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GRILL CONCEPTS INC
Form DEF 14A
April 26, 2004

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant []

Check the appropriate box:

- Preliminary Proxy Statement of the Commission Only
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GRILL CONCEPTS, INC.

(Name of Registrant As Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

GRILL CONCEPTS, INC.
11661 San Vicente Blvd., Suite 404
Los Angeles, California 90049

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

DATE	June 23, 2004
TIME	9:00 a.m., Pacific Time
PLACE	The Grill on the Alley 9560 Dayton Way Beverly Hills, California 90210
ITEMS OF BUSINESS	(1) To elect seven directors of the Company to hold office until the next annual meeting of shareholders or until their successors are duly elected and qualified. (2) To consider a proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent certifying accountants. (3) To transact such other business as may properly come before the meeting or any adjournment thereof.
RECORD DATE	Holders of Grill Concepts common stock of record at the close of business on April 26, 2004 are entitled to vote at the meeting.
ANNUAL REPORT	The Company's 2003 annual report, which is not part of the proxy soliciting materials, is included with this document.

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PROXY VOTING It is important that your shares be represented and voted at the meeting. You can vote your shares by completing and returning the proxy card sent to you. Shareholders may be able to vote their shares over the Internet or by telephone. If Internet or telephone voting is available to you, voting instructions are printed on the proxy card sent to you. You can revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the accompanying proxy statement.

You are cordially invited to attend the meeting. Whether or not you are planning to attend the meeting, you are urged to complete, date and sign the enclosed proxy card and return it promptly.

By Order of the Board of Directors

Michael Weinstock
Chairman

Los Angeles, California
April 26, 2004

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GRILL CONCEPTS, INC.
11661 SAN VICENTE BLVD., SUITE 404
LOS ANGELES, CALIFORNIA 90049

PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD JUNE 23, 2004

INTRODUCTION

GENERAL

This Proxy Statement is being furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Grill Concepts, Inc. (the "Company") for use at the 2004 Annual Meeting of Shareholders of the Company and at any adjournment thereof (the "Annual Meeting"). The Annual Meeting is scheduled to be held at The Grill on the Alley, 9560 Dayton Way, Beverly Hills, California, on Wednesday, June 23, 2004 at 9:00 a.m. local time. This Proxy Statement and the enclosed form of proxy will first be sent to shareholders on or about April 28, 2004.

MATTERS TO BE VOTED ON BY SHAREHOLDERS

At the Annual Meeting, the shareholders will vote upon two proposals, the election of directors and the ratification of the appointment of PricewaterhouseCoopers LLP as independent certifying accountants, as described further in this Proxy Statement. The Board of Directors is not aware of any matters that are expected to come before the Annual Meeting other than those referred to in this Proxy Statement.

PROXIES

The shares represented by any proxy in the enclosed form, if such proxy is properly executed and is received by the Company prior to or at the Annual Meeting prior to the closing of the polls, will be voted in accordance with the specifications made thereon. Proxies on which no specification has been made by

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the shareholder will be voted FOR the election to the Board of Directors of the nominees of the Board of Directors named herein and FOR the ratification of the appointment of the designated independent accountants. If any other matter should come before the Annual Meeting, the persons named in the accompanying proxy intend to vote such proxies in accordance with their best judgment.

REVOCAION OF PROXIES

Proxies are revocable by written notice received by the Secretary of the Company at any time prior to their exercise or by executing a later dated proxy. Proxies will be deemed revoked by voting in person at the Annual Meeting.

RECORD DATE

Shareholders of record at the close of business on April 26, 2004 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting.

VOTING SECURITIES

On the Record Date, the total number of shares of common stock of the Company, \$0.00004 par value per share (the "Common Stock"), outstanding and entitled to vote was 5,588,019.

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QUORUM

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum.

VOTING PROCEDURES

Casting Votes. "Record" shareholders of Common Stock (that is, persons holding Common Stock in their own name in Grill Concepts' stock records maintained by our transfer agent, Securities Transfer Corporation), may attend the Annual Meeting and vote in person or complete and sign the accompanying proxy card and return it to Grill Concepts.

"Street name" shareholders of Common Stock (that is, shareholders who hold Common Stock through a broker or other nominee) who wish to vote at the Annual Meeting will need to obtain a proxy form from the institution that holds their shares and to follow the voting instructions on that form.

Counting of Votes. The holders of all outstanding shares of Common Stock are entitled to one vote for each share of Common Stock registered in their names on the books of the Company at the close of business on the Record Date. Additionally, every shareholder voting for the election of directors may cumulate such shareholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares held by the shareholder as of the Record Date, or distribute such shareholder's votes on the same principle among as many candidates as the shareholder may select, provided that votes cannot be cast for more than the number of directors to be elected. However, no shareholder shall be entitled to cumulate votes unless the candidate's name has been placed in nomination prior to the voting and the shareholder, or any other shareholder, has given notice at the meeting prior to the voting of the intention to cumulate the shareholder's votes.

Broker Non-Votes. A broker non-vote occurs when a broker submits a proxy card with respect to shares of common stock held in a fiduciary capacity (typically referred to as being held in "street name"), but declines to vote on a

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particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on non-routine matters. Routine matters include the election of directors, increases in authorized common stock for general corporate purposes and ratification of auditors. Non-routine matters include amendments to stock plans.

