

FIDUS INVESTMENT Corp
Form 10-Q
August 07, 2014
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to

Commission file number 814-00861

Fidus Investment Corporation

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

27-5017321
(I.R.S. Employer
Identification No.)

1603 Orrington Avenue, Suite 1005

Evanston, Illinois

60201

(Address of Principal Executive Offices)

(Zip Code)

(847) 859-3940

(Registrant's telephone number, including area code)

n/a

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of August 6, 2014, the Registrant had outstanding 13,776,469 shares of common stock, \$0.001 par value.

Table of Contents

FIDUS INVESTMENT CORPORATION

TABLE OF CONTENTS

QUARTERLY REPORT ON FORM 10-Q

PART I FINANCIAL INFORMATION

Item 1.	<u>Financial Statements.</u>	3
	<u>Consolidated Statements of Assets and Liabilities June 30, 2014 (unaudited) and December 31, 2013</u>	3
	<u>Consolidated Statements of Operations Three and Six Months Ended June 30, 2014 (unaudited) and 2013 (unaudited)</u>	4
	<u>Consolidated Statements of Changes in Net Assets Six Months Ended June 30, 2014 (unaudited) and 2013 (unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows Six Months Ended June 30, 2014 (unaudited) and 2013 (unaudited)</u>	6
	<u>Consolidated Schedules of Investments June 30, 2014 (unaudited) and December 31, 2013</u>	7
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	15
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	28
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	39
Item 4.	<u>Controls and Procedures.</u>	39

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings.</u>	40
Item 1A.	<u>Risk Factors.</u>	40
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	40
Item 3.	<u>Defaults Upon Senior Securities.</u>	40
Item 4.	<u>Mine Safety Disclosures.</u>	40
Item 5.	<u>Other Information.</u>	40
Item 6.	<u>Exhibits.</u>	41
	<u>Signatures</u>	42
	<u>Exhibit Index</u>	43

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****FIDUS INVESTMENT CORPORATION****Consolidated Statements of Assets and Liabilities****(In thousands, except shares and per share data)**

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Investments, at fair value		
Affiliate investments (cost: \$93,483 and \$88,983, respectively)	\$ 82,091	\$ 82,444
Non-control/non-affiliate investments (cost: \$231,271 and \$226,231, respectively)	228,382	224,537
Total investments, at fair value (cost: \$324,754 and \$315,214, respectively)	310,473	306,981
Cash and cash equivalents	40,687	53,418
Interest receivable	3,884	2,487
Deferred financing costs (net of accumulated amortization of \$2,375 and \$2,102, respectively)	3,796	3,152
Prepaid expenses and other assets	1,666	1,224
Total assets	360,506	367,262
LIABILITIES		
SBA debentures	145,500	144,500
Accrued interest and fees payable	2,212	2,198
Due to affiliates	4,422	5,582
Taxes payable		3,571
Accounts payable and other liabilities	506	286
Total liabilities	152,640	156,137
Net assets	\$ 207,866	\$ 211,125
ANALYSIS OF NET ASSETS		
Common stock, \$0.001 par value (100,000,000 shares authorized, 13,775,101 and 13,755,232 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively)	\$ 14	\$ 14
Additional paid-in capital	206,516	206,123
Undistributed net investment income	3,716	3,221
Accumulated net realized gain on investments (net of taxes)	13,113	11,212
Accumulated net unrealized (depreciation) on investments	(15,493)	(9,445)

Total net assets	\$ 207,866	\$ 211,125
Net asset value per common share	\$ 15.09	\$ 15.35

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Statements of Operations (unaudited)****(In thousands, except shares and per share data)**

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Investment income:				
Interest income				
Control investments	\$	\$ 784	\$	\$ 1,522
Affiliate investments	2,280	2,277	4,757	4,238
Non-control/non-affiliate investments	7,026	6,529	14,100	12,840
Total interest income	9,306	9,590	18,857	18,600
Dividend income				
Control investments		124		124
Affiliate investments	31	31	61	61
Non-control/non-affiliate investments	482	195	829	524
Total dividend income	513	350	890	709
Fee income				
Control investments		177		177
Affiliate investments		147	388	206
Non-control/non-affiliate investments	783	141	1,005	488
Total fee income	783	465	1,393	871
Interest on idle funds and other income	(21)	71		109
Total investment income	10,581	10,476	21,140	20,289
Expenses:				
Interest and financing expenses	1,795	1,765	3,548	3,500
Base management fee	1,393	1,352	2,758	2,611
Incentive fee	853	3,352	1,695	4,509
Administrative service expenses	430	256	793	501
Professional fees	213	201	610	433
Other general and administrative expenses	376	374	753	596
Total expenses	5,060	7,300	10,157	12,150
Net investment income before income taxes	5,521	3,176	10,983	8,139
Income tax provision	12	12	30	52
Net investment income	5,509	3,164	10,953	8,087

Net realized and unrealized gains (losses) on investments:

Realized gains on affiliate investments			166	
Realized gains on non-control/non-affiliate investments	59	1,053	1,752	1,053
Net change in unrealized (depreciation) appreciation on investments	(2,140)	9,203	(6,048)	8,917
Income tax (provision) on realized gains on investments			(17)	
Net (loss) gain on investments	(2,081)	10,256	(4,147)	9,970
Net increase in net assets resulting from operations	\$ 3,428	\$ 13,420	\$ 6,806	\$ 18,057
Per common share data:				
Net investment income per share-basic and diluted	\$ 0.40	\$ 0.23	\$ 0.80	\$ 0.61
Net increase in net assets resulting from operations per share-basic and diluted	\$ 0.25	\$ 0.98	\$ 0.49	\$ 1.36
Dividends paid per share	\$ 0.38	\$ 0.38	\$ 0.76	\$ 0.76
Weighted average number of shares outstanding basic and diluted	13,765,954	13,700,113	13,760,623	13,318,194

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Statements of Changes in Net Assets (unaudited)**

(In thousands, except shares)

	Common Stock		Additional Paid in Capital	Undistributed Net Investment Income	Accumulated Net Realized Gain (Loss) of Investments (net of taxes)		Accumulated Net Unrealized Depreciation Appreciation on Investments		Total Net Assets
	Number of Shares	Par Value			Gain (Loss)	Appreciation			
Balances at December 31, 2012	11,953,847	\$ 12	\$ 177,498	\$ 455	\$ 1,493	\$ 3,633		\$ 183,091	
Public offering of common stock, net of expenses	1,725,000	2	28,855					28,857	
Net increase in net assets resulting from operations				8,087	236	9,734		18,057	
Dividends paid	37,916		689	(10,403)				(9,714)	
Balances at June 30, 2013	13,716,763	\$ 14	\$ 207,042	\$ (1,861)	\$ 1,729	\$ 13,367		\$ 220,291	
Balances at December 31, 2013	13,755,232	\$ 14	\$ 206,123	\$ 3,221	\$ 11,212	\$ (9,445)		\$ 211,125	
Net increase in net assets resulting from operations				10,953	1,901	(6,048)		6,806	
Dividends paid	19,869		393	(10,458)				(10,065)	
Balances at June 30, 2014	13,775,101	\$ 14	\$ 206,516	\$ 3,716	\$ 13,113	\$ (15,493)		\$ 207,866	

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Statements of Cash Flows (unaudited)****(In thousands)**

	Six months ended June 30,	
	2014	2013
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	\$ 6,806	\$ 18,057
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net change in unrealized depreciation (appreciation) on investments	6,048	(8,917)
Realized (gain) on investments	(1,918)	(1,053)
Interest and dividend income paid-in-kind	(2,838)	(2,683)
Accretion of original issue discount	(349)	(687)
Accretion of loan origination fees	(223)	(105)
Amortization of deferred financing costs	273	250
Purchase of investments	(24,650)	(59,263)
Proceeds from sales and repayments of investments	20,269	36,726
Proceeds from loan origination fees	169	417
Changes in operating assets and liabilities:		
Interest receivable	(1,397)	(537)
Prepaid expenses and other assets	(442)	(22)
Accrued interest and fees payable	14	55
Due to affiliates	(1,160)	2,408
Taxes payable	(684)	
Accounts payable and other liabilities	220	471
Net cash provided by (used in) operating activities	138	(14,883)
Cash Flows from Financing Activities:		
Proceeds from stock offering, net of expenses		28,857
Proceeds received from SBA debentures	1,000	
Payment of deferred financing costs	(917)	
Dividends paid to stockholders	(10,065)	(9,714)
Taxes paid on deemed distribution	(2,887)	
Net cash (used in) provided by financing activities	(12,869)	19,143
Net (decrease) increase in cash and cash equivalents	(12,731)	4,260
Cash and cash equivalents:		
Beginning of period	53,418	52,042
End of period	\$ 40,687	\$ 56,302

Supplemental Disclosure of Cash Flow Information

Cash payments for interest	\$	3,261	\$	3,195
Cash payments for taxes	\$	3,618	\$	52

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****June 30, 2014 (unaudited)****(In thousands, except shares)**

