% of our portfolio at fair value. Unitranche structures may combine characteristics of first lien senior secured as well as second lien and/or subordinated loans and our unitranche loans will expose us to the risks associated with second lien and subordinated loans to the extent we invest in the "last-out" tranche.

As of December 31, 2019, we had $628.9 million (at fair value) invested in 63 portfolio companies. As of December 31, 2019, our portfolio included approximately 72% of first lien debt, 18% of second lien debt, 4% of unsecured debt and 6% of equity investments at fair value. The composition of our investments at cost and fair value as of December 31, 2019 was as follows:

	Cost	Fair Value
Senior Secured – First Lien[1]	$ 461,107,595	$ 455,169,878
Senior Secured – Second Lien	130,600,172	111,961,013
Unsecured Debt	22,279,519	22,137,186
Equity	28,720,538	39,680,000
Total Investments	$ 642,707,824	$ 628,948,077

(1) Includes unitranche investments, which account for 14.4% of our portfolio at December 31, 2019 at fair value. Unitranche structures may combine characteristics of first lien senior secured as well as second lien and/or subordinated loans and our unitranche loans will expose us to the risks associated with second lien and subordinated loans to the extent we invest in the “last-out” tranche.

Our investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require us to provide funding when requested by portfolio companies in accordance with the terms and conditions of the underlying loan agreements. As of September 30, 2020 and December 31, 2019, we had unfunded commitments of $30.7 million and $37.5 million, respectively, to provide debt financing for 18 and 17 portfolio companies, respectively. As of September 30, 2020, we had sufficient liquidity (through cash on hand and available borrowings under the Credit Facility) to fund such unfunded commitments should the need arise.

The following is a summary of geographical concentration of our investment portfolio as of September 30, 2020:

	Cost	Fair Value	% of Total Investments at Fair Value
Texas	$ 141,175,253	$ 120,690,888	19.39%
California	83,985,296	86,578,018	13.91%
Illinois	59,960,280	61,221,074	9.84%
Arizona	52,305,675	53,484,274	8.59%
New Jersey	38,832,086	39,095,292	6.28%
Ohio	36,193,246	37,802,257	6.07%
Canada	21,288,231	21,433,220	3.44%
New York	19,740,226	20,387,154	3.28%
Wisconsin	19,354,393	19,634,736	3.15%
United Kingdom	20,148,449	19,315,000	3.10%
Tennessee	20,043,934	18,747,963	3.01%
Indiana	17,775,164	18,040,536	2.90%
Pennsylvania	17,446,803	17,686,213	2.84%
South Carolina	15,934,306	17,542,490	2.82%
Maryland	17,003,162	16,935,844	2.72%
Florida	12,884,606	12,847,500	2.06%
Missouri	9,977,819	10,765,000	1.73%
Virginia	7,590,689	7,590,689	1.22%
Washington, D.C.	6,904,971	6,904,971	1.11%
Georgia	685,000	6,260,000	1.01%
North Carolina	4,974,680	2,925,000	0.47%
Puerto Rico	8,613,244	2,589,639	0.42%
Arkansas	13,082,221	2,060,587	0.33%
Massachusetts	1,317,406	1,290,000	0.21%
Utah	35,894	610,000	0.10%
	$ 647,253,034	$ 622,438,345	100.00%

The following is a summary of geographical concentration of our investment portfolio as of December 31, 2019:

	Cost	Fair Value	% of Total Investments at Fair Value
Texas	$ 134,451,527	$ 120,672,985	19.19%
California	79,090,474	78,136,331	12.42%
Arizona	52,390,949	53,274,526	8.47%
New Jersey	52,548,769	51,637,750	8.21%
Ohio	48,502,609	50,092,839	7.96%
Illinois	41,869,947	44,406,252	7.06%
Canada	21,201,137	21,217,811	3.37%
New York	19,922,689	20,584,020	3.27%
United Kingdom	20,116,695	20,116,695	3.20%
Wisconsin	19,207,770	19,466,054	3.10%
South Carolina	19,935,337	19,366,716	3.08%
Tennessee	19,854,956	19,260,076	3.06%
Pennsylvania	17,408,508	17,566,213	2.79%
Maryland	17,103,044	17,325,000	2.75%
Indiana	14,064,012	13,997,251	2.23%
Florida	13,663,116	13,820,256	2.20%
Colorado	10,867,843	12,444,250	1.98%
Arkansas	14,920,694	11,989,446	1.91%
Missouri	10,078,235	10,428,223	1.66%
Georgia	575,000	5,250,000	0.83%
North Carolina	4,961,969	4,375,000	0.70%
Puerto Rico	8,613,244	3,490,383	0.55%
Utah	41,894	30,000	0.00%
Massachusetts	1,317,406	-	—%
	$ 642,707,824	$ 628,948,077	100.00%

The following is a summary of industry concentration of our investment portfolio as of September 30, 2020:

	Cost	Fair Value	% of Total Investments at Fair Value
Services: Business	$ 102,543,010	$ 109,620,906	17.61%
Healthcare & Pharmaceuticals	88,192,837	84,102,357	13.51%
Aerospace & Defense	53,599,867	52,953,169	8.51%
Beverage, Food, & Tobacco	41,509,474	42,257,867	6.79%
Media: Broadcasting & Subscription	32,220,215	34,198,444	5.49%
Consumer Goods: Durable	41,304,990	26,333,087	4.23%
Education	26,502,460	24,485,058	3.93%
Media: Advertising, Printing & Publishing	22,117,233	21,453,101	3.45%
High Tech Industries	21,288,231	21,433,220	3.44%
Capital Equipment	20,024,561	20,583,404	3.31%
Finance	18,016,762	19,035,000	3.06%
Transportation & Logistics	18,327,194	18,571,035	2.98%
Retail	15,934,306	17,542,490	2.82%
Automotive	17,205,990	17,537,463	2.82%
Metals & Mining	17,003,162	16,935,844	2.72%
Containers, Packaging, & Glass	14,478,077	14,684,736	2.36%
Environmental Industries	15,677,131	13,800,096	2.22%
Energy: Oil & Gas	12,655,159	12,452,183	2.00%
Consumer goods: non-durable	13,259,838	11,490,000	1.85%
Services: Consumer	26,204,553	10,841,385	1.74%
Construction & Building	10,436,197	10,580,000	1.70%
Utilities: Oil & Gas	9,879,974	9,850,000	1.58%
Chemicals, Plastics, & Rubber	6,599,021	6,887,500	1.11%
Software	2,272,792	4,700,000	0.76%
Hotel, Gaming, & Leisure	-	110,000	0.02%
	$ 647,253,034	$ 622,438,345	100.00%

The following is a summary of industry concentration of our investment portfolio as of December 31, 2019:

	Cost	Fair Value	% of Total Investments at Fair Value
Healthcare & Pharmaceuticals	$ 98,307,360	$ 94,000,860	14.95%
Services: Business	56,354,433	62,410,845	9.92%
Aerospace & Defense	44,970,957	46,547,324	7.40%
Consumer Goods: Durable	47,933,468	44,158,660	7.02%
Beverage, Food, & Tobacco	42,131,354	42,592,966	6.77%
Media: Broadcasting & Subscription	32,353,301	33,218,991	5.28%
Finance	27,776,880	29,562,500	4.70%
Education	26,594,771	25,661,125	4.08%
Media: Advertising, Printing & Publishing	22,425,972	21,965,124	3.49%
High Tech Industries	21,201,137	21,217,811	3.37%
Capital Equipment	20,093,379	20,237,066	3.22%
Retail	19,935,337	19,366,716	3.08%
Metals & Mining	17,103,044	17,325,000	2.75%
Transportation & Logistics	17,173,599	17,226,294	2.74%
Automotive	17,151,902	17,221,213	2.74%
Software	15,807,191	15,516,250	2.47%
Containers, Packaging, & Glass	14,306,286	14,564,570	2.32%
Environmental Industries	15,256,675	14,410,327	2.29%
Energy: Oil & Gas	12,624,269	13,582,102	2.16%
Services: Consumer	26,075,606	13,345,105	2.12%
Chemicals, Plastics, & Rubber	11,880,825	11,857,228	1.89%
Consumer goods: non-durable	14,973,711	11,770,000	1.87%
Construction & Building	10,408,323	10,750,000	1.71%
Utilities: Oil & Gas	9,868,044	9,900,000	1.57%
Hotel, Gaming, & Leisure	-	540,000	0.09%
	$ 642,707,824	$ 628,948,077	100.00%

At September 30, 2020, our average portfolio company investment at amortized cost and fair value was approximately $9.8 million and $9.4 million, respectively, and our largest portfolio company investment at amortized cost and fair value was $21.5 million and $21.6 million, respectively. At December 31, 2019, our average portfolio company investment at amortized cost and fair value was approximately $10.2 million and $10.0 million, respectively, and our largest portfolio company investment at amortized cost and fair value was approximately $21.6 million and $21.3 million, respectively.

At September 30, 2020, 92% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 8% bore interest at fixed rates. At December 31, 2019, 93% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 7% bore interest at fixed rates.

The weighted average yield on all of our debt investments as of September 30, 2020 and December 31, 2019 was 8.1% and 9.2%, respectively. The weighted average yield was computed using the effective interest rates for all of our debt investments, including accretion of original issue discount and the impact of our loans on non-accrual status (as discussed below). The weighted average yield of our debt investments is not the same as a return on investment for our stockholder, but, rather relates to a portion of our investment portfolio and is calculated before the payment of all of our and our subsidiaries' fees and expenses.

As of September 30, 2020 and December 31, 2019, we had cash and cash equivalents of $38.6 million and $16.1 million, respectively.

Investment Activity

During the nine months ended September 30, 2020, we made an aggregate of $87.2 million (net of fees) of investments in five new portfolio companies and 19 existing portfolio companies. During the nine months ended September 30, 2020, we received an aggregate of $82.4 million in proceeds from repayments of our investments.

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

For example, during the nine months ended September 30, 2020, the uncertainty and economic ramifications of the rapid spread of COVID-19 led to a general slowing of investment activity in the U.S. lower middle market. As a result, we did not make any investments in new portfolio companies from March 13, 2020 until July 17, 2020. Since then, the transition activity has increased and we have invested $14.6 million (net of fees) in two new portfolio companies. See Note 12 to the Consolidated Financial Statements for information on investments made subsequent to quarter end.

Asset Quality

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

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

	As of September 30, 2020 (dollars in millions)			As of December 31, 2019 (dollars in millions)		
Investment Category	**Fair Value**	**% of Total Portfolio**	**Number of Portfolio Companies[1]**	**Fair Value**	**% of Total Portfolio**	**Number of Portfolio Companies[1]**
1	$ 78.3	13%	13	$ 70.4	11%	11
2	481.1	77%	40	492.2	78%	41
3	50.5	8%	7	49.3	8%	7
4	2.6	0%	1	12.0	2%	1
5	9.9	2%	6	5.0	1%	4
Total	$ 622.4	100%	67	$ 628.9	100%	64

[1]One portfolio company appears in two categories as of both periods

Loans and Debt Securities on Non-Accrual Status

We will not accrue interest on loans and debt securities if we have reason to doubt our ability to collect such interest. As of September 30, 2020, we had loans to 5 portfolio companies that were on non-accrual status that represented approximately 6.8% of our loan portfolio at cost and 1.6% at fair value. As of December 31, 2019, we had loans to two portfolio companies that were on non-accrual status that represented approximately 3.6% of our loan portfolio at cost and 0.9% at fair value. As of September 30, 2020 and December 31, 2019, $6.7 million and $3.8 million of income from investments on non-accrual has not been accrued, respectively.

Results of Operations

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

Comparison of the Three Months and Nine Months Ended September 30, 2020 and 2019

Revenues

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

The following shows the breakdown of investment income for the three and nine months ended September 30, 2020 and 2019 (in millions).

	Three months ended September 30, (dollars in millions)		Nine months ended September 30, (dollars in millions)	
	2020	**2019**	**2020**	**2019**
Interest income[(1)]	$ 13.7	$ 14.8	$ 41.6	$ 42.0
PIK interest	-	0.3	0.6	0.3
Miscellaneous fees[(1)]	0.3	0.4	0.9	1.2
Total	$ 14.0	$ 15.5	$ 43.1	$ 43.5

(1) For the three and nine months ended September 30, 2020, we recognized $0.5 million and $1.5 million, respectively, of non-recurring income related to early repayments, amendments to specific loan positions, and the recognition of previously reserved income from a prior period. For the three and nine months ended September 30, 2019, we recognized $1.7 million and $2.8 million, respectively, of non-recurring income related to early repayments, amendments to specific loan positions, and the recognition of previously reserved income from a prior period.

Expenses

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

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

- fees and expenses payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for us and in monitoring our investments and performing due diligence on our prospective portfolio companies or otherwise relating to, or associated with, evaluating and making investments;
- interest payable on debt, if any, incurred to finance our investments and expenses related to unsuccessful portfolio acquisition efforts;
- base management and incentive fees;
- administration fees and expenses, if any, payable under the administration agreement (including our allocable portion of Stellus Capital's overhead in performing its obligations under the administration agreement, including rent and the allocable portion of the cost of our Chief Compliance Officer and Chief Financial Officer and their respective staff);
- transfer agent, dividend paying agent and custodial fees and expenses;
- U.S. federal and state registration fees;
- all costs of registration and listing our securities on any securities exchange;
- U.S. federal, state and local taxes;
- independent directors' fees and expenses;
- costs of preparing and filing reports or other documents required by the SEC or other regulators;
- costs of distributing any reports, proxy statements or other notices to stockholders, including printing costs;
- costs and fees associated with any fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs;
- proxy voting expenses; and
- all other expenses incurred by us or Stellus Capital in connection with administering our business.

The following shows the breakdown of operating expenses for the three and nine months ended September 30, 2020 and 2019 (in millions).

	Three months ended September 30, (dollars in millions)		Nine months ended September 30, (dollars in millions)	
	2020	2019	2020	2019
Operating Expenses				
Management fees	$ 2.8	$ 2.5	$ 8.3	$ 7.0
Valuation Fees	0.1	0.1	0.2	0.2
Administrative services expenses	0.4	0.4	1.3	1.3
Income incentive fees	0.5	1.6	2.0	4.3
Capital gain incentive fees	-	0.5	(0.9)	1.8
Professional fees	0.2	0.2	0.8	0.9
Directors' fees	0.1	0.1	0.3	0.3
Insurance expense	0.1	0.1	0.3	0.3
Interest expense and other fees	3.9	3.8	12.2	10.8
Income tax expense	0.4	0.3	0.9	0.7
Other general and administrative	0.2	0.1	0.7	0.4
Total Operating Expenses	$ 8.7	$ 9.7	$ 26.1	$ 28.0

The decrease in operating expenses for the three months ended September 30, 2020 over the three months ended September 30, 2019 was due to 1) lower income incentive fees, as a result of pre-incentive fee net investment income being partially through the hurdle rate, mainly due to lower LIBOR rates over the period; and 2) no capital gains incentive fees as a result of unrealized depreciation on certain loan positions due to company specific factors.