Required Vote to Constitute a Quorum and Approve Proposals. Shares of Common Stock represented by a properly dated, signed and returned proxy will be counted as present at the Annual Meeting for purposes of determining a quorum, without regard to whether the proxy is marked as casting a vote or abstaining. Directors will be elected by a plurality of the votes cast at the Annual Meeting. Each of the other matters scheduled to come before the Annual Meeting requires the approval of a majority of the votes cast at the Annual Meeting. Therefore, abstentions and broker non-votes will have no effect on the election of directors or any other matter.

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PROPOSALS

The stockholders are being asked to consider and vote upon two proposals at the meeting. The following is a summary of the proposals and the voting recommendations of the Board of Directors:

PROPOSAL	BOARD RECOMMENDATION
----- 1 - Election of Directors -----	----- FOR -----
2 - Ratification of Appointment of Auditors -----	----- FOR -----

Following is a detailed description of the proposals to be considered by the stockholders.

PROPOSAL 1 - ELECTION OF DIRECTORS

The first proposal to be vote on is the election of seven directors. The Board's nominees are Robert Spivak, Michael Weinstock, Glenn Golenberg, Lewis Wolff, Stephen Ross, Norman MacLeod and Bruce Schwartz. Each of the nominees other than Mr. Schwartz is presently serving as a Grill Concepts director. Biographical information about each of the nominees is included in "Director Information" below. If elected, each of the nominees will serve a one-year term and will be subject to reelection next year along with the other directors.

The Board of Directors has no reason to believe that any nominee will be unable to serve or decline to serve as a director if elected. If a nominee becomes unable or unwilling to accept nomination or election, the Board will either select a substitute nominee or will reduce the size of the Board. If you have submitted a proxy and a substitute nominee is selected, your shares will be voted for the election of the substitute nominee.

In accordance with Grill Concepts' bylaws, directors are elected by a plurality vote of shares represented and entitled to vote at the meeting. That means the seven nominees will be elected if they receive more affirmative votes than any other nominees. In accordance with applicable law, in electing directors, stockholders may cumulate their votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of

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shares held by the stockholder as of the Record Date, or distribute such stockholder's votes on the same principle among as many candidates as the stockholder may select, provided that votes cannot be cast for more than the number of directors to be elected. However, no stockholder shall be entitled to cumulate votes unless the candidate's name has been placed in nomination prior to the voting and the stockholder, or any other stockholder, has given notice at the meeting prior to the voting of the intention to cumulate the stockholder's votes.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" ALL NOMINEES.

DIRECTOR INFORMATION

Set out below is certain information concerning our nominees for election as directors of the Company:

GLENN GOLENBERG Age: 63 Director since 1995 Committees: Audit and Compensation	Mr. Golenberg is a Managing Director of Golenberg & Company, formed in 1995. The Bellwether Group, LLC, merchant banking firms that invest in and provide consulting and financial advisory services to a broad range of businesses forming Golenberg & Company, Mr. Golenberg served in various research and management positions in the investment banking industry from 1966 to 1978. Previously, Mr. Golenberg was a CPA with Arthur Andersen & Co.
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NORMAN MACLEOD Age: 53 Director since 2001 No Board Committees	Mr. MacLeod is Executive Vice President of the Sheraton Hotels & Resorts Starwood Hotels & Resorts Worldwide, Inc. Mr. MacLeod has served in various management positions with Starwood since 1996, beginning as Area Managing Director for the North American Southeast operations of the company's Westin Hotel division and then Executive Vice President of the Westin Hotels & Resorts most recently, Executive Vice President, Operations, North America Division. Previously, Mr. MacLeod served in various management positions with Omni
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STEPHEN ROSS Age: 55 Director since 2001 Committees: Audit and Compensation	Mr. Ross is a consultant and private investor. From 1989 to 2001, Mr. Ross served as Executive Vice President - Special Projects for Warner Bros. Previously, Mr. Ross served as Senior Vice President and General Counsel for Lorimar Telepictures Corporation, and its predecessors, from 1981 to 1989. Since 2001, Mr. Ross has served as a director of MAI Systems Corporation, an information technology solutions provider for the hotel industry.
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BRUCE SCHWARTZ Age: 64 Director Nominee	Mr. Schwartz served, from 1989 until his retirement in 2003, in various capacities with Sysco Food Services of Los Angeles, Inc., a major food service company and subsidiary of NYSE traded Sysco Corporation. From 1989 to 1996, Mr. Schwartz served as President and Chief Operating Officer of Sysco Food Services. From 1996 to 2003, Mr. Schwartz served as Chairman of the Board and Chief Executive Officer of Sysco Food Services.
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ROBERT SPIVAK Age: 60 Director since 1995 No Board Committees	Mr. Spivak has served as President, Chief Executive Officer and a director of Grill Concepts, Inc. since 1995. Mr. Spivak was a co-founder of the Company's predecessor, Grill Concepts, Inc. (a California corporation) ("GCI") and served as President, Chief Executive Officer and a director of GCI from the company's inception in 1995. Prior to forming GCI, Mr. Spivak co-founded, and operated, The Grill Alley restaurant in Beverly Hills in 1984. Mr. Spivak is a founder and past president of the Beverly Hills Restaurant Association. Mr. Spivak also chairs the executive board of the Collins School of Hotel and Restaurant Management at California Polytechnic University at Pomona, is Director Emeritus of the California Restaurant Association and is a member of the Board of Directors of DiRoNA - Distinguished Restaurants of North America.
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MICHAEL WEINSTOCK
Age: 61
Director since 1995
No Board Committees