Portfolio Company / Type of Investment ^{(1) (2) (3)}	Industry	Rate ⁽⁴⁾ Cash/PIK	Maturity	Principal Amount	Cost	Fair Value	Net Asset
Affiliate Investments ⁽⁵⁾							
<i>Apex Microtechnology, Inc.</i>	Electronic						
Warrant (2,294 units)	Components Supplier				\$ 220	\$ 255	
Common Equity (11,690 units)					1,169	1,317	
Sub Total					1,389	1,572	1%
<i>Avrio Technology Group, LLC</i>	Electronic						
Subordinated Note ⁽⁸⁾	Components Supplier	0.0%/14.0%	10/15/2015	\$ 6,508	6,508		
Preferred Equity Series B (3,704 units) ⁽⁷⁾					3,704		
Preferred Equity Series C (872 units) ⁽⁷⁾					436		
Preferred Equity Series D (1,917 units) ⁽⁷⁾					639		
Common Equity (4,215 units) ⁽⁷⁾					1,000		
Sub Total					12,287		0%
<i>AR Research Inc.</i>	Specialty						
Senior Secured Loan ⁽¹²⁾	Chemicals	11.8%/0.0%	3/31/2019	7,600	7,564	7,564	
Revolving Loan (\$1,750 commitment) ⁽¹¹⁾		11.8%/0.0%	3/31/2019	136	128	128	
Common Equity (10 units)					1,000	1,000	
Sub Total					8,692	8,692	4%
<i>Calabar International</i>	Aerospace & Defense						
Subordinated Note	Manufacturing	12.5%/2.5%	5/21/2017	5,180	5,161	5,180	
Preferred Equity (1,494 shares) ⁽⁶⁾		6.0%/0.0%			1,992	3,358	
Sub Total					7,153	8,538	4%
<i>Edsurant Holdings, LLC</i>	Healthcare						
Subordinated Note	Services	9.5%/4.5%	7/12/2016	9,900	9,181	9,878	
Preferred Equity (89,770 units) ⁽⁷⁾					1,228	1,029	
Warrant (321,005 units) ⁽⁷⁾					4,045	3,662	
Sub Total					14,454	14,569	7%
<i>Paramount Building Solutions, LLC</i>	Retail						
Subordinated Note ⁽⁹⁾	Cleaning	7.0%/11.0%	12/31/2014	7,454	7,454	5,595	
Common Equity (107,143 units) ⁽⁷⁾					1,500		

Edgar Filing: FIDUS INVESTMENT Corp - Form 10-Q

Sub Total					8,954	5,595	3%
<i>Fanstiehl, Inc.</i>	Healthcare						
Subordinated Note	Products	12.0%/2.0%	9/29/2018	6,177	6,131	6,177	
Common Equity (8,500 shares) ⁽¹¹⁾					850	2,042	
Sub Total					6,981	8,219	4%
<i>Safety Products Group, LLC</i>	Safety Products						
Subordinated Note	Manufacturing	12.0%/1.5%	12/30/2018	10,000	9,961	10,000	
Preferred Equity (749 shares) ⁽⁷⁾					749	780	
Common Equity (676 shares) ⁽⁷⁾					1	38	
Sub Total					10,711	10,818	5%
<i>Rantech Radiator Products, Inc.</i>	Utility Equipment						
Subordinated Note ⁽¹¹⁾	Manufacturing	12.0%/1.8%	5/4/2017	9,434	9,410	9,433	
Common Equity (6,875 shares) ⁽¹¹⁾					688	1,345	
Sub Total					10,098	10,778	5%
<i>Westminster Cracker Company, Inc.</i>	Specialty Cracker						
Preferred Equity (92,607 units)	Manufacturing				70	118	
Common Equity (1,208,197 units)					1,208	1,535	
Sub Total					1,278	1,653	1%
<i>World Wide Packaging, LLC</i>	Consumer						
Subordinated Note ⁽¹¹⁾	Products	12.0%/1.8%	10/26/2018	10,007	9,968	10,007	
Common Equity (1,300,000 units) ⁽⁷⁾ ⁽¹¹⁾					1,518	1,650	
Sub Total					11,486	11,657	6%
Total Affiliate Investments					93,483	82,091	39%

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****June 30, 2014 (continued) (unaudited)****(In thousands, except shares)**

Portfolio Company / Type of Investment ^{(1) (2) (3)}	Industry	Rate ⁽⁴⁾ Cash/PIK	Maturity	Principal Amount	Cost	Fair Value	Net Assets	Percent of
Non-Control/Non-Affiliate Investments ⁽⁵⁾								
<i>Anatrace Products, LLC</i>	Healthcare							
Senior Secured Loan	Products	11.5%/1.5%	10/11/2018	\$ 9,500	\$ 9,464	\$ 9,500		
Revolving Loan (\$500 commitment) ⁽¹⁰⁾		N/A	10/11/2018		(2)	(2)		
Common Equity (360,000 shares) ⁽¹¹⁾					360	330		
Sub Total					9,822	9,828		5%
<i>Acentia, LLC</i>	Information							
Common Units (499 units)	Technology Services				500	238		0%
<i>ACFP Management, Inc.</i>	Restaurants							
Common Units (1,000,000 units) ⁽¹¹⁾					1,091	1,451		1%
<i>Brook & Whittle Limited</i>	Specialty							
Subordinated Note	Printing	12.0%/4.8%	12/31/2016	7,124	7,124	7,124		
Subordinated Note		12.0%/2.0%	12/31/2016	2,228	2,228	2,228		
Warrant (1,051 shares)					285	354		
Common Equity Series A (148 shares)					110	50		
Common Equity Series D (527 shares)					53	62		
Sub Total					9,800	9,818		5%
<i>Brook Furniture Rental, Inc.</i>	Furniture							
Subordinated Note	Rental	12.0%/1.5%	9/30/2016	7,924	7,685	8,004		
Warrants (2.5%)					485	953		
Sub Total					8,170	8,957		4%
<i>Caldwell & Gregory, LLC</i>	Laundry							
Subordinated Note	Services	11.5%/1.0%	11/30/2018	1,516	1,492	1,516		
Subordinated Note		0.0%/12.0%	5/31/2019	3,410	3,161	3,410		
Common Equity (500,000 units) ⁽⁷⁾					500	527		
Warrant (242,121 units) ⁽⁷⁾					242	255		
Sub Total					5,395	5,708		3%
<i>Channel Technologies Group, LLC</i>	Component							
Subordinated Note	Manufacturing	11.0%/1.3%	4/10/2019	7,000	6,947	7,000		
Preferred Equity (538 units) ⁽⁷⁾					1,000	790		

Edgar Filing: FIDUS INVESTMENT Corp - Form 10-Q

Common Equity (537,817 units) ⁽⁷⁾						
Sub Total					7,947	7,790 4%
<i>Connect-Air International, Inc.</i>						
	Specialty					
Subordinated Note	Distribution	12.8%/0.0%	11/5/2018	11,400	11,394	11,400
Common Equity						1,881
Sub Total					11,394	13,281 6%
<i>Continental Anesthesia Management, LLC</i>						
	Healthcare					
Senior Secured Loan	Services	8.0%/6.0%	9/15/2014	9,979	9,958	10,079
Warrant (263 shares)					276	104
Sub Total					10,234	10,183 5%
<i>EBL, LLC (EbLens)</i>						
	Retail					
Subordinated Note ⁽¹¹⁾		12.0%/3.0%	2/2/2018	9,464	9,434	9,464
Common Equity (750,000 units) ^{(7) (11)}					750	885
Sub Total					10,184	10,349 5%

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****June 30, 2014 (continued) (unaudited)****(In thousands, except shares)**

Portfolio Company / Type of Investment (1) (2) (3)	Industry	Rate (4) Cash/PIK	Maturity	Principal Amount	Cost	Fair Value	Net Asset
<i>CA, LLC</i>	Industrial						
Subordinated Note	Products	12.5%/1.5%	6/18/2018	\$ 3,033	\$ 3,020	\$ 3,033	
Preferred Equity (4,500,000 units) ^{(6) (11)}		11.5%/5.0%	6/18/2018		9,298	9,335	
Sub Total					12,318	12,368	6%
<i>ocusVision Worldwide, Inc.</i>	Business						
Subordinated Note ⁽¹²⁾	Services	12.0%/1.0%	1/29/2019	7,556	7,528	7,556	4%
<i>TH Acquisition Corp. VII</i>	Information						
Subordinated Note	Technology Services	13.0%/0.0%	2/27/2015	8,511	8,511	8,150	
Preferred Equity (887,122 shares)					887		
Sub Total					9,398	8,150	4%
<i>OS Acquisition, Inc.</i>	Oil & Gas						
Subordinated Note	Services	12.0%/3.8%	6/26/2018	14,019	13,919	14,020	
Common Equity (2,152 shares)					500	417	
Sub Total					14,419	14,437	7%
<i>acob Ash Holdings, Inc.</i>	Apparel						
Subordinated Note	Distribution	13.0%/5.0%	8/11/2016	3,500	3,493	3,500	
Subordinated Note		13.0%/1.0%	8/11/2016	963	950	963	
Preferred Equity (500 shares) ⁽⁶⁾		0.0%/15.0%	8/11/2016		738	654	
Warrant (129,630 shares)					67		
Sub Total					5,248	5,117	2%
<i>2 Industrial Services, Inc.</i>	Industrial Cleaning						
Subordinated Note	& Coatings	11.8%/2.8%	5/23/2017	15,002	14,938	15,152	
Preferred Equity Series A (1,200 shares)					1,200	1,200	
Preferred Equity Series B (69 shares)					68	78	
Sub Total					16,206	16,430	8%
<i>ightning Diversion Systems, LLC</i>	Aerospace & Defense						
Senior Secured Loan	Manufacturing	10.5%/0.0%	12/20/2018	12,198	12,148	12,198	
Revolving Loan (\$1,000 commitment) ⁽¹⁰⁾		N/A	12/20/2018		(3)	(3)	
Common Equity (600,000 units)						1,409	

Edgar Filing: FIDUS INVESTMENT Corp - Form 10-Q

Sub Total					12,145	13,604	7%
<i>MedPlast, LLC</i>	Healthcare						
Subordinated Note ⁽¹¹⁾	Products	11.0%/1.5%	3/31/2019	10,109	10,044	10,109	
Preferred Equity (188 shares) ⁽⁶⁾ ⁽¹¹⁾		0.0%/8.0%			199	199	
Common Equity (3,728 shares) ⁽¹¹⁾					62	82	
Sub Total					10,305	10,390	5%
<i>National Truck Protection Co., Inc.</i>	Financial						
Senior Secured Loan	Services	13.5%/2.0%	9/13/2018	12,662	12,589	12,662	
Common Units (1,109 units)					758	1,806	
Sub Total					13,347	14,468	7%
<i>Premium Franchise Brands, LLC</i>	Commercial						
Subordinated Note	Cleaning	12.0%/1.5%	3/18/2017	7,895	7,895	7,895	
Preferred Equity (1,054,619 shares)					832	672	
Sub Total					8,727	8,567	4%
<i>Paktree Medical Centre, P.C.</i>	Healthcare						
<i>Alba Pain Management Associates</i>	Services						
Senior Secured Loan ⁽¹¹⁾		6.5%/0.0%	5/6/2019	700	693	693	
Senior Secured Loan ⁽¹¹⁾		14.0%/0.0%	5/6/2019	5,300	5,249	5,249	
Revolving Loan (\$500 commitment) ⁽¹⁰⁾ ⁽¹¹⁾		N/A	5/6/2019		(5)	(5)	
Sub Total					5,937	5,937	3%