The increase in operating expenses for the nine months ended September 30, 2020 over the nine months ended September 30, 2019 was due to 1) higher interest expense as a result of higher debt balance, offset by lower LIBOR rates over the period, 2) higher management fees due to larger portfolio size; offset by lower income incentive fees, as a result of pre-incentive fee net investment income being lower than the hurdle rate, mainly due to lower LIBOR rates over the period.

Net Investment Income

For the three months ended September 30, 2020, net investment income was $5.3 million, or $0.27 per common share (based on 19,486,030 weighted-average common shares outstanding at September 30, 2020).

For the three months ended September 30, 2019, net investment income was $5.8 million, or $0.31 per common share (based on 18,905,959 weighted-average common shares outstanding at September 30, 2019).

For the nine months ended September 30, 2020, net investment income was $17.0 million, or $0.87 per common share (based on 19,466,647 weighted-average common shares outstanding at September 30, 2020).

For the nine months ended September 30, 2019, net investment income was $15.5 million, or $0.86 per common share (based on 18,056,271 weighted-average common shares outstanding at September 30, 2019).

Net Realized Gains and Losses

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

Repayments and sales of investments and amortization of other certain investments for the three months ended September 30, 2020 totaled $40.1 million, and net realized gains totaled $0.2 million.

Repayments and sales of investments and amortization of other certain investments for the three months ended September 30, 2019 totaled $42.8 million, and net realized gains totaled $6.2 million, primarily attributable to a realization of our equity investment in a portfolio company.

Repayments and sales of investments and amortization of other certain investments for the nine months ended September 30, 2020 totaled $82.4 million, and net realized gains (losses) totaled ($2.4) million, primarily attributable to a loss on conversion of debt from a specific investment.

Repayments and sales of investments and amortization of other certain investments for the nine months ended September 30, 2019 totaled $101.5 million, and net realized gains totaled $19.1 million primarily attributable to realizations of our equity investments in a few portfolio companies and a payment received from a previously impaired investment.

Net Change in Unrealized Appreciation (depreciation) of Investments

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

Net change in unrealized appreciation (depreciation) on investments and cash equivalents for the three months ended September 30, 2020 and 2019 totaled $2.1 million and ($3.5) million, respectively.

Net change in unrealized appreciation (depreciation) on investments and cash equivalents for the nine months ended September 30, 2020 and 2019 totaled ($11.1) million and ($10.0) million, respectively.

The change in appreciation for the three months ended September 30, 2020 primarily from spread tightening and unrealized appreciation on certain equity positions.

The net change in depreciation for the nine months ended September 30, 2020 resulted primarily from company-specific write downs.

The change in unrealized appreciation for the three and nine months ended September 30, 2019 was due primarily to company-specific performance and the accounting reversal relating to a certain realized gain in the portfolio offset by appreciation resulting from the general tightening of credit spreads.

Provision for Taxes on Unrealized Appreciation on Investments

We have direct wholly owned subsidiaries that have elected to be taxable entities (the "Taxable Subsidiaries"). The Taxable Subsidiaries permit us to hold equity investments in portfolio companies which are "pass through" entities for U.S. federal income tax purposes and continue to comply with the "source income" requirements contained in RIC tax provisions of the Code. The Taxable Subsidiaries are not consolidated with us for U.S. federal income tax purposes and may generate U.S. federal income tax expense, benefit, and the related tax assets and liabilities, as a result of their ownership of certain portfolio investments. The U.S. federal income tax expense, or benefit, if any, and related tax assets and liabilities are reflected in our consolidated financial statements. For the three months ended September 30, 2020 and 2019, we recognized a benefit (provision) for U.S. federal income tax on unrealized investments of $(92.8) thousand and $4.2 thousand, respectively, for the Taxable Subsidiaries. For the nine months ended September 30, 2020 and 2019, we recognized a provision for U.S. federal income tax on unrealized investments of $(122.7) thousand and $(35.7) thousand, respectively. As of September 30, 2020 and December 31, 2019, there was a deferred tax liability of $257.4 thousand and $134.7 thousand on the Consolidated Statement of Assets and Liabilities, respectively.

Net Increase in Net Assets Resulting from Operations

For the three months ended September 30, 2020, net increase in net assets resulting from operations totaled $7.5 million, or $0.39 per common share (based on 19,486,030 weighted-average common shares outstanding at September 30, 2020).

For the three months ended September 30, 2019, net increase in net assets resulting from operations totaled $8.5 million, or $0.45 per common share (based on 18,905,959 weighted-average common shares outstanding at September 30, 2019).

For the nine months ended September 30, 2020, net increase in net assets resulting from operations totaled $3.4 million, or $0.17 per common share (based on 19,466,647 weighted-average common shares outstanding at September 30, 2020).

For the nine months ended September 30, 2019, net increase in net assets resulting from operations totaled $24.6 million, or $1.36 per common share (based on 18,056,271 weighted-average common shares outstanding at September 30, 2019).

The decrease in the amount of increase to net assets resulting from operations for the nine months ended September 30, 2020 over the prior period was primarily due to lower realized gains in the current period.

Financial condition, liquidity and capital resources

Cash Flows from Operating and Financing Activities

Our operating activities provided net cash of $12.4 million for the nine months ended September 30, 2020, primarily in connection with the repayment of portfolio investments, some of which was offset by purchase and origination of new portfolio investments. Our financing activities for the nine months ended September 30, 2020 provided cash of $10.1 million due to net borrowings under our Credit Facility (as defined below). See Note 4 to the Consolidated Financial Statements for further discussion.

Our operating activities used net cash of $53.5 million for the nine months ended September 30, 2019, primarily in connection with the purchase and origination of new portfolio investments, some of which was offset by the sales and repayments on our investments. Our financing activities for the nine months ended September 30, 2019 provided cash of $59.1 million due to a secondary offering during the year and borrowings under our Credit Facility. See Note 4 to the Consolidated Financial Statements for further discussion on equity transactions.