Mr. Weinstock has served as Executive Vice President and a director of the Company since 1995 and as Chairman of the Board since 2000. From 1995 to 2000, Mr. Weinstock served as Vice-Chairman of the Board. Mr. Weinstock was a co-founder of GCI and served as Chairman of the Board, Vice President and a director of the Company from 1988 until 1995. Prior to forming GCI, Mr. Weinstock co-founded The Grill Alley restaurant in Beverly Hills in 1984. Mr. Weinstock previously served as President, Chief Executive Officer and a director of Morse Security Group, a security systems manufacturer.

LEWIS WOLFF
Age: 68
Director since 2001
No Board Committees

Mr. Wolff is Chairman of Wolff DiNapoli LLC and Wolff Urban Management, two real estate acquisition, investment, development and management firms. Mr. Wolff is also co-founder and, since 1994, has served as Chairman of Maritz, Wolff's privately held hotel investment group that acquires top-tier luxury hotels. Maritz, Wolff's holdings exceed \$1.0 billion. Since 1999, Mr. Wolff has served as co-Chairman of Fairmont Hotels & Resorts, a hotel management company formerly known as Fairmont Hotel Management Company and Canada Pacific Hotels & Resorts, Inc.

PROPOSAL 2 - RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Board of Directors has selected PricewaterhouseCoopers LLP as independent auditors for the fiscal year ending December 26, 2004, and recommends that the shareholders vote for ratification of such appointment. PricewaterhouseCoopers, and its predecessor firm, Coopers & Lybrand LLP, has served as the Company's independent auditors since 1997. In the event of a negative vote on such ratification, the Board of Directors will reconsider its selection.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting, will be afforded an opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate inquiries from shareholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT ACCOUNTANTS FOR GRILL CONCEPTS.

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EXECUTIVE COMPENSATION AND OTHER INFORMATION

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors reviews and approves the general compensation policies of the Company with respect to stock options and the compensation plans and specific compensation levels for executives of the Company. The Compensation Committee consists of the three directors named below. The Board has determined that all members of the Compensation Committee are (i) independent as defined under applicable Nasdaq rules, (ii) non-employees within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, and (iii) "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code.

The primary consideration of the Compensation Committee in determining overall executive compensation is to motivate, reward and retain the best management team to achieve the company's objective and thus compensation is based upon a combination of overall financial performance of the company, the meeting of long

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term objectives and each individuals' experience and past performance, while considering salaries of other executives in similar companies. In developing performance criteria, individual and company objectives, compensation structures and comparables, the Compensation Committee may, at its election, retain third party compensation consultants. In 2003, the Compensation Committee utilized the services of compensation consultant to assist the Committee in developing certain elements of the compensation plan for our Chief Executive Officer ("CEO").

The CEO recommends, based on the Company's performance evaluation policies and procedures, the compensation to be paid to executive officers other than himself; final determination of the amount of compensation rests with the Compensation Committee. The CEO's compensation, including all components thereof, is fixed periodically by employment agreement based on negotiations between the CEO and the Compensation Committee. Other than those negotiations, the CEO does not participate in discussions about his compensation matters or in the making of recommendations about his compensation.

The executive compensation system consists of three major components: base salary, annual incentive - consisting of participation in a cash bonus program, and long-term incentive compensation - consisting of stock option grants.

Base Salary. For fiscal 2003, the base salary of the executive officers, other than the Chief Executive Officer whose salary is determined by an employment agreement, were set based upon the results of the executive's performance review. Each executive is reviewed by the Chief Executive Officer and given specific objectives, which vary with the executive's position and responsibilities. At the next annual review, the actual performance of the executive is compared to the previously established specific objectives and base salary is adjusted accordingly based on the recommendation of the CEO subject to review and approval by the Compensation Committee.

Cash Bonus Program. During 2003, the Compensation Committee established a formula for cash bonuses to be paid to executive officers that is based upon financial performance of the Company. The formula provides for a pool of money to be split among the various executives. The amount of the bonus pool is based upon the Company's financial performance taking into account financial performance of the Company relative to budgeted profitability targets and other performance criteria established by the Compensation Committee. The maximum annual bonus available under the bonus plan ranged from 10% to 50% of base salary during 2003, depending on the individual's position in the Company and measurement of Company financial performance against the foregoing annual incentive compensation criteria.

During fiscal 2003 the Company's performance did not meet the required financial performance goals and thus no cash bonuses were paid.

Stock Options. The Company believes that the granting of stock options serves as a long-term incentive to officers and other employees of the Company and its subsidiaries. The 1995 and 1998 stock option plans provide the Company with flexibility in awarding of stock options.

Based on a review of the level of options held and other equity ownership in the Company, stock option grants to officers during 2003 were made to select management personnel.