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****June 30, 2014 (continued) (unaudited)****(In thousands, except shares)**

Portfolio Company / Type of Investment (1) (2) (3)	Industry	Rate (4) Cash/PIK	Maturity	Principal Amount	Cost	Fair Value	Net Assets
Restaurant Finance Co, LLC	Restaurants						
Senior Secured Loan (\$6,000 commitment)		11.0%/2.0%	11/25/2019	\$ 3,059	\$ 3,038	\$ 3,059	
Warranty Rights							
Total					3,038	3,059	
Restaurant Co. (dba Elephant Bar)	Restaurants						
Subordinated Note (8)		13.0%/1.0%	1/10/2018	7,594	7,256		
Subordinated Note (8)		0.0%/0.0%	1/10/2018	500	328		
Warrant (652 shares)					416		
Total					8,000		
Complex Manufacturing Co.	Aerospace & Defense						
Subordinated Note	Manufacturing	14.0%/0.0%	11/1/2015	4,550	4,529	4,550	
Warrant (24 shares)					710	723	
Total					5,239	5,273	
Mediated Biologics, LLC	Healthcare						
Senior Secured Loan	Services	12.0%/2.0%	3/5/2017	8,599	8,238	8,599	
Preferred Equity (98,377 units) (7) (11)					1,069	1,069	
Warrant (57,469 units)					566	294	
Total					9,873	9,962	
Worldwide Express Operations, LLC	Transportation						
Subordinated Note	Services	11.5%/1.0%	8/1/2020	12,615	12,506	12,615	
Common Equity (2,500,000 units) (7) (11)					2,500	2,846	
Total					15,006	15,461	
Total Non-Control/Non-Affiliate Investments						231,271	228,382
Total Investments						\$ 324,754	\$ 310,473

- (1) All debt investments are income producing. Equity investments are non-income producing unless otherwise noted.
- (2) See Note 3 to the consolidated financial statements for portfolio composition by geographic location.
- (3) Equity ownership may be held in shares or units of companies related to the portfolio companies.
- (4) Rate includes the cash interest or dividend rate and paid-in-kind interest or dividend rate, if any, as of June 30, 2014. Generally, payment-in-kind interest can be paid-in-kind or all in cash.
- (5) See Note 2 Significant Accounting Policies, Investment Classification for definitions of Control and Affiliate classifications.
- (6) Income producing. Maturity date, if any, represents mandatory redemption date.
- (7) Investment is held by a wholly-owned subsidiary of the Company.
- (8) Investment was on non-accrual status as of June 30, 2014, meaning the Company has ceased recognizing interest income on the investment.
- (9) Investment was on payment-in-kind non-accrual status as of June 30, 2014, meaning the Company has ceased recognizing payment-in-kind interest income on the investment.
- (10) The entire commitment was unfunded at June 30, 2014. As such, no interest is being earned on this investment.
- (11) Investment pledged as collateral for the Credit Facility and, as a result, is not directly available to the creditors of the Company to satisfy any obligations of the Company other than the Company's obligations under the Credit Facility (see Note 6 to the consolidated financial statements).
- (12) The portion of the investment not held by the Funds is pledged as collateral for the Credit Facility and, as a result, is not directly available to the creditors of the Company to satisfy any obligations of the Company other than the Company's obligations under the Credit Facility (see Note 6 to the consolidated financial statements).

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****December 31, 2013****(In thousands, except shares)****Portfolio Company / Type of**

Investment (1) (2) (3)	Industry	Rate (4) Cash/PIK	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Affiliate Investments (5)							
<i>Apex Microtechnology, Inc.</i>							
Subordinated Note	Electronic Components Supplier	12.0%/2.0%	2/16/2018	\$ 6,200	\$ 5,987	\$ 6,448	
Warrant (2,294 units)					220	255	
Common Equity (11,690 units)					1,169	1,299	
Sub Total					7,376	8,002	4%
<i>Avrio Technology Group, LLC</i>							
Subordinated Note	Electronic Components Supplier	0.0%/14.0%	10/15/2015	6,291	6,291	3,200	
Preferred Equity Series B (3,704 units) ⁽⁷⁾					3,704		
Preferred Equity Series C (872 units) ⁽⁷⁾					436		
Preferred Equity Series D (1,917 units) ⁽⁷⁾					639		
Common Equity (4,215 units) (7)					1,000		
Sub Total					12,070	3,200	2%
<i>Malabar International</i>							
Subordinated Note	Aerospace & Defense Manufacturing	12.5%/2.5%	5/21/2017	5,116	5,093	5,116	
Preferred Equity (1,494 shares) (6)		6.0%/0.0%			1,990	3,616	
Sub Total					7,083	8,732	4%
<i>Medsurant Holdings, LLC</i>							
Subordinated Note	Healthcare Services	14.0%/0.0%	7/12/2016	9,750	8,845	9,541	
Preferred Equity (79,091 units) (7)					1,112	1,105	
Warrant (288,239 units) (7)					3,690	3,944	
Sub Total					13,647	14,590	7%
<i>Paramount Building Solutions, LLC</i>							
Subordinated Note	Retail Cleaning	5.0%/13.0%	12/31/2014	7,253	7,253	7,091	
Common Equity (107,143 units) (7)					1,500		
Sub Total					8,753	7,091	3%
<i>Pfanstiehl, Inc.</i>							
Subordinated Note	Healthcare Products	12.0%/4.0%	9/29/2018	6,082	6,031	6,082	
Common Equity (8,500 shares)					850	970	

Edgar Filing: FIDUS INVESTMENT Corp - Form 10-Q

Sub Total					6,881	7,052	3%
<i>Safety Products Group, LLC</i>	Safety Products						
Subordinated Note	Manufacturer	12.0%/1.5%	12/30/2018	10,000	9,957	9,957	
Preferred Equity (749 shares) ⁽⁷⁾					749	749	
Common Equity (676 shares) ⁽⁷⁾					1	1	
Sub Total					10,707	10,707	5%
<i>Trantech Radiator Products, Inc.</i>	Utility Equipment						
Subordinated Note	Manufacturer	12.0%/1.8%	5/4/2017	9,351	9,323	9,351	
Common Equity (6,875 shares)					688	1,317	
Sub Total					10,011	10,668	5%
<i>Westminster Cracker Company, Inc.</i>	Specialty Cracker						
Preferred Equity (83,851 units)	Manufacturer				70	75	
Common Equity (1,208,197 units)					1,208	1,108	
Sub Total					1,278	1,183	1%
<i>World Wide Packaging, LLC</i>	Consumer						
Subordinated Note	Products	12.0%/1.8%	10/26/2018	9,919	9,877	9,919	
Common Equity (1,300,000 units) ⁽⁷⁾					1,300	1,300	
Sub Total					11,177	11,219	5%
Total Affiliate Investments					88,983	82,444	39%

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****December 31, 2013 (continued)****(In thousands, except shares)****Portfolio Company / Type of**

Investment ⁽¹⁾ ⁽²⁾ ⁽³⁾	Industry	Rate ⁽⁴⁾ Cash/PIK	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-Control/Non-Affiliate Investments ⁽⁵⁾							
<i>Anatrache Products, LLC</i>	Healthcare						
Senior Secured Loan	Products	11.5%/1.5%	10/11/2018	\$ 9,533	\$ 9,493	\$ 9,493	
Revolving Loan (\$500 commitment) ⁽⁹⁾		N/A	10/11/2018		(2)	(2)	
Common Equity (360,000 shares)					360	360	
Sub Total					9,851	9,851	5%
<i>Acentia, LLC (f/k/a ITSolutions)</i>	IT Services						
Common Units (499 units)					500	267	0%
<i>ACFP Management, Inc.</i>	Restaurants						
Common Units (1,000,000 units)					1,091	1,140	1%
<i>Brook & Whittle Limited</i>	Specialty						
Subordinated Note	Printing	12.0%/4.8%	12/31/2016	6,954	6,954	6,954	
Subordinated Note		12.0%/2.0%	12/31/2016	2,206	2,199	2,206	
Warrant (1,051 shares)					285	367	
Common Equity Series A (148 shares)					110	52	
Common Equity Series D (527 shares)					53	53	
Sub Total					9,601	9,632	5%
<i>Brook Furniture Rental, Inc.</i>	Furniture						
Subordinated Note	Rental	12.0%/1.5%	9/30/2016	7,865	7,573	7,944	
Warrants (2.5%)					485	751	
Sub Total					8,058	8,695	4%
<i>Caldwell & Gregory, LLC</i>	Laundry						
Subordinated Note	Services	11.5%/1.0%	11/30/2018	1,509	1,482	1,509	
Subordinated Note		0.0%/12.0%	5/31/2019	3,215	2,941	3,215	
Common Equity (500,000 units) ⁽⁷⁾					500	511	
Warrant (242,121 units) ⁽⁷⁾					242	247	
Sub Total					5,165	5,482	3%
<i>Channel Technologies Group, LLC</i>	Component						
Subordinated Note	Manufacturer	11.0%/1.3%	4/10/2019	7,000	6,941	6,941	
Preferred Equity (538 units) ⁽⁷⁾					1,000	1,000	
Common Equity (537,817 units) ⁽⁷⁾							