Liquidity and Capital Resources

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

Although we expect to fund the growth of our investment portfolio through the net proceeds from future public and private equity offerings and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act, our plans to raise capital may not be successful. In this regard, if our common stock trades at a price below our then-current net asset value per share, we may be limited in our ability to raise equity capital given that we cannot sell our common stock at a price below net asset value per share unless our stockholders approve such a sale and our Board of directors makes certain determinations in connection therewith. A proposal, approved by our stockholders at our 2020 annual stockholders meeting, authorizes us to sell up to 25% of our outstanding common shares at a price equal to or below the then current net asset value per share in one or more offerings. This authorization will expire on June 25, 2021, the one-year anniversary of our 2020 annual stockholders meeting. We would need similar future approval from our stockholders to issue shares below the then current net asset value per share any time after the expiration of the current approval. In addition, we intend to distribute between 90% and 100% of our taxable income to our stockholders in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings. In addition, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

Also, as a BDC, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, over the aggregate amount of the senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 150% effective June 28, 2018 (at least 200% prior to June 28, 2018). This requirement limits the amount that we may borrow. We have received exemptive relief from the SEC to permit us to exclude the debt of Stellus Capital SBIC, LP (“SBIC subsidiary”) and Stellus Capital SBIC II, LP (“SBIC II subsidiary”) (together, “the SBIC subsidiaries”) guaranteed by the Small Business Administration (“SBA”) from the definition of senior securities in the asset coverage test under the 1940 Act. We were in compliance with the asset coverage ratios at all times. As of September 30, 2020 and December 31, 2019, our asset coverage ratio was 209% and 229%, respectively. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing, such as the maturity, covenant package and rate structure of the proposed borrowings, our ability to raise funds through the issuance of shares of our common stock and the risks of such borrowings within the context of our investment outlook. Ultimately, we only intend to use leverage if the expected returns from borrowing to make investments will exceed the cost of such borrowing. As of September 30, 2020 and December 31, 2019, we had cash and cash equivalents of $38.6 million and $16.1 million, respectively.

Credit Facility

On October 11, 2017, we entered a senior secured revolving credit agreement, dated as of October 10, 2017, as amended on March 28, 2018, August 2, 2018, September 13, 2019, December 27, 2019, May 15, 2020, and September 18, 2020 with ZB, N.A., dba Amegy Bank and various other lenders (the “Credit Facility”).

The key changes from the September 18, 2020 amendment are as follows:

	Prior to amendment	As amended
Maturity Date	October 10, 2021	September 18, 2025
Commitment termination date	March 10, 2021	September 18, 2024
LIBOR floor	None	0.25%
Prime rate floor	None	3.00%
Asset coverage ratio	Minimum of 1.75 to 1.00 (maximum leverage of 1.33x)	Minimum of 1.67 to 1.00 (maximum leverage of 1.5x)
Refinancing of 2022 Notes	Not required	Required by March 15, 2022

The Credit Facility, as amended, provides for borrowings up to a maximum of $230.0 million on a committed basis with an accordion feature that allows us to increase the aggregate commitments up to $280.0 million, subject to new or existing lenders agreeing to participate in the increase and other customary conditions.

Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) LIBOR plus 2.50% (or 2.75% during certain periods in which our asset coverage ratio is equal to or below 1.90 to 1.00) with a 0.25% LIBOR floor, or (ii) 1.50% (or 1.75% during certain periods in which our asset coverage ratio is equal to or below 1.90 to 1.00) plus an alternate base rate based on the highest of the Prime Rate, Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. We pays unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable quarterly in arrears. The commitment to fund the revolver expires on September 18, 2024, after which we may no longer borrow under the Credit Facility and must begin repaying principal equal to 1/12 of the aggregate amount outstanding under the Credit Facility. Any amounts borrowed under the Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on September 18, 2025.

Our obligations to the lenders are secured by a first priority security interest in our portfolio of securities and cash not held at the SBIC subsidiaries, but excluding short term investments. The Credit Facility contains certain covenants, including but not limited to: (i) maintaining a minimum liquidity test of at least $10,000,000, including cash, liquid investments and undrawn availability, (ii) maintaining an asset coverage ratio of at least 1.67 to 1.0, (iii) maintaining a minimum shareholder’s equity, and (iv) maintaining a minimum interest coverage ratio of at least 2.00 to 1.00.

As of September 30, 2020, we were in compliance with these covenants.

As of September 30, 2020 and December 31, 2019, the outstanding balance under the Credit Facility was $187.0 million and $161.6 million, respectively. The carrying amount of the amount outstanding under the Credit Facility approximates its fair value. The fair values of the Credit Facility is determined in accordance with Accounting Standards Codification (“ASC”) 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the Credit Facility is estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. We incurred costs of $4.0 million in connection with the Credit Facility, of which $1.7 million relate to the September 18, 2020 amendment, which are being amortized over the life of the facility. As of September 30, 2020 and December 31, 2019, $2.4 million and $1.0 million of such prepaid loan structure fees and administration fees had yet to be amortized, respectively. These prepaid loan fees are presented on our consolidated statement of assets and liabilities as a deduction from the debt liability.

Interest is paid quarterly in arrears. The following table summarizes the interest expense and amortized loan fees on the Credit Facility for the three and nine months ended September 30, 2020 and 2019 (in millions):

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest expense	$ 1.3	$ 1.3	$ 4.7	$ 3.5
Loan fee amortization	0.2	0.1	0.5	0.4
Commitment fees on unused portion	-	0.1	0.1	0.3
Total interest and financing expenses	$ 1.5	$ 1.5	$ 5.3	$ 4.2
Weighted average interest rate	2.8%	4.9%	3.3%	5.0%
Effective interest rate[1]	3.4%	5.7%	3.8%	6.1%
Average debt outstanding	$ 181.1	$ 106.5	$ 187.2	$ 91.9
Cash paid for interest and unused fees	$ 1.3	$ 1.4	$ 5.0	$ 3.6

(1) Includes the impact of loan fee amortization, including agency fees and unused fees.

SBA-Guaranteed Debentures

Due to the SBIC subsidiaries' status as licensed SBICs, we have the ability to issue debentures guaranteed by the SBA at favorable interest rates. Under the regulations applicable to SBIC funds, a single licensee can have outstanding debentures guaranteed by the SBA subject to a regulatory leverage limit, up to two times the amount of regulatory capital. As of both September 30, 2020 and December 31, 2019, the SBIC subsidiary had $75.0 million in regulatory capital, as such term is defined by the SBA, and $150.0 million of SBA-guaranteed debentures outstanding.

As of both September 30, 2020 and December 31, 2019, the SBIC II subsidiary had $20.0 million in regulatory capital and $11.0 million of SBA-guaranteed debentures outstanding. See Note 10 to the Consolidated Financial Statements for further detail on the SBA-guaranteed debentures outstanding.

On August 12, 2014, we obtained exemptive relief from the SEC to permit us to exclude the debt of the SBIC subsidiaries guaranteed by the SBA from our asset coverage test under the 1940 Act. The exemptive relief provides us with increased flexibility under the asset coverage test by permitting us to borrow up to $325.0 million more than we would otherwise be able to absent the receipt of this exemptive relief.

On a stand-alone basis, the SBIC subsidiaries held $246.8 million and $240.1 million in assets at September 30, 2020 and December 31, 2019, respectively, which accounted for approximately 37.2% and 37.0% of our total consolidated assets at September 30, 2020 and December 31, 2019, respectively.

Debentures guaranteed by the SBA have fixed interest rates that equal prevailing 10-year Treasury Note rates plus a market spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the debentures is not required to be paid before maturity but may be pre-paid at any time with no prepayment penalty. SBA-guaranteed debentures drawn before October 1, 2019 incur upfront fees of 3.425%, which consists of a 1.00% commitment fee and a 2.425% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. SBA-guaranteed debentures drawn after October 1, 2019 incur upfront fees of 3.435%, which consists of a 1.00% commitment fee and a 2.435% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. Once pooled, which occurs in March and September each year, the SBA-guaranteed debentures bear interest at a fixed rate that is set to the current 10-year Treasury Note Rate plus a spread at each pooling date.

As of September 30, 2020 and December 31, 2019, the carrying amount of the SBA-guaranteed debentures approximated their fair value. The fair values of the SBA-guaranteed debentures are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the SBA-guaranteed debentures are estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. At September 30, 2020 and December 31, 2019 the SBA-guaranteed debentures would be deemed to be Level 3 as defined in Note 6 to the Consolidated Financial Statements).