2003 Compensation of the CEO. The 2003 salary of the CEO was fixed at \$250,000 by an employment agreement entered into in January 2001 based on the Committee's review of Mr. Spivak's prior performance, the Company's future plans and the

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salaries of CEO's of similarly positioned companies. Mr. Spivak voluntarily agreed to limit his salary during 2003 to, and actual salary paid to Mr. Spivak during 2003 was, \$244,039. Pursuant to his employment agreement with the Company, Mr. Spivak also received, in addition to benefits generally available to all employees, a non-accountable expense allowance of \$18,000, a \$1,000,000 life insurance policy, the annual premiums of which totaled \$22,222 during 2003, and use of a leased automobile and reimbursement of expenses relating to the use of the same, totaling \$14,965 during 2003.

Based on a review of performance versus the Company's plan, during 2003, the Company paid no bonus to Mr. Spivak and granted no additional options to Mr. Spivak.

Tax Deductibility of Executive Compensation. Section 162(m) of the Internal Revenue Code contains provisions, which could limit the deductibility of certain compensation payments to the Company's executive officers. The Company believes that any compensation realized in connection with the exercise of stock options granted by the Company will continue to be deductible as performance based compensation. The policy of the Company is to design its compensation programs generally to preserve the tax deductibility of compensation paid to its executive officers. The Committee could determine, however, taking into consideration the burdens of compliance with Section 162(m) and other relevant facts and circumstances, to pay compensation that is not fully deductible, if the Committee believes such payments are in the Company's best interests.

COMPENSATION COMMITTEE

Charles Frank, Chairman
Glenn Golenberg
Stephen Ross

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning cash and non-cash compensation paid or accrued for services in all capacities to the Company during the year ended December 28, 2003 of each person who served as the Company's Chief Executive Officer during fiscal 2003 and the next four most highly paid executive officers (the "Named Officers").

Name and Principal Position	Year	Annual Compensation			Long Term Compensatio Stock Options
		Salary(\$)	Bonus(\$)	Other (\$)	
Robert Spivak	2003	244,039	-0-	55,178 (1)	
President and	2002	235,000	-0-	33,500 (1)	
Chief Executive Officer	2001	225,000	-0-	33,500 (1)	100,
Daryl Ansel	2003	145,385	-0-	-0-	7,
Chief Financial Officer	2002	140,000	-0-	-0-	15,
	2001	130,000	-0-	-0-	50,
John Sola	2003	151,460	-0-	-0-	6,
Vice President - Operations	2002	146,000	-0-	-0-	12,
and Development	2001	138,000	-0-	-0-	9,
Michael Weinstock	2003	116,829	-0-	-0-	
Executive Vice President and	2002	112,500	-0-	-0-	

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Chairman of the Board

2001 112,500

-0-

-0-

SPAN=1 COLSPAN=1> % Joshua T. Davis % Dean D Angelo * **Independent Directors**
J. Tim Arnoult * Bruce R. Bilger * Paul Keglevic * William C. Repko * **Executive Officers**
W. Todd Huskinson * **Executive officers and directors as a group** % **5% Holders**
Advisors Asset Management, Inc.⁽²⁾ 654,159 %

*

Less than 1%

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

(2) This information regarding Advisors Asset Management, Inc. is based on information included in the Schedule 13G filed by Advisors Asset Management, Inc. with the SEC on February 13, 2017.

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The following table sets forth as of April 5, 2017, the dollar range of our securities owned by our directors and executive officers.

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

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

(2) The dollar range of the equity securities beneficially owned is based on the closing price per share of the Company's common stock of \$ on April 5, 2017 on the New York Stock Exchange.

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

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PROPOSAL 1: ELECTION OF DIRECTORS

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

Joshua T. Davis and Bruce R. Bilger have been nominated by the Board for re-election for a three year term expiring in 2020. Both Messrs. Davis and Bilger have indicated his willingness to continue to serve if elected and have consented to be named as a nominee. Neither Mr. Davis nor Mr. Bilger is being nominated to serve as a director pursuant to any agreement or understanding between him and the Company.

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

Required Vote

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

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

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

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

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

Name	Year of Birth	Position	Director Since	Term Expires
Interested Directors				
Robert T. Ladd	1956	Chairman, Chief Executive Officer and President	2012	2018
Dean D. Angelo	1967	Director	2012	2019
Joshua T. Davis	1972	Director	2012	2017
Independent Directors				
J. Tim Arnoult	1949	Director	2012	2018
Bruce R. Bilger	1952	Director	2012	2017
Paul Keglevic	1954	Director	2012	2018
William C. Repko	1949	Director	2012	2019

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

Executive Officers Who Are Not Directors

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

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

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

Biographical Information

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

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

Independent Directors

J. Tim Arnoult has served as a member of our Board since 2012. Mr. Arnoult has over 35 years of banking and financial services experience. From 1979 to 2006, Mr. Arnoult served in various positions at Bank of America, including its predecessors, including president of Global Treasury Services from 2005 – 2006, president of Global Technology and Operations from 2000 to 2005, president of Central U.S. Consumer and Commercial Banking from 1996 to 2000 and president of Global Private Banking from 1991 to