Edgar Filing: FIDUS INVESTMENT Corp - Form 10-Q

Sub Total					7,941	7,941	4%
<i>Connect-Air International, Inc.</i>	Specialty						
Subordinated Note	Distribution	12.8%/0.0%	11/5/2018	11,400	11,394	11,394	
Common Equity						1,800	
Sub Total					11,394	13,194	6%
<i>Continental Anesthesia Management, LLC</i>	Healthcare						
Senior Secured Loan	Services	14.0%/0.0%	9/15/2014	9,825	9,777	9,717	
Warrant (263 shares)						276	
Sub Total					10,053	9,717	5%
<i>Convergent Resources, Inc.</i>	Debt Collection						
Subordinated Note	Services	13.0%/3.0%	12/27/2017	5,758	5,719	5,759	3%
<i>EBL, LLC (EbLens)</i>	Retail						
Subordinated Note		12.0%/3.0%	2/2/2018	9,323	9,288	9,323	
Common Equity (750,000 units) ⁽⁷⁾						750	778
Sub Total					10,038	10,101	5%

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****December 31, 2013 (continued)****(In thousands, except shares)**

Portfolio Company / Type of Investment (1) (2) (3)	Industry	Rate (4) Cash/PIK	Maturity	Principal Amount	Cost	Fair Value	Net Asset
<i>CA, LLC</i>	Industrial						
Subordinated Note	Products	12.5%/1.5%	6/18/2018	\$ 1,512	\$ 1,506	\$ 1,512	
Preferred Equity (4,500,000 units) ⁽⁶⁾		11.5%/5.0%	6/18/2018		4,604	4,623	
Sub Total					6,110	6,135	3%
<i>ocusVision Worldwide, Inc.</i>	Business						
Subordinated Note	Services	12.0%/1.0%	1/29/2019	7,519	7,487	7,519	4%
<i>TH Acquisition Corp. VII</i>	IT Services						
Subordinated Note		13.0%/0.0%	2/27/2015	8,511	8,511	7,741	
Preferred Equity (887,122 shares)					887		
Sub Total					9,398	7,741	4%
<i>OS Acquisition, Inc.</i>	Oil & Gas						
Subordinated Note	Services	12.0%/3.5%	6/26/2018	13,766	13,654	13,766	
Common Equity (2,152 shares)					500	379	
Sub Total					14,154	14,145	7%
<i>acob Ash Holdings, Inc.</i>	Apparel						
Subordinated Note	Distribution	13.0%/5.0%	8/11/2016	3,500	3,491	3,500	
Subordinated Note		13.0%/1.0%	8/11/2016	1,147	1,132	1,147	
Preferred Equity (500 shares) ⁽⁶⁾		0.0%/15.0%	8/11/2016		685	314	
Warrant (129,630 shares)					67		
Sub Total					5,375	4,961	2%
<i>2 Industrial Services, Inc.</i>	Industrial Cleaning						
Subordinated Note	& Coatings	11.8%/2.8%	5/23/2017	14,797	14,722	14,798	
Preferred Equity Series A (1,200 shares)					1,200	930	
Preferred Equity Series B (69 shares)					68	74	
Sub Total					15,990	15,802	7%
<i>ightning Diversion Systems, LLC</i>	Aerospace & Defense						
Senior Secured Loan	Manufacturing	10.5%/0.0%	12/20/2018	12,198	12,143	12,197	
Revolving Loan (\$1,000 commitment) ⁽⁹⁾		N/A	12/20/2018		(3)	(3)	
Common Equity (600,000 units)						1,049	

Edgar Filing: FIDUS INVESTMENT Corp - Form 10-Q

Sub Total					12,140	13,243	6%
<i>MedPlast, LLC</i>	Healthcare						
Subordinated Note	Products	11.0%/1.5%	3/31/2019	10,033	9,961	9,961	
Preferred Equity (188 shares) ⁽⁶⁾		0.0%/8.0%			191	191	
Common Equity (3,728 shares)					62	62	
Sub Total					10,214	10,214	5%
<i>National Truck Protection Co., Inc.</i>	Financial						
Senior Secured Loan	Services	13.5%/2.0%	9/13/2018	13,500	13,418	13,500	
Common Units (1,109 units)					737	1,118	
Sub Total					14,155	14,618	7%
<i>Robles Manufacturing, Inc.</i>	Aerospace & Defense						
Subordinated Note	Manufacturing	12.0%/2.5%	10/6/2018	4,550	4,550	4,550	
Preferred Equity (1,300,000 shares)					867	2,285	
Common Equity (1,300,000 shares)							
Sub Total					5,417	6,835	3%

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****December 31, 2013 (continued)****(In thousands, except shares)****Portfolio Company / Type of**

Investment (1) (2) (3)	Industry	Rate (4) Cash/PIK	Maturity	Principal Amount	Cost	Fair Value	Percentage Net Assets
<i>Minimum Franchise Brands, LLC</i>	Commercial						
<i>Jan-Pro Holdings, LLC</i>	Cleaning						
Subordinated Note		12.0%/2.0%	3/18/2017	\$ 7,833	\$ 7,833	\$ 7,833	
Preferred Equity (1,054,619 shares)					832	465	
Total					8,665	8,298	
<i>Restaurant Finance Co, LLC</i>	Restaurants						
Secured Loan (\$6,000 commitment)		11.0%/2.0%	11/25/2019	1,664	1,652	1,652	
Warranty Rights							
Total					1,652	1,652	
<i>Restaurant Co. (dba Elephant Bar)</i>	Restaurants						
Subordinated Note (8)		13.0%/1.0%	1/10/2018	7,594	7,256	2,974	
Subordinated Note (\$500 commitment)		0.0%/0.0%	1/10/2018	250	165	165	
Preferred Equity (652 shares)					416		
Total					7,837	3,139	
<i>Complex Manufacturing Co.</i>	Aerospace & Defense						
Subordinated Note	Manufacturing	14.0%/0.0%	11/1/2015	4,550	4,522	4,550	
Preferred Equity (24 shares)					710	758	
Total					5,232	5,308	
<i>Med Biologics, LLC</i>	Healthcare						
Secured Loan	Services	12.0%/2.0%	3/5/2017	6,833	6,425	6,833	
Preferred Equity (98,377 units) (7)					1,069	1,069	
Preferred Equity (57,469 units)					566	312	
Total					8,060	8,214	
<i>Globalwide Express Operations, LLC</i>	Transportation						
Subordinated Note	Services	11.5%/1.0%	8/1/2020	12,552	12,434	12,434	
Preferred Equity (2,500,000 units) (7)					2,500	2,500	
Total					14,934	14,934	
Total Non-Control/Non-Affiliate Investments					226,231	224,537	10.0%

- (1) All debt investments are income producing. Equity investments are non-income producing unless otherwise noted.
- (2) See Note 3 to the consolidated financial statements for portfolio composition by geographic location.
- (3) Equity ownership may be held in shares or units of companies related to the portfolio companies.
- (4) Rate includes the cash interest or dividend rate and paid-in-kind interest or dividend rate, if any, as of December 31, 2013. Generally, payment-in-kind interest can be paid-in-kind or all in cash.
- (5) See Note 2 Significant Accounting Policies, Investment Classification for definitions of Control and Affiliate classifications.
- (6) Income producing. Maturity date, if any, represents mandatory redemption date.
- (7) Investment is held by a wholly-owned subsidiary of the Company.
- (8) Investment was on non-accrual status as of December 31, 2013, meaning the Company has ceased recognizing interest income on the investment.
- (9) The entire commitment was unfunded at December 31, 2013. As such, no interest is being earned on this investment.

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents

FIDUS INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (unaudited)

(In thousands, except shares and per share data)

Note 1. Organization and Nature of Business

Fidus Investment Corporation, a Maryland corporation (FIC, and together with its subsidiaries, the Company), was formed on February 14, 2011 for the purposes of (i) acquiring 100% of the limited partnership interests of Fidus Mezzanine Capital, L.P. and its consolidated subsidiaries (collectively, Fund I) and 100% of the membership interests of Fund I s general partner, Fidus Mezzanine Capital GP, LLC (FMCGP), (ii) raising capital in an initial public offering that was completed in June 2011 (the IPO) and (iii) thereafter operating as an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). Fund I has also elected to be regulated as a BDC under the 1940 Act. In addition, for federal income tax purposes, the Company elected to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code), commencing with its taxable year ended December 31, 2011.

On June 20, 2011, FIC acquired 100% of the limited partnership interests in Fund I and 100% of the equity interests in FMCGP, in exchange for 4,056,521 shares of common stock in FIC (the Formation Transactions). Fund I became FIC s wholly-owned subsidiary, retained its license to operate as a Small Business Investment Company (SBIC), and continues to hold investments and make new investments. The IPO consisted of the sale of 5,370,500 shares of the Company s common stock, including shares purchased by the underwriters pursuant to their exercise of the over-allotment option, at a price of \$15.00 per share resulting in net proceeds of \$73,626, after deducting underwriting fees and commissions and offering costs totaling \$6,932.

The Company provides customized debt and equity financing solutions to lower middle-market companies. Fund I commenced operations on May 1, 2007, and on October 22, 2007, was granted a license to operate as a SBIC under the authority of the U.S. Small Business Administration (SBA). On March 29, 2013, the Company commenced operations of a new wholly-owned subsidiary, Fidus Mezzanine Capital II, L.P. (Fund II) and on May 28, 2013, was granted a second license to operate Fund II as an SBIC. Collectively, Fund I and Fund II are referred to as the Funds . The SBIC licenses allow the Funds to obtain leverage by issuing SBA-guaranteed debentures (SBA debentures), subject to the issuance of leverage commitments by the SBA and other customary procedures. As SBICs, the Funds are subject to a variety of regulations and oversight by the SBA under the Small Business Investment Act of 1958, as amended (the SBIC Act), concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments.

For all periods subsequent to the consummation of the Formation Transactions and the IPO, the Company pays a quarterly base management fee and an incentive fee to Fidus Investment Advisors, LLC (the Investment Advisor) under an investment advisory agreement (the Investment Advisory Agreement). The initial investment professionals of the Investment Advisor were previously employed by Fidus Capital, LLC, who was the investment adviser to Fund I prior to consummation of the Formation Transactions.

On September 11, 2012, the Company issued 2,472,500 shares in a follow-on public offering, including shares purchased by the underwriters pursuant to their exercise of the over-allotment option, at an offering price of \$16.10 per share resulting in net proceeds of \$37,952 after deducting underwriting fees and commissions and offering costs totaling \$1,855.