As of September 30, 2020, we have incurred $5.6 million in financing costs related to the SBA-guaranteed debentures since the SBIC subsidiaries received their licenses, which were recorded as prepaid loan fees. As of September 30, 2020 and December 31, 2019, $2.9 million and $3.5 million of prepaid financing costs had yet to be amortized, respectively. These prepaid financing costs are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability.

The following table summarizes the interest expense and amortized fees on the SBA-guaranteed debentures for the three and nine months ended September 30, 2020 and 2019 (in millions):

	For the three months ended		For the nine months ended	
	September 30, 2020	**September 30, 2019**	**September 30, 2020**	**September 30, 2019**
Interest expense	$ 1.3	$ 1.3	$ 4.0	$ 3.8
Debenture fee amortization	0.2	0.1	0.5	0.5
Total interest and financing expenses	$ 1.5	$ 1.4	$ 4.5	$ 4.3
Weighted average interest rate	3.3%	3.4%	3.3%	3.4%
Effective interest rate[(1)]	3.8%	3.8%	3.8%	3.8%
Average debt outstanding	$ 161.0	$ 150.0	$ 161.0	$ 150.0
Cash paid for interest	$ 2.7	$ 2.6	$ 5.3	$ 5.0

(1) Includes the impact of loan fee amortization.

Notes Offering

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

We used all the net proceeds from this offering to fully redeem notes issued in a prior public offering and a portion of the amount outstanding under the Original Facility. As of September 30, 2020 and December 31, 2019, the aggregate carrying amount of the 2022 Notes was approximately $48.9 million for both periods and the fair value of the 2022 Notes was approximately $48.1 million and $49.7 million, respectively. The 2022 Notes are listed on New York Stock Exchange under the trading symbol “SCA”. The fair value of the 2022 Notes is based on the closing price of the security, which is a Level 2 input under ASC 820 due to sufficient trading volume.

In connection with the issuance and maintenance of the 2022 Notes, we have incurred $1.7 million of fees which are being amortized over the term of the 2022 Notes, of which $0.7 million and $0.9 million remains to be amortized as of September 30, 2020 and December 31, 2019, respectively. These financing costs are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability.

The following table summarizes the interest expense and deferred financing costs on the 2022 Notes for the three and nine months ended September 30, 2020 and 2019 (dollars in millions):

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest expense	$ 0.7	$ 0.7	$ 2.1	$ 2.1
Deferred financing costs	0.1	0.1	0.3	0.3
Total interest and financing expenses	$ 0.8	$ 0.8	$ 2.4	$ 2.4
Weighted average interest rate	5.7%	5.7%	5.7%	5.8%
Effective interest rate[1]	6.4%	6.4%	6.4%	6.5%
Average debt outstanding	$ 48.9	$ 48.9	$ 48.9	$ 48.9
Cash paid for interest	$ 0.7	$ 0.7	$ 2.1	$ 2.1

(1) Includes the impact of loan fee amortization, including agency fees.

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of September 30, 2020 and December 31, 2019, our off-balance sheet arrangements consisted of $30.7 million and $37.5 million, respectively, of unfunded commitments to provide debt financing to 18 and 17 of our portfolio companies, respectively. As of September 30, 2020, we had sufficient liquidity to fund such unfunded commitments (through cash on hand and available borrowings under the Credit Facility) should the need arise.

Regulated Investment Company Status and Dividends

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

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

To qualify for RIC tax treatment, we must, among other things, distribute, with respect to each taxable year, at least 90% of our investment company net taxable income (i.e., our net ordinary income and our realized net short-term capital gains in excess of realized net long-term capital losses, if any). If we maintain our qualification as a RIC, we must also satisfy certain distribution requirements each calendar year in order to avoid a U.S. federal excise tax on our undistributed earnings of a RIC. As of December 31, 2019, the Company had $21,444,320 of undistributed taxable income that was carried forward toward distributions to be paid in 2020.

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

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

In accordance with certain applicable U.S. Treasury regulations and private letter rulings issued by the Internal Revenue Service (the "IRS"), a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 20% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive less than 20% of his or her entire distribution in cash, except as described below.

Recently, in recognition of the need for enhanced liquidity during the current period of economic disruption, the IRS has temporarily reduced the minimum required aggregate amount of cash that shareholders may receive in such a distribution from 20% down to 10% percent of the aggregate declared distribution. This temporary modification is effective solely with respect to distributions declared on or after April 1, 2020, and on or before December 31, 2020.

If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock. We have no current intention of paying dividends in shares of our stock in accordance with these U.S. Treasury regulations or private letter rulings. However, we continue to monitor the Company's liquidity position and the overall economy and will continue to assess whether it would be in the best interests of the Company and its shareholders to take advantage of the IRS rulings.

Recent Accounting Pronouncements

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

Critical Accounting Policies

See Note 1 to the Consolidated Financial Statements contained herein for a description of critical accounting policies.

Subsequent Events

Investment Portfolio

On October 1, 2020, we received full repayment on the first lien term loan of C.A.R.S Protection Plus, Inc. for total proceeds of $7.4 million. We also received $0.4 million in full realization on the equity of the company, resulting in a $0.3 million gain.

Unfunded Commitments

As of October 29, 2020, we had unfunded commitments of $30.9 million, including unfunded delayed draw term loan commitments of $12.1 million. As of October 29, 2020, we had sufficient liquidity (through cash on hand and available borrowings under the Credit Facility) to fund such unfunded loan commitments should the need arise.

Credit Facility

The outstanding balance under the Credit Facility as of October 29, 2020 was $166.5 million.

SBA-guaranteed Debentures

The total consolidated balance of SBA-guaranteed debentures outstanding as of October 29, 2020 was $161.0 million.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. U.S. and global capital markets and credit markets have experienced a higher level of stress due to the COVID-19 pandemic, which has resulted in an increase in the level of volatility across such markets. The U.S. Federal Reserve and other central banks have reduced certain interest rates and LIBOR has decreased. In a prolonged low interest rate environment, including a reduction of LIBOR to zero, the difference between the total interest income earned on interest earning assets and the total interest expense incurred on interest bearing liabilities may be compressed, reducing our net interest income and potentially adversely affecting our operating results. As of September 30, 2020 and December 31, 2019, 92% and 93% of the loans in our portfolio bore interest at floating rates, respectively. These floating rate loans typically bear interest in reference to LIBOR, and are indexed to 30-day or 90-day LIBOR rates, subject to an interest rate floor. As of September 30, 2020 and December 31, 2019, the weighted average interest rate floor on our floating rate loans was 1.21% and 1.13%, respectively.

Assuming that the Statement of Assets and Liabilities as of September 30, 2020 were to remain constant and no actions were taken to alter the existing interest rate sensitivity, the following table shows the annual impact on net income of changes in interest rates:

($ in millions)

Change in Basis Points[(2)]	Interest Income	Interest Expense [(3)]	Net Interest Income [(1)]
Up 200 basis points	$ 10.8	(3.7)	$ 7.1
Up 150 basis points	7.2	(2.8)	4.4
Up 100 basis points	2.9	(1.9)	1.0
Up 50 basis points	0.6	(0.9)	(0.3)
Down 25 basis points	(1.3)	0.0	(1.3)

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

(2) The three month LIBOR rate at September 30, 2020 was 23 basis points. This table assumes LIBOR would not fall below zero.