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

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

Paul Keglevic has served as a member of our Board of directors since 2012. Mr. Keglevic has over 40 years of experience with public companies across several industry sectors, including utilities, telecom, transportation and real estate. Mr. Keglevic currently serves as the Chief Executive Officer of Energy Future Holdings Corp., (EFH). Previously he served as executive vice president and chief financial officer for EFH from June 2008-October 2016. Mr. Keglevic was a partner at PricewaterhouseCoopers (PWC), an accounting firm, where he worked from July 2002-July 2008. At PWC he was the U.S. utility sector leader for six years and the clients and sector assurance leader for one year. Prior to PWC, Mr. Keglevic led the utilities practice for Arthur Andersen, where he was a partner for 15 years. Mr. Keglevic has served as a member of the board of directors of several subsidiaries of EFH and the Dallas and state of California Chambers of Commerce and several other charitable and advisory boards. In 2011, Mr. Keglevic was named CFO of the Year by the Dallas Business Journal and received a Distinguished Alumni Award in accounting from Northern Illinois University. Mr. Keglevic received his B.S. in accounting from Northern Illinois University and is a certified public accountant. We believe Mr. Keglevic's extensive experience with public companies and knowledge of accounting and regulatory issues brings important and valuable skills to our Board.

William C. Repko has served as a member of our Board since 2012. Mr. Repko has over 40 years of investing, finance and restructuring experience. Mr. Repko retired from Evercore Partners in February 2014, where he had served as a senior advisor, senior managing director and was a co-founder of the firm's Restructuring and Debt Capital Markets Group since September 2005. Prior to joining Evercore Partners Inc., Mr. Repko served as chairman and head of the Restructuring Group at J.P. Morgan Chase, a leading investment banking firm, where he focused on providing comprehensive solutions to clients' liquidity and reorganization challenges. In 1973, Mr. Repko joined Manufacturers Hanover Trust Company, a commercial bank, which after a series of mergers became part of J.P. Morgan Chase. Mr. Repko has been named to the Turnaround Management Association (TMA)-sponsored Turnaround, Restructuring and Distressed Investing industry Hall of Fame. Mr. Repko received his B.S. in Finance from Lehigh University. We believe Mr. Repko's extensive investing, finance, and restructuring experience bring important and valuable skills to our Board.

Interested Directors

Robert T. Ladd has served as the Chairman of our Board and Chief Executive Officer and President since 2012. Mr. Ladd is the managing partner and Chief Investment Officer of Stellus Capital Management, the external investment manager of the Company. Mr. Ladd has more than 36 years of investing, finance, and restructuring experience. Prior to joining Stellus Capital Management, he had been with the D. E. Shaw

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group, a global investment and technology development firm, where he led the D. E. Shaw group's Direct Capital Group from February 2004 to January 2012. Prior to joining the D. E. Shaw group, Mr. Ladd served as the president of Duke Energy North America, LLC, a merchant energy subsidiary of Duke Energy Corporation, and president and chief executive officer of Duke Capital Partners, LLC, a merchant banking subsidiary of Duke Energy Corporation, from September 2000 to February 2004. From February 1993 to September 2000, Mr. Ladd was a partner of Arthur Andersen LLP where he last served as worldwide managing partner for Arthur Andersen's corporate restructuring practice and U.S. managing partner for that firm's corporate finance practice. Before joining Arthur Andersen, from June 1980 to February 1993, Mr. Ladd served in various capacities for First City Bancorporation of Texas, Inc., a bank holding company, and its subsidiaries, including serving as president of First City Asset Servicing Company, an asset management business and executive vice president for the Texas Banking Division. He serves on the Board of Trustees of Rice University and is a board member of Rice Management Company which oversees Rice University's endowment. He is a member of the Council of Overseers of the Jesse H. Jones Graduate School of Business of Rice University, as well as a member of the University of Texas Health Science Center Development Board and the University of Texas Medical School of Houston Advisory Council. Mr. Ladd received a B.A. in managerial studies and economics from Rice University, and an M.B.A. from The University of Texas at Austin, where he was a Sord Scholar and recipient of the Dean's Award for Academic Achievement. We believe Mr. Ladd's extensive investing, finance, and restructuring experience bring important and valuable skills to our Board.

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

Joshua T. Davis has served as a member of our Board since 2012. Mr. Davis is a founding partner of Stellus Capital Management, the external investment manager of the Company and co-head of its Private Credit strategy and serves on its investment committee. He has more than 20 years of investing, finance, and restructuring experience. Prior to joining Stellus Capital Management, Mr. Davis was a director in the Direct Capital Group at the D. E. Shaw group, a global investment and technology development firm, since March 2004. Prior to joining the D. E. Shaw group, Mr. Davis served as a managing director at Milestone Merchant Partners, LLC, a boutique merchant bank from May 2003 to February 2004 and a vice president of Duke Capital Partners, LLC, a merchant banking subsidiary of Duke Energy Corporation, from May 2002 to May 2003. Mr. Davis also served as a director of Arthur Andersen LLP, a consulting firm, from May 1995 to May 2002. Mr. Davis received a B.B.A. in accounting and finance from Texas A&M University. We believe Mr. Davis' extensive investing, finance, and restructuring experience bring important and valuable skills to our Board.