On February 8, 2013, the Company issued 1,725,000 shares in a follow-on public offering, including shares purchased by the underwriters pursuant to their exercise of the over-allotment option, at an offering price of \$17.60 per share resulting in net proceeds to the Company of \$28,857, after deducting underwriting fees and commissions and offering costs totaling \$1,504.

As of June 30, 2014 and December 31, 2013, the Company had 13,775,101 and 13,755,232 shares of common stock outstanding, respectively.

Note 2. Significant Accounting Policies

Basis of presentation: The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP), as established by the Financial Accounting Standards Board (FASB). These consolidated financial statements reflect the guidance in the Accounting Standards Codification (ASC), which is the single source of authoritative GAAP recognized by the FASB. In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. Certain prior period amounts have been reclassified to conform to the current period presentation. The current period's results of operation are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2013.

Use of estimates: The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents

FIDUS INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (unaudited)

(In thousands, except shares and per share data)

Consolidation: The Company will generally not consolidate its investments in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. As a result, the consolidated financial statements of the Company include only the accounts of the Company and its wholly-owned subsidiaries, including the Funds. All significant intercompany balances and transactions have been eliminated.

Fair value of financial instruments: The Company measures and discloses fair value with respect to substantially all of its financial instruments in accordance with ASC Topic 820 *Fair Value Measurements and Disclosures* (ASC Topic 820). ASC Topic 820 defines fair value, establishes a framework used to measure fair value, and requires disclosures for fair value measurements, including the categorization of financial instruments into a three-level hierarchy based on the transparency of valuation inputs. See Note 4 to the consolidated financial statements for further discussion regarding the fair value measurements and hierarchy.

Investment classification: The Company classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, *Control Investments* are defined as investments in those companies where the Company owns more than 25% of the voting securities of such company or has rights to maintain greater than 50% of the board representation. Under the 1940 Act, *Affiliate Investments* are defined as investments in those companies where the Company owns between 5% and 25% of the voting securities of such company. *Non-Control/Non-Affiliate Investments* are those that neither qualify as *Control Investments* nor *Affiliate Investments*.

Segments: In accordance with ASC Topic 280 *Segment Reporting*, the Company has determined that it has a single reporting segment and operating unit structure.

Cash and cash equivalents: Cash and cash equivalents are highly liquid investments with an original maturity of three months or less at the date of acquisition. The Company places its cash in financial institutions and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limits. The Company does not believe its cash balances are exposed to any significant credit risk.

Deferred financing costs: Deferred financing costs consist of fees and expenses paid in connection with the Credit Facility (as defined in Note 6) and SBA debentures. Deferred financing costs are capitalized and amortized using the straight line method, which approximates the effective interest method, over the terms of the respective financing instruments.

Realized gains or losses and unrealized appreciation or depreciation on investments: Realized gains or losses on investments are recorded upon the sale or disposition of a portfolio investment and are calculated as the difference between the net proceeds from the sale or disposition and the cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized. Net change in unrealized appreciation or depreciation on the consolidated statements of operations includes changes in the fair value of investments from the prior period, as determined by the Company's board of directors (the Board) through the application of the Company's valuation policy, as well as reclassifications of any prior period unrealized appreciation or depreciation on exited investments to

realized gains or losses on investments.

Interest, fee and dividend income: Interest and dividend income is recorded on the accrual basis to the extent that the Company expects to collect such amounts. Interest and dividend income is accrued daily based on the outstanding principal amount and the contractual terms of the debt or preferred equity investment. Dividend income is recorded on the declaration date or at the point an obligation exists for the portfolio company to make a distribution. Distributions from portfolio companies are evaluated to determine if the distribution is a distribution of earnings or a return of capital.

Certain of the Company's investments contain a payment-in-kind (PIK) income provision. The PIK income, computed at the contractual rate specified in the applicable investment agreement, is added to the principal balance of the investment, rather than being paid in cash, and recorded as interest or dividend income, as applicable, on the consolidated statements of operations. PIK income is included in the Company's taxable income and, therefore, affects the amount the Company is required to pay to shareholders in the form of dividends in order to maintain the Company's status as a RIC and to avoid corporate federal income tax, even though the Company has not yet collected the cash.

Loans or preferred equity investments are placed on non-accrual status and the Company will generally cease recognizing interest or dividend income when principal, interest or dividend payments become materially past due, or when there is reasonable doubt that principal, interest or dividends will be collected. Interest and dividend payments received on non-accrual investments may be recognized as interest or dividend income or may be applied to the investment principal balance based on management's judgment. Non-accrual investments are restored to accrual status when past due principal, interest or dividends are paid and, in management's judgment, payments are likely to remain current.

Table of Contents

FIDUS INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (unaudited)

(In thousands, except shares and per share data)

In connection with the Company's debt investments, the Company will sometimes receive warrants or other equity-related securities from the borrower (Warrants). The Company determines the cost basis of Warrants based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded fair value resulting from the assignment of value to the Warrants is treated as original issue discount (OID), and accreted into interest income using the effective interest method over the term of the debt investment.

Transaction fees earned in connection with the Company's investments are recognized as fee income. Such fees typically include fees for services, including structuring and advisory services, provided to portfolio companies. The Company recognizes income from fees for providing such structuring and advisory services when the services are rendered or the transactions are completed. Upon the prepayment of a loan or debt security, any prepayment penalties are recorded as fee income when earned.

The Company also typically receives upfront loan origination or closing fees in connection with investments. Such upfront loan origination and closing fees are capitalized as unearned income and offset against investment cost basis on the consolidated statements of assets and liabilities and accreted into income over the life of the investment. Upfront loan origination and closing fees received for the three months ended June 30, 2014 and 2013 totaled \$72 and \$283, respectively. Upfront loan origination and closing fees received for the six months ended June 30, 2014 and 2013 totaled \$169 and \$417, respectively.

Partial loan sales: The Company follows the guidance in ASC 860, *Transfers and Servicing*, when accounting for loan participations and other partial loan sales. Such guidance requires a participation or other partial loan sale to meet the definition of a participating interest, as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest should remain on the Company's consolidated statement of assets and liabilities and the proceeds recorded as a secured borrowing until the definition is met. Management has determined that all participations and other partial loan sale transactions entered into, if any, by the Company have met the definition of a participating interest. Accordingly, the Company uses sale treatment in accounting for such transactions.

Income taxes: The Company has elected to be treated as a RIC under Subchapter M of the Code beginning with the taxable year ended December 31, 2011 and, among other things, intends to make the required distributions to its stockholders as specified therein, which will generally relieve the Company from U.S. federal income taxes with respect to all income distributed to stockholders. In order to qualify as a RIC, the Company is required to timely distribute to its stockholders at least 90.0% of investment company taxable income, as defined by Subchapter M of the Code, each year. Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year; however, the Company will pay a 4.0% excise tax if it does not distribute at least 98.0% of the current year's ordinary taxable income. Any such carryover taxable income must be distributed through a dividend declared prior to the later of the filing the final tax return related to the year in which the Company generated such taxable income or the 15th day of the 9th month following the close of such taxable year. In addition, the Company will be subject to federal excise tax if it does not

distribute at least 98.2% of the net capital gains realized, computed for any one year period ending October 31.

In the future, the Funds may be limited by provisions of the SBIC Act and SBA regulations governing SBICs from making certain distributions to FIC that may be necessary to enable FIC to make the minimum distributions required to qualify as a RIC.

The Company has certain indirect wholly-owned taxable subsidiaries (the Taxable Subsidiaries), each of which generally holds one or more of the Company's portfolio investments listed on the consolidated schedules of investments. The Taxable Subsidiaries are consolidated for financial reporting purposes, such that the Company's consolidated financial statements reflect the Company's investment in the portfolio companies owned by the Taxable Subsidiaries. The purpose of the Taxable Subsidiaries is to permit the Company to hold equity investments in portfolio companies that are taxed as partnerships for U.S. Federal income tax purposes (such as entities organized as limited liability companies (LLCs) or other forms of pass through entities) while complying with the source-of-income requirements contained in the RIC tax provisions. The Taxable Subsidiaries are not consolidated with the Company for U.S. federal corporate income tax purposes, and each Taxable Subsidiary will be subject to U.S. federal corporate income tax on its taxable income. Any such income or expense is reflected in the consolidated statements of operations.

U.S. federal income tax regulations differ from GAAP, and as a result, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized under GAAP. Differences may be permanent or temporary. Permanent differences may arise as a result of, among other items, a difference in the book and tax basis of certain assets and nondeductible federal income taxes. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

ASC Topic 740 *Accounting for Uncertainty in Income Taxes* (ASC Topic 740) provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. ASC Topic 740 requires the evaluation of tax positions taken in the course of preparing the Company's tax returns to determine whether the tax

Table of Contents

FIDUS INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (unaudited)

(In thousands, except shares and per share data)

positions are more-likely-than-not to be respected by the applicable tax authorities. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax provision, if any. There were no material uncertain income tax positions at June 30, 2014 and December 31, 2013. The 2010 through 2012 tax years remain subject to examination by U.S. federal and most state tax authorities.

Distributions to stockholders: Distributions to stockholders are recorded on the record date with respect to such distributions. The amount, if any, to be distributed to stockholders, is determined by the Board each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, may be distributed at least annually, although the Company may decide to retain such capital gains for investment.

The determination of the tax attributes for the Company's distributions is made annually, and is based upon the Company's taxable income and distributions paid to its stockholders for the full year. Ordinary dividend distributions from a RIC do not qualify for the preferential tax rate on qualified dividend income from domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the form of qualifying dividends from domestic corporations and qualified foreign corporations. The tax characterization of the Company's distributions generally includes both ordinary income and capital gains but may also include qualified dividends or return of capital.