(3) Includes the impact of the 25 bps LIBOR floor in place on the Credit Facility.

Although we believe that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase in net assets resulting from operations. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contacts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. For the three and nine months ended September 30, 2020 and 2019, we did not engage in hedging activities.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of various members of management, including its Chief Executive Officer and its Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report.

(b) Changes in Internal Control Over Financial Reporting

The Company's management did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2020 that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the information provided under the heading “Risk Factors” in our Annual Report on Form 10-K as of December 31, 2019 other than as provided below. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially affect our business, financial condition and/or operating results.

Risks Relating to Our Business and Structure

Political, social and economic uncertainty, including uncertainty related to the COVID-19 pandemic, creates and exacerbates risks.

Social, political, economic and other conditions and events (such as natural disasters, epidemics and pandemics, terrorism, conflicts and social unrest) will occur that create uncertainty and have significant impacts on issuers, industries, governments and other systems, including the financial markets, to which companies and their investments are exposed. As global systems, economies and financial markets are increasingly interconnected, events that once had only local impact are now more likely to have regional or even global effects. Events that occur in one country, region or financial market will, more frequently, adversely impact issuers in other countries, regions or markets, including in established markets such as the U.S. These impacts can be exacerbated by failures of governments and societies to adequately respond to an emerging event or threat.

Uncertainty can result in or coincide with, among other things: increased volatility in the financial markets for securities, derivatives, loans, credit and currency; a decrease in the reliability of market prices and difficulty in valuing assets (including portfolio company assets); greater fluctuations in spreads on debt investments and currency exchange rates; increased risk of default (by both government and private obligors and issuers); further social, economic, and political instability; nationalization of private enterprise; greater governmental involvement in the economy or in social factors that impact the economy; changes to governmental regulation and supervision of the loan, securities, derivatives and currency markets and market participants and decreased or revised monitoring of such markets by governments or self-regulatory organizations and reduced enforcement of regulations; limitations on the activities of investors in such markets; controls or restrictions on foreign investment, capital controls and limitations on repatriation of invested capital; the significant loss of liquidity and the inability to purchase, sell and otherwise fund investments or settle transactions (including, but not limited to, a market freeze); unavailability of currency hedging techniques; substantial, and in some periods extremely high, rates of inflation, which can last many years and have substantial negative effects on credit and securities markets as well as the economy as a whole; recessions; and difficulties in obtaining and/or enforcing legal judgments.

For example, in December 2019, a novel strain of coronavirus (also known as “COVID-19”) emerged in China and has since spread and continues to spread to other countries, including the United States. This outbreak has led and for an unknown period of time will continue to lead to disruptions in local, regional, national and global markets and economies affected thereby. With respect to the U.S. credit markets (in particular for middle market loans), this outbreak has resulted in, and until fully resolved is likely to continue to result in, the following among other things: (i) government imposition of various forms of shelter-in-place orders and the closing of “non-essential” businesses, resulting in significant disruption to the businesses of many middle-market loan borrowers including supply chains, demand and practical aspects of their operations, as well as in lay-offs of employees, and, while these effects are hoped to be temporary, some effects could be persistent or even permanent; (ii) increased draws by borrowers on revolving lines of credit; (iii) increased requests by borrowers for amendments and waivers of their credit agreements to avoid default, increased defaults by such borrowers and/or increased difficulty in obtaining refinancing at the maturity dates of their loans; (iv) volatility and disruption of these markets including greater volatility in pricing and spreads and difficulty in valuing loans during periods of increased volatility, and liquidity issues; and (v) rapidly evolving proposals and/or actions by state and federal governments to address problems being experienced by the markets and by businesses and the economy in general which will not necessarily adequately address the problems facing the loan market and middle market businesses. This outbreak is having, and any future outbreaks could have, an adverse impact on the markets and the economy in general, which could have a material adverse impact on, among other things, the ability of lenders to originate loans, the volume and type of loans originated, and the volume and type of amendments and waivers granted to borrowers and remedial actions taken in the event of a borrower default, each of which could negatively impact the amount and quality of loans available for investment by us and returns to us, among other things. As of the date of this quarterly report on Form 10-Q, it is impossible to determine the scope of this outbreak, or any future outbreaks, how long any such outbreak, market disruption or uncertainties may last, the effect any governmental actions will have or the full potential impact on us and our portfolio companies. Any potential impact on our results of operations will depend to a large extent on future developments and new information that could emerge regarding the duration and severity of the COVID-19 pandemic and the actions taken by authorities and other entities to contain COVID-19 or mitigate its impact, all of which are beyond our control. These potential impacts, while uncertain, could adversely affect our and our portfolio companies’ operating results.

While several countries, as well as certain states in the United States, have begun to lift public health restrictions with the view to reopening their economies, recurring COVID-19 outbreaks have led to the re-introduction of such restrictions in certain states in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. Additionally, the absence of viable treatment options or a vaccine could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period of time. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may continue to experience a recession, and we anticipate our business and operations could be materially adversely affected by a prolonged recession in the United States and other major markets. If the economy is unable to substantially reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, loan non-accruals, problem assets, and bankruptcies may increase. In addition, collateral for our loans may decline in value, which could cause loan losses to increase and the net worth and liquidity of loan guarantors could decline, impairing their ability to honor commitments to us. An increase in loan delinquencies and non-accruals or a decrease in loan collateral and guarantor net worth could result in increased costs and reduced income which would have a material adverse effect on our business, financial condition or results of operations.

We could also be negatively affected if our operations and effectiveness or the operations and effectiveness of a portfolio company (or any of the key personnel or service providers of the foregoing) is compromised or if necessary or beneficial systems and processes are disrupted.

Changes relating to the LIBOR calculation process may adversely affect the value of our portfolio of LIBOR-indexed, floating-rate debt securities.

LIBOR, the London Interbank Offered Rate, is the basic rate of interest used in lending transactions between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. We typically use LIBOR as a reference rate in floating-rate loans we extend to portfolio companies such that the interest due to us pursuant to a term loan extended to a portfolio company is calculated using LIBOR. The terms of our debt investments generally include minimum interest rate floors which are calculated based on LIBOR. In the recent past, concerns have been publicized that some of the member banks surveyed by the British Bankers’ Association (“BBA”) in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivative positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the ICE Benchmark Administration, regulators or law enforcement agencies as a result of these or future events, may result in changes to the manner in which LIBOR is determined. Potential changes, or uncertainty related to such potential changes may adversely affect the market for LIBOR-based securities, including our portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our portfolio of LIBOR-indexed, floating-rate debt securities, loans, and other financial obligations or extensions of credit held by or due to us.

On July 27, 2017, the U.K. Financial Conduct Authority (the "FCA"), which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. In addition, on March 25, 2020, the FCA stated that although the central assumption that firms cannot rely on LIBOR being published after the end of 2021 has not changed, the outbreak of COVID-19 has impacted the timing of many firms' transition planning, and the FCA will continue to assess the impact of the COVID-19 pandemic on transition timelines and update the marketplace as soon as possible. It is unclear if after 2021 LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. We have exposure to LIBOR, including in financial instruments that mature after 2021. Our exposure arises from the value of our portfolio of LIBOR-indexed, floating-rate debt securities.