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Executive Officers Who Are Not Directors

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

Board of Directors and Its Leadership Structure

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

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

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

The Board does not have a lead independent director. We are aware of the potential conflicts that may arise when a non-independent director is Chairman of the Board, but believe these potential conflicts are offset by our strong corporate governance practices. Our corporate governance practices include regular meetings of the independent directors in executive session without the presence of interested directors and management, the establishment of an audit committee and a nominating and corporate governance committee, each of which is comprised solely of independent directors, and the appointment of a Chief Compliance Officer, with whom the independent directors meet without the presence of interested directors and other members of management, for administering our compliance policies and procedures. The Chairman of the Audit Committee or his designee preside over the executive sessions of

our independent directors.

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

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efficient governance structure that provides ample opportunity for direct communication and interaction between our management, Stellus Capital Management and the Board.

Board Meetings

Our Board met six times during 2016. Each director attended at least 75% of the total number of meetings of the Board and committees on which the director served that were held while the director was a member. The Board's standing committees are set forth below. We require each director to make a diligent effort to attend all Board and committee meetings, as well as each Annual Meeting of Stockholders. All of the Board members attended, in person or via teleconference, the Company's 2016 Annual Meeting of Stockholders.

Audit Committee

The members of the audit committee are Messrs. Keglevic, Bilger and Repko, each of whom meets the independence standards established by the SEC and the New York Stock Exchange (the NYSE) for audit committees and is independent for purposes of the 1940 Act. Mr. Keglevic serves as chairman of the audit committee. Our Board has determined that Mr. Keglevic is an audit committee financial expert as that term is defined under Item 407 of Regulation S-K of the Securities Exchange Act of 1934, as amended. The Board has adopted a charter of the audit committee, which is available in print to any stockholder who requests it and it is also available on the Company's website at www.stelluscapital.com (under the Public Investors section). The audit committee met five times during 2016.

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

Nominating and Corporate Governance Committee

The members of the nominating and corporate governance committee are Messrs. Arnoult, Bilger and Keglevic, each of whom is independent for purposes of the 1940 Act and the NYSE corporate governance regulations. Mr. Arnoult serves as chairman of the nominating and corporate governance committee. The nominating and corporate governance committee met once during 2016. The nominating and corporate governance committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the Board or a committee of the Board, developing and recommending to the Board a set of corporate governance principles and overseeing the evaluation of the Board and our management. The Board has adopted a charter of the nominating and corporate governance committee, which is available in print to any stockholder who requests it and it is also available on the Company's website at www.stelluscapital.com (under the Public Investors section).

The nominating and corporate governance committee will consider nominees to the Board recommended by a stockholder if such stockholder complies with the advance notice provisions of our bylaws. Our bylaws provide that a stockholder who wishes to nominate a person for election as a director at a meeting of stockholders must deliver written notice to our corporate secretary. This notice must contain, as to each nominee, all of the information relating

to such person as would be required to be disclosed in a proxy statement meeting the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended, and certain other information set forth in the bylaws. In order to be eligible to be a nominee for election as a director by a stockholder, such potential nominee must deliver to our corporate secretary a written questionnaire providing the requested information about the background and qualifications of such person, and would be in compliance with all of our publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines.

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

are of high character and integrity and have an inquiring mind, vision, a willingness to ask hard questions and the ability to work well with others;

are free of any conflict of interest that would violate applicable law or regulation or interfere with the proper performance of the responsibilities of a director;

are willing and able to devote sufficient time to the affairs of the Company and be diligent in fulfilling the responsibilities of a member of the Board of Directors and a member of any committees thereof (including developing and maintaining sufficient knowledge of the Company and the specialty finance industry in general; reviewing and analyzing reports and other information important to responsibilities of the Board of Directors and any committee thereof; preparing for, attending and participating in meetings of the Board of Directors and meetings of any committee thereof; and satisfying appropriate orientation and continuing education guidelines); and

Have the capacity and desire to represent the balanced, best interests of the stockholders of the Company as a whole and not primarily a special interest group or constituency.

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

Compensation Committee

The members of the Compensation Committee are Messrs. Repko, Bilger and Arnoult, each of whom is independent for purposes of the 1940 Act and the NYSE corporate governance regulations. Mr. Repko serves as chairman of the Compensation Committee. The compensation committee met twice during 2016. The compensation committee is responsible for overseeing our compensation policies generally and making recommendations to the Board with respect to evaluating executive officer performance, overseeing and setting compensation for our directors and, as applicable, our executive officers and, as applicable, preparing the report on executive officer compensation that SEC rules require to be included in our annual proxy statement. Currently, none of our executive officers is compensated by us and as such the compensation committee is not required to produce a report on executive officer compensation for inclusion in our annual proxy statement.

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

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The following table shows information regarding the compensation received by our independent directors for the calendar year ending December 31, 2016. No compensation is paid to directors who are interested persons for their service as directors.