The Company has adopted a dividend reinvestment plan (DRIP) that provides for the reinvestment of dividends on behalf of its stockholders, unless a stockholder has elected to receive dividends in cash. As a result, if the Company declares a cash dividend, the Company's stockholders who have not opted out of the DRIP at least three days prior to the dividend payment date will have their cash dividend automatically reinvested into additional shares of the Company's common stock. The Company has the option to satisfy the share requirements of the DRIP through the issuance of new shares of common stock or through open market purchases of common stock by the DRIP plan administrator. Newly issued shares are valued based upon the final closing price of the Company's common stock on a date determined by the Board. Shares purchased in the open market to satisfy the DRIP requirements will be valued based upon the average price of the applicable shares purchased by the DRIP plan administrator, before any associated brokerage or other costs. See Note 9 to the consolidated financial statements regarding dividend declarations and distributions.

Earnings and net asset value per share: The earnings per share calculations for the three months ended June 30, 2014 and 2013, as well as the six months ended June 30, 2014 and 2013, are computed utilizing the weighted average shares outstanding for the period. Net asset value per share is calculated using the number of shares outstanding as of the end of the period.

Recent accounting pronouncements: In June 2013, the FASB issued Accounting Standards Update (ASU) 2013-08, *Financial Services - Investment Companies (Topic 946) Amendments to the Scope, Measurement and Disclosure Requirements* (ASU 2013-08), containing new guidance on assessing whether an entity is an investment company, requiring non-controlling ownership interest in investment companies to be measured at fair value and requiring

certain additional disclosures. This guidance is effective for annual and interim periods beginning on or after December 15, 2013. The adoption of ASU 2013-08 did not have a material impact on the Company's consolidated financial position or disclosures.

Note 3. Portfolio Company Investments

The Company's portfolio investments principally consist of secured and unsecured debt, equity warrants and direct equity investments in privately held companies. The debt investments may or may not be secured by either a first or second lien on the assets of the portfolio company. The debt investments generally bear interest at fixed rates, and generally mature between five and seven years from the original investment. In connection with a debt investment, the Company also often receives nominally priced equity warrants and/or makes a direct equity investment in the portfolio company. The Company's warrants or equity investments may be investments in a holding company related to the portfolio company. In addition, the Company periodically makes equity investments in its portfolio companies through Taxable Subsidiaries. In both situations, the investment is reported under the name of the operating company on the consolidated schedules of investments.

As of June 30, 2014, the Company had investments in 37 portfolio companies with an aggregate fair value of \$310,473 and a weighted average effective yield on its debt investments of 14.0%. At June 30, 2014, the Company held equity investments in 91.9% of its portfolio companies and the average fully diluted equity ownership in those portfolio companies was 7.6%. As of December 31, 2013, the Company had investments in 37 portfolio companies with an aggregate fair value of \$306,981 and a weighted average effective yield on its debt investments of 14.5%. At December 31, 2013, the Company held equity investments in 91.9% of its portfolio companies and the average fully diluted equity ownership in those portfolio companies was 7.3%. The weighted average yields were computed using the effective interest rates for debt investments at cost as of June 30, 2014 and December 31, 2013, including accretion of original issue discount and loan origination fees, but excluding investments on non-accrual status, if any.

Table of Contents**FIDUS INVESTMENT CORPORATION****Notes to Consolidated Financial Statements (unaudited)****(In thousands, except shares and per share data)**

Purchases of debt and equity investments for the six months ended June 30, 2014 and 2013 totaled \$24,650 and \$59,263, respectively. Proceeds from sales and repayments, including principal, return of capital distributions and realized gains, of portfolio investments for the six months ended June 30, 2014 and 2013 totaled \$20,269 and \$36,726, respectively.

Investments by type with corresponding percentage of total portfolio investments consisted of the following:

	Fair Value				Cost			
	June 30, 2014		December 31, 2013		June 30, 2014		December 31, 2013	
Subordinated notes	\$ 193,959	62.5%	\$ 214,400	69.8%	\$ 208,156	64.0%	\$ 220,372	69.9%
Senior secured loans	69,721	22.5	53,387	17.4	69,059	21.3	52,903	16.8
Equity	40,193	12.9	32,560	10.6	40,227	12.4	34,982	11.1
Warrants	6,600	2.1	6,634	2.2	7,312	2.3	6,957	2.2
Royalty rights								
Total	\$ 310,473	100.0%	\$ 306,981	100.0%	\$ 324,754	100.0%	\$ 315,214	100.0%

All investments made by the Company as of June 30, 2014 and December 31, 2013 were made in portfolio companies located in the U.S. The following table shows portfolio composition by geographic region at fair value and cost and as a percentage of total investments. The geographic composition is determined by the location of the corporate headquarters of the portfolio company, which may not be indicative of the primary source of the portfolio company's business.

	Fair Value				Cost			
	June 30, 2014		December 31, 2013		June 30, 2014		December 31, 2013	
West	\$ 73,445	23.6%	\$ 76,361	24.9%	\$ 76,637	23.6%	\$ 75,488	24.0%
Southeast	66,779	21.5	54,885	17.9	66,795	20.6	55,855	17.7
Midwest	65,985	21.3	67,287	21.9	76,018	23.4	74,430	23.6
Northeast	60,856	19.6	59,500	19.4	59,371	18.3	59,611	18.9
Southwest	43,408	14.0	48,948	15.9	45,933	14.1	49,830	15.8
Total	\$ 310,473	100.0%	\$ 306,981	100.0%	\$ 324,754	100.0%	\$ 315,214	100.0%

As of June 30, 2014 and December 31, 2013, the Company had no portfolio company investments that represented more than 10% of the total investment portfolio. As of June 30, 2014, the Company had investments in two portfolio companies on non-accrual status, which had an aggregate cost and fair value of \$14,092 and \$0, respectively. In

addition, the Company had an investment in one portfolio company that was on non-accrual status only with respect to the PIK interest component of the investment, which had a cost and fair value of \$7,454 and \$5,595, respectively. As of December 31, 2013, the Company had investments in one portfolio company on non-accrual status, which had a cost and fair value of \$7,256 and \$2,974, respectively.

Note 4. Fair Value Measurements

Investments

The Company has established and documented processes and methodologies for determining the fair values of portfolio company investments on a recurring basis in accordance with ASC Topic 820. Fair value is the price, determined at the measurement date, that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available or reliable, valuation techniques described below are applied. Under ASC Topic 820, portfolio investments recorded at fair value in the consolidated financial statements are classified within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value, as defined below:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets as of the measurement date.

Level 2 Inputs include quoted prices for similar assets in active markets, or that are quoted prices for identical or similar assets in markets that are not active and inputs that are observable, either directly or indirectly, for substantially the full term, if applicable, of the investment.

Level 3 Inputs include those that are both unobservable and significant to the overall fair value measurement.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's investment portfolio is comprised entirely of debt and equity securities of privately held companies for which quoted prices falling within the categories of Level 1 and Level 2 inputs are not available. Therefore, the Company values all of its portfolio investments at fair value, as determined in good faith by the Board, using Level 3 inputs. The degree of judgment exercised by the Board in determining fair value is greatest for investments classified as Level 3 inputs. Due to

Table of Contents

FIDUS INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (unaudited)

(In thousands, except shares and per share data)

the inherent uncertainty of determining the fair values of investments that do not have readily available market values, the Board's estimate of fair values may differ significantly from the values that would have been used had a ready market for the securities existed, and those differences may be material. In addition, changes in the market environment, portfolio company performance and other events that may occur over the lives of the investments may cause the amounts ultimately realized on these investments to be materially different than the valuations currently assigned.

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

the quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals of the Investment Advisor responsible for the portfolio investment;

preliminary valuation conclusions are then documented and discussed with the investment committee of the Investment Advisor;

the Board also engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of our investments for which market quotations are not readily available. The Company will consult with independent valuation firm(s) relative to each portfolio company at least once in every calendar year, and for new portfolio companies, at least once in the twelve-month period subsequent to the initial investment. The Board consulted with the independent valuation firm in arriving at the Company's determination of fair value on 13 and 13 of its portfolio company investments representing 35.1% and 40.9% of the total portfolio investments at fair value as of June 30, 2014 and December 31, 2013, respectively.

the audit committee of the Board reviews the preliminary valuations of the Investment Advisor and of the independent valuation firm(s) and responds and supplements the valuation recommendations to reflect any comments; and

the Board discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of the Investment Advisor, the independent valuation firm(s) and the audit committee.

In making the good faith determination of the value of portfolio investments, the Company starts with the cost basis of the security. The transaction price is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the

expected exit values.

The Company performs detailed valuations of its debt and equity investments, using both the market and income approaches as appropriate. Under the market approach, the Company typically uses the enterprise value methodology to determine the fair value of an investment. There is no one methodology to estimate enterprise value and, in fact, for any one portfolio company, enterprise value is generally best expressed as a range of values, from which the Company derives a single estimate of enterprise value. Under the income approach, the Company typically prepares and analyzes discounted cash flow models to estimate the present value of future cash flows of either an individual debt investment or of the underlying portfolio company itself.

The Company evaluates investments in portfolio companies using the most recent portfolio company financial statements and forecasts. The Company also consults with the portfolio company's senior management to obtain further updates on the portfolio company's performance, including information such as industry trends, new product development and other operational issues.

For the Company's debt investments, including senior secured loans and subordinated notes, the primary valuation technique used to estimate the fair value is the discounted cash flow method. However, if there is deterioration in credit quality or a debt investment is in workout status, the Company may consider other methods in determining the fair value, including the value attributable to the debt investment from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The Company's discounted cash flow models estimate a range of fair values by applying an appropriate discount rate to the future cash flow streams of its debt investments, based on future interest and principal payments as set forth in the associated loan agreements. The Company prepares a weighted average cost of capital for use in the discounted cash flow model for each investment, based on factors including, but not limited to: current pricing and credit metrics for similar proposed or executed investment transactions of private companies; the portfolio company's historical financial results and outlook; and the portfolio company's current leverage and credit quality as compared to leverage and credit quality as of the date the investment was made. The Company may also consider the following factors when determining the fair value of debt investments: the portfolio company's ability to make future scheduled payments; prepayment penalties; estimated remaining life; the nature and realizable value of any collateral securing such debt investment; and changes in the interest rate environment and the credit markets that generally may affect the price at which similar investments may be made. The Company estimates the remaining life of its debt investments to generally be the legal maturity date of the instrument, as the Company generally intends to hold its loans to maturity. However, if the Company has information available to it that the loan is expected to be repaid in the near term, it would use an estimated remaining life based on the expected repayment date.