In the United States, the Federal Reserve Board and the Federal Reserve Bank of New York, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index calculated by short-term repurchase agreements, backed by Treasury securities called the Secured Overnight Financing Rate ("SOFR"). The Federal Reserve Bank of New York began publishing SOFR in April 2018. Ameribor, calculated by unsecured overnight lending rates between small and mid-sized member banks and financial institutions of the American Financial Exchange, is another potential replacement for LIBOR. Whether SOFR or Ameribor attain market traction as a LIBOR replacement remains a question, and the future of LIBOR at this time is uncertain, including whether the COVID-19 pandemic will have further effect on LIBOR transition plans.

The elimination of LIBOR or any other changes or reforms to the determination or supervision of LIBOR could have an adverse impact on the market for or value of any LIBOR-indexed, floating-rate debt securities, loans, and other financial obligations or extensions of credit held by or due to us or on our overall financial condition or results of operations. If LIBOR ceases to exist, we may need to renegotiate the credit agreements extending beyond 2021 with our portfolio companies that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established. In the event that the LIBOR Rate is no longer available or published on a current basis or no longer made available or used for determining the interest rate of loans, our administrative agent that manages our loans will generally select a comparable successor rate; provided that (i) to the extent a comparable or successor rate is approved by the administrative agent, the approved rate shall be applied in a manner consistent with market practice; and (ii) to the extent such market practice is not administratively feasible for the administrative agent, such approved rate shall be applied as otherwise reasonably determined by the administrative agent.

The COVID-19 pandemic has caused severe disruptions in the U.S. economy and has disrupted financial activity in the areas in which we or our portfolio companies operate.

The COVID-19 pandemic has adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak continues to evolve, and many countries have reacted to the outbreak by instituting quarantines, "work from home" measures, prohibitions on travel, and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of the COVID-19 pandemic, have created significant disruption in supply chains and economic activity, and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries, including industries in which certain of our portfolio companies operate. The impact of COVID-19 has led to significant volatility and declines in the global public equity markets, and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, potential future impacts, including a global, regional or other economic recession, remain uncertain and difficult to assess. Some economists and major investment banks have expressed concern that the continued spread of the virus globally could lead to a world-wide economic downturn.

Disruptions in the capital markets caused by the COVID-19 pandemic have increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. These and future market disruptions and/or illiquidity would be expected to have an adverse effect on our business, financial condition, results of operations and cash flows. Unfavorable economic conditions also would be expected to increase our funding costs, limit our access to the capital markets, and result in decisions by lenders not to extend credit to us. These events could limit our investment originations, limit our ability to grow, and have a material adverse impact on our and our portfolio companies' operating results and the fair values of our debt and equity investments.

Any public health emergency, including the COVID-19 pandemic and any outbreak of other existing or new epidemic diseases, or the threat thereof, and the resulting financial and economic market uncertainty, could have a significant adverse impact on us and the fair value of our investments and our portfolio companies.

The extent of the impact of any public health emergency, including the COVID-19 pandemic, on our and our portfolio companies' operational and financial performance will depend on many factors, including the duration and scope of such public health emergency, the actions taken by governmental authorities to contain the financial and economic impact of the public health emergency, the extent of any related travel advisories and restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity, and the extent of the public health emergency's disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. In addition, our and our portfolio companies' operations may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, voluntary and precautionary restrictions on travel or meetings and other factors related to a public health emergency, including the potential adverse impact of the public health emergency on the health of any of our or our portfolio companies' personnel. This could create widespread business continuity issues for us and our portfolio companies.

These factors may also cause the valuation of our investments to differ materially from the values that we may ultimately realize. Our valuations, and particularly valuations of private investments and private companies, are inherently uncertain, may fluctuate over short periods of time, and are often based on estimates, comparisons and qualitative evaluations of private information that may not show the complete impact of the COVID-19 pandemic and the resulting measures taken in response thereto.

The capital markets are currently in a period of disruption and economic uncertainty. Such market conditions have materially and adversely affected debt and equity capital markets, which have had, and may continue to have, a negative impact on our business and operations.

The impact of the COVID-19 pandemic has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. Health advisors warn that recurring COVID-19 outbreaks will continue if reopening is pursued too soon or in the wrong manner, which may lead to the re-introduction or continuation of certain public health restrictions (such as instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues). As the COVID-19 pandemic continues to spread, the potential impacts, including a global, regional or other economic recession, remain uncertain and difficult to assess. Some economists and major investment banks have expressed concern that the continued spread of the virus globally could lead to a world-wide economic downturn.

Disruptions in the capital markets caused by the COVID-19 pandemic have increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. These and future market disruptions and/or illiquidity would be expected to have an adverse effect on our business, financial condition, results of operations and cash flows. Unfavorable economic conditions also would be expected to increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events have limited and could continue to limit our investment originations, limit our ability to grow and have a material negative impact on our operating results and the fair values of our debt and equity investments.

Additionally, the recent disruption in economic activity caused by the COVID-19 pandemic may have a negative effect on the potential for liquidity events involving our investments. The illiquidity of our investments may make it difficult for us to sell such investments to access capital if required, and as a result, we could realize significantly less than the value at which we have recorded our investments if we were required to sell them for liquidity purposes. An inability to raise or access capital, and any required sale of all or a portion of our investments as a result, could have a material adverse effect on our business, financial condition or results of operations.

Adverse developments in the credit markets may impair our ability to secure debt financing.

In past economic downturns, such as the financial crisis in the United States that began in mid-2007 and during other times of extreme market volatility, many commercial banks and other financial institutions stopped lending or significantly curtailed their lending activity. In addition, in an effort to stem losses and reduce their exposure to segments of the economy deemed to be high risk, some financial institutions limited routine refinancing and loan modification transactions and even reviewed the terms of existing facilities to identify bases for accelerating the maturity of existing lending facilities. If these conditions recur, for example as a result of the COVID-19 pandemic, it may be difficult for us to obtain desired financing to finance the growth of our investments on acceptable economic terms, or at all.

So far, the COVID-19 pandemic could result in, among other things, increased draws by borrowers on revolving lines of credit and increased requests by borrowers for amendments, modifications and waivers of their credit agreements to avoid default or change payment terms, increased defaults by such borrowers and/or increased difficulty in obtaining refinancing at the maturity dates of their loans. In addition, the duration and effectiveness of responsive measures implemented by governments and central banks cannot be predicted. The commencement, continuation, or cessation of government and central bank policies and economic stimulus programs, including changes in monetary policy involving interest rate adjustments or governmental policies, may contribute to the development of or result in an increase in market volatility, illiquidity and other adverse effects that could negatively impact the credit markets and the Company.

If we are unable to consummate credit facilities on commercially reasonable terms, our liquidity may be reduced significantly. If we are unable to repay amounts outstanding under any facility we may enter into and are declared in default or are unable to renew or refinance any such facility, it would limit our ability to initiate significant originations or to operate our business in the normal course. These situations may arise due to circumstances that we may be unable to control, such as inaccessibility of the credit markets, a severe decline in the value of the U.S. dollar, a further economic downturn or an operational problem that affects third parties or us, and could materially damage our business. Moreover, we are unable to predict when economic and market conditions may become more favorable. Even if such conditions improve broadly and significantly over the long term, adverse conditions in particular sectors of the financial markets could adversely impact our business.

The current period of capital markets disruption and economic uncertainty may make it difficult to extend the maturity of, or refinance, our existing indebtedness or obtain new indebtedness and any failure to do so could have a material adverse effect on our business, financial condition or results of operations.