Name	Aggregate Cash Compensation from Stellus Capital Investment Company ⁽¹⁾	Total Compensation from Stellus Capital Investment Company Paid to Director ⁽¹⁾
Interested Directors		
Robert T. Ladd	\$	\$
Dean D Angelo	\$	\$
Joshua T. Davis	\$	\$
Independent Directors		
J. Tim Arnoult	\$ 78,000	\$ 78,000
Bruce R. Bilger	\$ 78,000	\$ 78,000
Paul Keglevic	\$ 86,000	\$ 86,000
William C. Repko	\$ 82,000	\$ 82,000

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

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

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

Corporate Governance**Corporate Governance Documents**

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

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

Director Independence

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

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

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

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

Annual Evaluation

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

Communication with the Board

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

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

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

Code of Business Conduct and Ethics

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

Compensation Committee Interlocks and Insider Participation

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

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

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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

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

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, and the disclosure requirements of Item 405 of SEC Regulation S-K require that our directors and executive officers, and any persons holding more than 10% of any class of our equity securities report their ownership of such equity securities and any subsequent changes in that ownership to the SEC, the NYSE and to us. Based solely on a review of the written statements and copies of such reports furnished to us by our executive officers, directors and greater than 10% beneficial owners, we believe that during fiscal year ended December 31, 2016 all Section 16(a) filing requirements applicable to the executive officers, directors and stockholders were timely satisfied.

EXECUTIVE COMPENSATION

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

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

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

Pursuant to this provision, the Company is seeking the approval of its common stockholders so that it may, in one or more public or private offerings of its common stock, sell or issue shares of its common stock in an amount up to 25% of the outstanding common stock as of the date when this proposal is approved by the stockholders at an offering price per share that is below its then current NAV per share, subject to certain conditions discussed below. If approved, the authorization would be effective for a period expiring on the earlier of the one year anniversary of the date of the Company s 2017 Annual Meeting of Stockholders and the date of the Company s 2018 Annual Meeting of Stockholders, which is expected to be held in June 2018. The latest date at which such authorization would expire is May 24, 2018.

Effect of Approval

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

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

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The following table, representing the public trading history of our common stock for the two most recent fiscal years and the most recent quarter, lists the high and low closing sales prices for our common stock and the sales price as a percentage of NAV per share. On April 5, 2017, the last reported closing sale price of our common stock was \$ per share which represents a [premium/discount] of approximately % to the NAV per share reported as of December 31, 2016.

Fiscal Year Ended	NAV Per Share ⁽¹⁾	Closing Sales Price ⁽²⁾		Premium or Discount of High Sales to NAV Per Share ⁽³⁾		Premium or Discount of Low Sales to NAV Per Share ⁽³⁾	
		High	Low				
<i>December 31, 2017</i>							
Second Quarter (through April 5, 2017)	*	\$	\$	*		*	
First Quarter	*	\$	\$	*		*	
<i>December 31, 2016</i>							
Fourth Quarter	\$ 13.69	\$ 12.33	\$ 10.35	9.93 %		24.40 %	
Third Quarter	\$ 13.57	\$ 11.54	\$ 10.35	-14.96 %		-23.73 %	
Second Quarter	\$ 13.12	\$ 10.59	\$ 9.82	-19.28 %		-25.15 %	
First Quarter	\$ 13.06	\$ 10.22	\$ 7.85	-21.75 %		-39.89 %	
<i>December 31, 2015</i>							
Fourth Quarter	\$ 13.19	\$ 10.93	\$ 9.53	-17.13 %		-27.75 %	
Third Quarter	\$ 13.62	\$ 11.84	\$ 9.87	-13.07 %		-27.53 %	
Second Quarter	\$ 14.01	\$ 11.58	\$ 11.36	-17.34 %		-18.92 %	
First Quarter	\$ 14.03	\$ 12.68	\$ 11.80	-9.62 %		-15.89 %	

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

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

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

*

Not determinable at the time of filing.

Reasons for Approval

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

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

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

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

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

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

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

Capitalize on Attractive Investment Opportunities

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

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

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

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

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

Conditions to Sales Below NAV Per Share

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

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

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

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

Key Stockholder Considerations and Risk Factors

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

Dilutive Effect

Any sale of common stock at a price below NAV per share would result in an immediate dilution to existing common stockholders. This dilution would include reduction in the NAV per share as a result of the issuance of shares at a price below the NAV per share and a proportionately greater decrease in a stockholder's interest in the earnings and assets of the Company and voting interest in the Company than the increase in the assets of the Company resulting from such issuance. The Board will consider the potential dilutive effect of the issuance of shares at a price below the NAV per share when considering whether to authorize any such issuance.

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

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

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

Potential Effects on Market Price

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

Expiration of Approval to Sell Shares Below NAV Per Share

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

TABLE OF CONTENTS**Examples of Dilutive Effect**

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

The examples assume that Company XYZ has 12,500,000 common shares outstanding, \$370,000,000 in total assets and \$200,000,000 in total liabilities. The current net asset value and net asset value per share are thus \$170,000,000 and \$13.60. The table illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 1,250,000 shares (10% of the outstanding shares) at \$12.24 per share after offering expenses and commissions (a 10% discount from net asset value), (2) an offering of 3,125,000 shares (25% of the outstanding shares) at \$12.58 per share after offering expenses and commissions (a 15% discount from net asset value) and (3) an offering of 3,125,000 shares (25% of the outstanding shares) at \$0.00 per share after offering expenses and commissions (a 100% discount from net asset value).