Table of Contents**FIDUS INVESTMENT CORPORATION****Notes to Consolidated Financial Statements (unaudited)****(In thousands, except shares and per share data)**

For the Company's equity investments, including equity and warrants, the Company generally uses a market approach, including valuation methodologies consistent with industry practice, to estimate the enterprise value of portfolio companies. Typically, the enterprise value of a private company is based on multiples of EBITDA, cash flows, net income, revenues, or in limited cases, book value. In estimating the enterprise value of a portfolio company, the Company analyzes various factors consistent with industry practice, including but not limited to original transaction multiples, the portfolio company's historical and projected financial results, applicable market trading and transaction comparables, applicable market yields and leverage levels, the nature and realizable value of any collateral, the markets in which the portfolio company does business, and comparisons of financial ratios of peer companies that are public. Where applicable, the Company considers the Company's ability to influence the capital structure of the portfolio company, as well as the timing of a potential exit.

The Company may also utilize an income approach when estimating the fair value of its equity securities, either as a primary methodology if consistent with industry practice or if the market approach is otherwise not applicable, or as a supporting methodology to corroborate the fair value ranges determined by the market approach. The Company typically prepares and analyzes discounted cash flow models based on projections of the future free cash flows (or earnings) of the portfolio company. The Company considers various factors, including but not limited to the portfolio company's projected financial results, applicable market trading and transaction comparables, applicable market yields and leverage levels, the markets in which the portfolio company does business, and comparisons of financial ratios of peer companies that are public.

The fair value of the Company's royalty rights are calculated based on projected future cash flows and the specific provisions contained in the pertinent agreements. The determination of the fair value of such royalty rights is not a significant component of the Company's valuation process.

The Company reviews the fair value hierarchy classifications on a quarterly basis. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur. There were no transfers among Levels 1, 2, and 3 during the six months ended June 30, 2014 and 2013.

The following tables present a reconciliation of the beginning and ending balances for fair valued investments measured using significant unobservable inputs (Level 3) for the six months ended June 30, 2014 and 2013:

	Subordinated Notes	Senior Secured Loans	Equity	Warrants	Royalty Rights	Total
Balance, December 31, 2012	\$ 193,691	\$ 32,736	\$ 26,430	\$ 21,392	\$	\$ 274,249
Realized gain on investments			1,053			1,053
	(1,923)	(135)	724	10,251		8,917

Edgar Filing: FIDUS INVESTMENT Corp - Form 10-Q

Net change in unrealized (depreciation) appreciation on investments					
Purchase of investments	50,421	1,075	7,525	242	59,263
Proceeds from sales and repayments of investments	(32,947)	(1,126)	(2,653)		(36,726)
Interest and dividend income paid-in-kind	2,278	68	337		2,683
Proceeds from loan origination fees	(383)	(11)	(23)		(417)
Accretion of loan origination fees	84	19	2		105
Accretion of original issue discount	601	83	3		687
Balance, June 30, 2013	\$ 211,822	\$ 32,709	\$ 33,398	\$ 31,885	\$ 309,814
Balance, December 31, 2013					
Realized gain on investments	166		1,701	51	1,918
Net change in unrealized (depreciation) appreciation on investments					
	(8,225)	175	2,391	(389)	(6,048)
Purchase of investments	1,663	16,799	5,833	355	24,650
Proceeds from sales and repayments of investments	(16,737)	(934)	(2,547)	(51)	(20,269)
Interest and dividend income paid-in-kind	2,254	315	269		2,838
Proceeds from loan origination fees	(8)	(138)	(23)		(169)
Accretion of loan origination fees	184	33	6		223
Accretion of original issue discount	262	84	3		349
Balance, June 30, 2014	\$ 193,959	\$ 69,721	\$ 40,193	\$ 6,600	\$ 310,473

Table of Contents**FIDUS INVESTMENT CORPORATION****Notes to Consolidated Financial Statements (unaudited)****(In thousands, except shares and per share data)**

Net change in unrealized (depreciation) of \$(2,103) and \$(4,131) for the three and six months ended June 30, 2014, respectively, were attributable to Level 3 investments held at June 30, 2014. Net change in unrealized appreciation of \$10,156 and \$9,649 for the three and six months ended June 30, 2013, respectively, were attributable to Level 3 investments held at June 30, 2013.

The following tables summarize the significant unobservable inputs by valuation technique used to determine the fair value of the Company's Level 3 debt and equity investments as of June 30, 2014 and December 31, 2013. The tables are not intended to be all-inclusive, but instead capture the significant unobservable inputs relevant to the Company's determination of fair values.

	Fair Value at June 30, 2014	Valuation Techniques	Unobservable Inputs	Range (weighted average)
Debt investments:				
Subordinated notes				
	\$ 193,959	Discounted cash flow	Weighted average cost of capital	12.6% 29.9% (15.3%)
		Enterprise value	Revenue multiples	0.4x 0.6x (0.4x)
Senior secured loans				
	69,721	Discounted cash flow	Weighted average cost of capital	7.0% 17.9% (14.3%)
Equity investments:				
Equity				
	40,193	Enterprise value	EBITDA multiples	4.5x 10.4x (6.6x)
Warrants				
	6,600	Enterprise value	EBITDA multiples	4.5x 9.5x (6.6x)

	Fair Value at December 31, 2013	Valuation Techniques	Unobservable Inputs	Range (weighted average)
Debt investments:				
Subordinated notes				
	\$ 208,226	Discounted cash flow	Weighted average cost of capital	10.9% 24.0% (15.5 %)
	6,174	Enterprise value	EBITDA multiples	4.5x 5.5x (4.9x)
			Revenue multiples	0.3x 0.5x (0.5x)
Senior secured loans				
	53,387	Discounted cash flow	Weighted average cost of capital	10.9% 16.6% (14.4%)
Equity investments:				

Equity	32,560	Enterprise value	EBITDA multiples	4.5x	10.4x (6.6x)
Warrants	6,634	Enterprise value	EBITDA multiples	4.7x	9.5x (6.3x)

The significant unobservable input used in determining the fair value under the discounted cash flow technique is the weighted average cost of capital of each security. Significant increases (or decreases) in this input would likely result in a significantly lower (or higher) fair value estimate.

The significant unobservable inputs used in determining fair value under the enterprise value technique are revenue and EBITDA multiples. Significant increases (or decreases) in this input could result in a significantly higher (or lower) fair value estimate.

Other Financial Assets and Liabilities

ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. The Company believes that the carrying amounts of its other financial instruments such as cash and cash equivalents, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. SBA debentures are carried at cost and with their longer maturity dates, fair value is estimated by discounting remaining payments using current market rates for similar instruments and considering such factors as the legal maturity date and the ability of market participants to prepay the debentures. As of June 30, 2014 and December 31, 2013, the fair value of the Company's SBA debentures using Level 3 inputs is estimated at \$145,500 and \$144,500, respectively, which is the same as the Company's carrying value of the debentures.

Note 5. Related Party Transactions

Investment Advisory Agreement: Concurrent with the Formation Transactions, the Company entered into the Investment Advisory Agreement with the Investment Advisor. On June 4, 2014, the Board approved the renewal of the Investment Advisory Agreement through June 20, 2015. Pursuant to the Investment Advisory Agreement and subject to the overall supervision of the Board, the Investment Advisor provides investment advisory services to the Company. For providing these services, the Investment Advisor receives a fee, consisting of two components—a base management fee and an incentive fee.

Table of Contents

FIDUS INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (unaudited)

(In thousands, except shares and per share data)

The base management fee is calculated at an annual rate of 1.75% based on the average value of total assets (other than cash or cash equivalents but including assets purchased with borrowed amounts) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears. The base management fee under the Investment Advisory Agreement for the three months ended June 30, 2014 and 2013 totaled \$1,393 and \$1,352, respectively. The base management fee under the Investment Advisory Agreement for the six months ended June 30, 2014 and 2013 totaled \$2,758 and \$2,611, respectively.

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement (defined below) and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee and any organizing and offering costs). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as market discount, debt instruments with payment-in-kind income, preferred stock with PIK dividends and zero-coupon securities), accrued income the Company has not yet received in cash. The Investment Advisor is not under any obligation to reimburse the Company for any part of the incentive fee it receives that was based on accrued interest that the Company never collects.

Pre-incentive fee net investment income does not include any realized capital gains, taxes associated with such realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that the Company may pay an incentive fee in a quarter where the Company incurs a loss. For example, if the Company generates pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, the Company will pay the applicable incentive fee even if the Company has incurred a loss in that quarter due to a net loss on investments.

Pre-incentive fee net investment income, expressed as a rate of return on the value of the Company's net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed hurdle rate of 2.0% per quarter. If market interest rates rise, the Company may be able to invest funds in debt instruments that provide for a higher return, which would increase the Company's pre-incentive fee net investment income and make it easier for the Investment Advisor to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. The Company's pre-incentive fee net investment income used to calculate this part of the incentive fee is also included in the total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts) used to calculate the 1.75% base management fee.

The Company pays the Investment Advisor an incentive fee with respect to pre-incentive fee net investment income in each calendar quarter as follows:

no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle rate of 2.0%;

100.0% of the Company's pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5% in any calendar quarter. This portion of the pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.5%) is referred to as the "catch-up" provision. The catch-up is meant to provide the Investment Advisor with 20.0% of the pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 2.5% in any calendar quarter; and

20.0% of the amount of the Company's pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter.

The sum of the calculations above equals the income incentive fee. The income incentive fee is appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the calendar quarter. The income incentive fee for the three months ended June 30, 2014 and 2013 totaled \$1,269 and \$1,301, respectively. The income incentive fee for the six months ended June 30, 2014 and 2013 totaled \$2,495 and \$2,515, respectively.