Current market conditions may make it difficult to extend the maturity of or refinance our existing indebtedness or obtain new indebtedness with similar terms and any failure to do so could have a material adverse effect on our business. The debt capital that will be available to us in the future, if at all, may be at a higher cost and on less favorable terms and conditions than what we currently experience, including being at a higher cost in rising rate environments. If we are unable to raise or refinance debt, then our equity investors may not benefit from the potential for increased returns on equity resulting from leverage and we may be limited in our ability to make new commitments or to fund existing commitments to our portfolio companies. An inability to extend the maturity of, or refinance, our existing indebtedness or obtain new indebtedness could have a material adverse effect on our business, financial condition or results of operations.

Due to the COVID-19 pandemic or other disruptions in the economy, we may reduce or defer our dividends and choose to incur US federal excise tax in order preserve cash and maintain flexibility.

As a BDC, we are not required to make any distributions to shareholders other than in connection with our election to be taxed as a RIC under subchapter M of the Code. In order to maintain our tax treatment as a RIC, we must distribute to shareholders for each taxable year at least 90.0% of our investment company taxable income (i.e., net ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses). If we qualify for taxation as a RIC, we generally will not be subject to corporate-level U.S. federal income tax on our investment company taxable income and net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) that we timely distribute to shareholders. We will be subject to a 4.0% US federal excise tax on undistributed earnings of a RIC unless we distribute each calendar year at least the sum of (i) 98.0% of our ordinary income for the calendar year, (ii) 98.2% of our capital gains in excess of capital losses for the one-year period ending on December 31 of the calendar year, and (iii) any ordinary income and net capital gains for preceding years that were not distributed during such years and on which we paid no federal income tax.

Under the Code, we may satisfy certain of our RIC distributions with dividends paid after the end of the current year. In particular, if we pay a distribution in January of the following year that was declared in October, November, or December of the current year and is payable to shareholders of record in the current year, the dividend will be treated for all US federal tax purposes as if it were paid on December 31 of the current year. In addition, under the Code, we may pay dividends, referred to as “spillover dividends,” that are paid during the following taxable year that will allow us to maintain our qualification for taxation as a RIC and eliminate our liability for corporate-level U.S. federal income tax. Under these spillover dividend procedures, we may defer distribution of income earned during the current year until December of the following year. For example, we may defer distributions of income earned during 2020 until as late as December 31, 2021. If we choose to defer a distribution of income earned during the current year beyond December 31, 2020, we will incur the 4% U.S. federal excise tax on some or all of the deferred amount.

Due to the COVID-19 pandemic or other disruptions in the economy, we could take certain actions with respect to the timing and amounts of our distributions in order to preserve cash and maintain flexibility. We may reduce our dividends and/or defer our dividends to the following taxable year. If we defer our dividends, we may choose to utilize the spillover dividend rules discussed above and incur the 4.0% U.S. federal excise tax on such amounts. To further preserve cash, we may combine these reductions or deferrals of dividends with one or more distributions that are payable partially in our common stock as discussed below under "We may in the future choose to pay dividends in our own common stock, in which case you may be required to pay tax in excess of the cash you receive."

We may in the future choose to pay dividends in our own common stock, in which case you may be required to pay tax in excess of the cash you receive.

We may distribute taxable dividends that are payable in part in our common stock. In accordance with certain applicable Treasury regulations and published guidance issued by the Internal Revenue Service, a publicly offered RIC may treat a distribution of its own stock as fulfilling the RIC distribution requirements if each shareholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all shareholders must be at least 20.0% (which has been temporarily reduced to 10% for distributions declared on or after April 1, 2020, and on or before December 31, 2020) of the aggregate declared distribution. If too many shareholders elect to receive cash, the cash available for distribution must be allocated among the shareholders electing to receive cash (with the balance of the distribution paid in stock). In no event will any shareholder, electing to receive cash, receive less than the lesser of (a) the portion of the distribution such shareholder has elected to receive in cash or (b) an amount equal to his or her entire distribution times the percentage limitation on cash available for distribution. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock. Taxable shareholders receiving such dividends will be required to include the amount of the dividends as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. shareholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. shareholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to non-U.S. shareholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common stock. In addition, if a significant number of our shareholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

Our investments in the business services industry are subject to unique risks relating to technological developments, regulatory changes and changes in customer preferences.

Our investments in portfolio companies that operate in the business services industry represent approximately 17.61% of our total portfolio as of September 30, 2020. Our investments in portfolio companies in the business services sector include those that provide services related to data and information, building, cleaning and maintenance services, and energy efficiency services. Portfolio companies in the business services sector are subject to many risks, including the negative impact of regulation, changing technology, a competitive marketplace and difficulty in obtaining financing. Portfolio companies in the business services industry must respond quickly to technological changes and understand the impact of these changes on customers' preferences. Adverse economic, business, or regulatory developments affecting the business services sector could have a negative impact on the value of our investments in portfolio companies operating in this industry, and therefore could negatively impact our business and results of operations.

There is uncertainty surrounding potential legal, regulatory and policy changes by new presidential administrations in the United States that may directly affect financial institutions and the global economy.

The U.S. presidential election will occur on November 3, 2020. Changes in federal policy, including tax policies, and at regulatory agencies occur over time through policy and personnel changes following elections, which lead to changes involving the level of oversight and focus on the financial services industry or the tax rates paid by corporate entities. The nature, timing and economic and political effects of potential changes to the current legal and regulatory framework affecting financial institutions remain highly uncertain. Uncertainty surrounding future changes may adversely affect our operating environment and therefore our business, financial condition, results of operations and growth prospects.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. EXHIBITS.

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits filed with the SEC:

Exhibit Number	Description
10.1	Amended and Restated Credit Agreement, dated as of September 18, 2020, among Stellus Capital Investment Corporation, the lenders party thereto, and Zions Bancorporation, N.A. dba Amegy Bank, as the administrative agent (incorporated by reference to the Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 814-00971), filed on September 21, 2020)
31.1	Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
*	Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: October 29, 2020	**STELLUS CAPITAL INVESTMENT CORPORATION**
	By: /s/ Robert T. Ladd
	Name: Robert T. Ladd
	Title: Chief Executive Officer and President
	By: /s/ W. Todd Huskinson
	Name: W. Todd Huskinson
	Title: Chief Financial Officer

Exhibit 31.1

I, Robert T. Ladd, Chief Executive Officer of Stellus Capital Investment Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stellus Capital Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities and Exchange Act of 1934, as amended ("The Exchange Act"), Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 29th day of October 2020.

By: /s/ Robert T. Ladd
Robert T. Ladd
Chief Executive Officer

Exhibit 31.2

I, W. Todd Huskinson, Chief Financial Officer of Stellus Capital Investment Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stellus Capital Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in in the Securities and Exchange Act of 1934, as amended ("The Exchange Act"), Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 29th day of October 2020.

By: /s/ W. Todd Huskinson
W. Todd Huskinson
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with this quarterly report on Form 10-Q (the “Report”) of Stellus Capital Investment Corporation (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, Robert T. Ladd, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Robert T. Ladd
Name: Robert T. Ladd
Date: October 29, 2020

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with this quarterly report on Form 10-Q (the “Report”) of Stellus Capital Investment Corporation (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, W. Todd Huskinson, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ W. Todd Huskinson

Name: W. Todd Huskinson
Date: October 29, 2020