	Prior to Sale Below NAV Per Share	Example 1 10% Offering at 10% Discount Following Sale	Percent Change	Example 2 25% Offering at 15% Discount Following Sale	Percent Change	Example 3 25% Offering at 100% Discount	Percent Change
Offering Price							
Price per Share to Public		12.88		10.74		0.00	
Net Proceeds per Share to Issuer		12.24		10.20		0.00	
Increase in Shares and Decrease to NAV Per Share							
Total Shares Outstanding	12,500,000	13,750,000	10 %	15,625,000	25 %	15,625,000	25 %
NAV per Share	13.60	13.48	-0.91 %	12.92	-5.00 %	10.88	-20.00 %
Dilution to Nonparticipating Stockholder A Share Dilution							
Shares Held by Stockholder A	125,000	125,000		125,000		125,000	
Percentage of Shares Held by Stockholder A	1 %	0.91 %		0.80 %		0.80 %	
NAV Dilution							
Total NAV Held by Stockholder A	1,700,000	1,684,545	-0.91 %	1,615,000	-5.00 %	1,360,000	-20.00 %
Total Investment by Stockholder A (Assumed to Be \$13.60 per Share)	1,700,000	1,700,000		1,700,000		1,700,000	
Total Dilution to Stockholder A (Change in		-15,455		-85,000		-340,000	

Total NAV Held By Stockholder)				
NAV Dilution Per Share				
NAV per Share Held by Stockholder A		13.48	12.92	10.88
Investment per Share Held by Stockholder A				
(Assumed to be \$13.60 per Share on Shares Held Prior to Sale)	14.43	13.60	13.60	13.60
NAV Dilution per Share Experienced by Stockholder A (NAV per Share Less Investment per Share)		-0.12	-0.68	-2.72
Percentage NAV Dilution Experienced by Stockholder A (NAV Dilution per Share Divided by Investment per Share)			-0.91%	-5.00%
				-20.00%

(1)

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

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Required Vote

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

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

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

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PROPOSAL 3: ADJOURNMENT OF THE ANNUAL MEETING

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

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

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

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

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

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following aggregate fees by Grant Thornton LLP were billed to the Company for work attributable to audit, tax and other services in each of the fiscal years ended December 31, 2016 and 2015.

Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2015
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Audit Fees	\$ []	\$ 216,391
Audit-Related Fees		137,270
Tax Fees		
All Other Fees		
Total Fees:	\$ []	\$ 353,661

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

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

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

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

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

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

Pre-Approval Policy

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

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

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

AUDIT COMMITTEE REPORT

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

Review with Management

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

Review and Discussion with Independent Registered Public Accounting Firm

The Audit Committee has discussed with Grant Thornton, the Company's independent registered public accounting firm, matters required to be discussed by Statement of Auditing Standards No. 61, as amended (AICPA, *Professional*

Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. SAS No. 61, as amended, requires our independent registered public accounting firm to discuss with our Audit Committee, among other things, the following:

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

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The Audit Committee received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by the applicable Public Company Accounting Oversight Board rule regarding the independent accountant's communications with audit committees concerning independence and has discussed with the auditors the auditors' independence. The Audit Committee has also considered the compatibility of non-audit services with the auditors' independence.

Conclusion

Based on the Audit Committee's discussion with management and the independent registered public accounting firm, the Audit Committee's review of the audited financial statements, the representations of management and the report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended that the Board include the audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for filing with the SEC. The Audit Committee also recommended the selection of Grant Thornton LLP to serve as the Company's independent registered public accounting firm for the year ending December 31, 2017 and the Board approved such recommendation.

The Audit Committee

Paul Keglevic, Chairman

Bruce R. Bilger

William C. Repko

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

OTHER BUSINESS

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

SUBMISSION OF STOCKHOLDER PROPOSALS

The Company expects that the 2018 Annual Meeting of Stockholders will be held in May of 2018, but the exact date, time, and location of such meeting have yet to be determined. A stockholder who intends to present a proposal at that annual meeting pursuant to the SEC's Rule 14a-8 must submit the proposal in writing to the Company at its address in Houston, Texas, and the Company must receive the proposal on or before January 24, 2018, in order for the proposal to be considered for inclusion in the Company's proxy statement for that meeting. The submission of a proposal does not guarantee its inclusion in the Company's proxy statement or presentation at the meeting.

Stockholder proposals or director nominations to be presented at the 2018 Annual Meeting of Stockholders, other than stockholder proposals submitted pursuant to the SEC's Rule 14a-8, must be delivered to, or mailed and received at, the principal executive offices of the Company not less than 120 days or more than 150 days in advance of the one year anniversary of the date the Company's proxy statement was released to stockholders in connection with the previous year's Annual Meeting of Stockholders. For the Company's 2018 Annual Meeting of Stockholders, the Company must receive such proposals and nominations between December 24, 2017 and January 24, 2018. If the date of the Annual Meeting has been changed by more than thirty (30) calendar days from the date contemplated at the time of the previous year's proxy statement, stockholder proposals or director nominations must be so received not later than the tenth day following the day on which such notice of the date of the 2018 Annual Meeting of Stockholders or such public disclosure is made. Proposals must also comply with the other requirements contained in the Company's Bylaws, including supporting documentation and other information. Proxies solicited by the Company will confer discretionary voting authority with respect to these proposals, subject to SEC rules governing the exercise of this authority.

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PRIVACY PRINCIPLES

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

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

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

By Order of the Board

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

Houston, Texas
April 10, 2017

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