The second part of the incentive fee is a capital gains incentive fee that is determined and paid in arrears as of the end of each fiscal year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.0% of the net capital gains as of the end of the fiscal year. In determining the capital gains incentive fee to be paid to the Investment Advisor, the Company calculates the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since the

Table of Contents

FIDUS INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (unaudited)

(In thousands, except shares and per share data)

Formation Transactions, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in the Company's portfolio. At the end of the applicable year, the amount of capital gains that serves as the basis for the calculation of the capital gains incentive fee to be paid equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate unrealized capital depreciation, with respect to the Company's portfolio of investments. If this number is positive at the end of such year, then the capital gains incentive fee to be paid for such year equals 20.0% of such amount, less the aggregate amount of any capital gains incentive fees paid in all prior years. On March 4, 2014, the Board, including all of the Company's directors who are not interested persons (as that term is defined in the 1940 Act), approved an amendment to the Investment Advisory Agreement to remove the references to original cost in the calculation of net capital gains. The amendment to the Investment Advisory Agreement was effective March 4, 2014 and had the effect of reducing the capital gains incentive fee payable as of December 31, 2013, which had not yet been calculated and paid. As of June 30, 2014 and December 31, 2013, the capital gains incentive fee payable was \$0 and \$348, respectively. The aggregate amount of capital gains incentive fees paid through June 30, 2014 is \$348.

In addition, the Company accrues, but does not pay, a capital gains incentive fee in connection with any unrealized capital appreciation, as appropriate. If, on a cumulative basis, the sum of net realized gains/(losses) plus net unrealized appreciation/(depreciation) decreases during a period, the Company will reverse any excess capital gains incentive fee previously accrued such that the amount of capital gains incentive fee accrued is no more than 20.0% of the sum of net realized gains/(losses) plus net unrealized appreciation/(depreciation). During the three and six months ended June 30, 2014, the Company recognized reversals of accrued capital gains incentive fees of \$416 and \$800, respectively. During the three and six months ended June 30, 2013, the Company accrued capital gains incentive fees totaling \$2,051 and \$1,994, respectively.

The sum of the income incentive fee and the capital gains incentive fee is the incentive fee and is reported in the consolidated statements of operations. Accrued management fees, income incentive fees and capital gains incentive fees are reported in the due to affiliates line in the consolidated statements of assets and liabilities.

Unless terminated earlier as described below, the Investment Advisory Agreement will continue in effect from year to year if approved annually by the Board or by the affirmative vote of the holders of a majority of the Company's outstanding voting securities, and, in either case, if also approved by a majority of the Company's directors who are not interested persons. The Investment Advisory Agreement automatically terminates in the event of its assignment, as defined in the 1940 Act, by the Investment Advisor and may be terminated by either party without penalty upon not less than 60 days' written notice to the other. The holders of a majority of the Company's outstanding voting securities may also terminate the Investment Advisory Agreement without penalty.

Administration Agreement: Concurrent with the Formation Transactions, the Company also entered into an administration agreement (the Administration Agreement) with the Investment Advisor. On June 4, 2014, the Board approved the renewal of the Administrative Agreement through June 20, 2015. Under the Administration Agreement, the Investment Advisor furnishes the Company with office facilities and equipment, provides it clerical, bookkeeping and record keeping services at such facilities and provides the Company with other administrative services necessary

to conduct its day-to-day operations. The Company reimburses the Investment Advisor for the allocable portion of overhead expenses incurred in performing its obligations under the Administration Agreement, including rent and the Company's allocable portion of the cost of its chief financial officer and chief compliance officer and their respective staffs. Under the Administration Agreement, the Investment Advisor also provides managerial assistance to those portfolio companies to which the Company is required to provide such assistance. Under the Administration Agreement, administrative expenses for services provided for the three months ended June 30, 2014 and 2013 totaled \$430 and \$256, respectively. Under the Administration Agreement, administrative expenses for services provided for the six months ended June 30, 2014 and 2013 totaled \$793 and \$501. Accrued administrative expenses are reported in the due to affiliates line in the consolidated statements of assets and liabilities.

Note 6. Debt

Revolving Credit Facility: On June 16, 2014, FIC entered into a senior secured revolving credit agreement (the Credit Facility) with ING Capital LLC (ING), as the administrative agent, collateral agent, and lender. The Credit Facility has an initial commitment of \$30,000 with an accordion feature that allows for an increase in the total commitments up to \$75,000, subject to certain conditions and the satisfaction of specified financial covenants. The Credit Facility is secured by certain portfolio investments held by the Company, but portfolio investments held by the Funds are not collateral for the Credit Facility. The stated maturity date for the Credit Facility is June 16, 2018, which may be extended by mutual agreement.

Amounts available to borrow under the Credit Facility are subject to a minimum borrowing/collateral base that applies an advance rate to certain investments held by the Company. The Company is subject to limitations with respect to the investments securing the Credit Facility, including, but not limited to, restrictions on sector concentrations, loan size, payment frequency and status and collateral interests, as well as restrictions on portfolio company leverage, which may also affect the borrowing base and therefore amounts available to borrow.

Table of Contents**FIDUS INVESTMENT CORPORATION****Notes to Consolidated Financial Statements (unaudited)****(In thousands, except shares and per share data)**

Borrowings under the Credit Facility bear interest, subject to the Company's election, on a per annum basis equal to (i) the alternate base rate plus 2.5% or (ii) the applicable LIBOR rate plus 3.5%. The alternate base rate is equal to the greater of (i) prime rate, (ii) the federal funds rate plus 0.5% or (iii) the three-month LIBOR rate plus 1.0%. The Company pays a commitment fee between 0.5% and 1.0% per annum based on the size of the unused portion of the Credit Facility.

The Company has made customary representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities. These covenants are subject to important limitations and exceptions that are described in the documents governing the Credit Facility. As of June 30, 2014, the Company was in compliance in all material respect with the terms of the Credit Facility and there were no amounts outstanding under the Credit Facility.

For the three months ended June 30, 2014 and 2013, commitment fees related to the unused portion of the Credit Facility of \$13 and \$0, respectively, are included in interest and financing expenses on the consolidated statements of operations. For the six months ended June 30, 2014 and 2013, commitment fees related to the Credit Facility of \$13 and \$0, respectively, are included in interest and financing expenses on the consolidated statements of operations. As of June 30, 2014 and December 31, 2013, accrued interest and fees payable related to the Credit Facility totaled \$13 and \$0, respectively.

SBA debentures: The Company uses debenture leverage provided through the SBA to fund a portion of its investment purchases.

Under the SBA debenture program, the SBA commits to purchase debentures issued by SBICs and such debentures are guaranteed by the SBA. The SBA has made commitments to purchase \$175,000 of SBA debentures from the Company on or before September 30, 2017. Unused commitments as of June 30, 2014 and December 31, 2013 were \$29,500 and \$30,500, respectively. The SBA may limit the amount that may be drawn each year under these commitments, and each issuance of leverage is conditioned on the Company's full compliance, as determined by the SBA, with the terms and conditions set forth in the SBIC Act.

As of June 30, 2014 and December 31, 2013, the Company's issued and outstanding SBA debentures mature as follows:

Pooling Date(1)	Maturity Date	Fixed Interest Rate	June 30, 2014	December 31, 2013
3/26/2008	3/1/2018	6.188%	\$ 24,750	\$ 24,750
9/24/2008	9/1/2018	6.442	11,950	11,950
3/25/2009	3/1/2019	5.337	19,750	19,750
9/23/2009	9/1/2019	4.950	10,000	10,000

Edgar Filing: FIDUS INVESTMENT Corp - Form 10-Q

3/24/2010	3/1/2020	4.825	13,000	13,000
9/22/2010	9/1/2020	3.932	12,500	12,500
3/29/2011	3/1/2021	4.801	1,550	1,550
9/21/2011	9/1/2021	3.594	3,250	3,250
3/21/2012	3/1/2022	3.483	3,250	3,250
3/21/2012	3/1/2022	3.051	19,000	19,000
9/19/2012	9/1/2022	2.530	11,000	11,000
9/19/2012	9/1/2022	3.049	11,500	11,500
3/27/2013	3/1/2023	3.155	3,000	3,000
(2)	(2)	(2)	1,000	
			\$ 145,500	\$ 144,500

- (1) The SBA has two scheduled pooling dates for debentures (in March and in September). Certain debentures funded during the reporting periods may not be pooled until the subsequent pooling date.
- (2) In June 2014, the Company issued \$1,000 in SBA debentures which pool in September 2014, at which time the Company expects the current short-term interest rate will reset to a higher long-term fixed rate.

Interest on SBA debentures is payable semi-annually on March 1 and September 1. For the three months ended June 30, 2014 and 2013, interest and financing expenses on outstanding SBA debentures amounted to \$1,640 and \$1,640, respectively. For the six months ended June 30, 2014 and 2013, interest and financing expenses on outstanding SBA debentures amounted to \$3,262 and \$3,250, respectively. As of June 30, 2014 and December 31, 2013, accrued interest and fees payable related to the SBA debentures totaled \$2,199 and \$2,198, respectively. The weighted average fixed interest rate for all SBA debentures as of June 30, 2014 and December 31, 2013 was 4.5% and 4.6%.

Table of Contents**FIDUS INVESTMENT CORPORATION****Notes to Consolidated Financial Statements (unaudited)****(In thousands, except shares and per share data)***Deferred Financing Costs*

Deferred financing costs are amortized into interest and financing expenses on the consolidated statement of operations using the straight-line method, which approximates the effective interest method, over the term of the respective financing instrument. Deferred financing cost amortization for the three months ended June 30, 2014 and 2013 was \$142 and \$125, respectively. Deferred financing cost amortization for the six months ended June 30, 2014 and 2013 was \$273 and \$250, respectively. Deferred financing costs related to the Credit Facility and SBA debentures as of June 30, 2014 and December 31, 2013, were as follows:

	June 30, 2014	December 31, 2013
SBA debenture commitment fees	\$ 1,750	\$ 1,750
SBA debenture leverage fees	3,528	3,504
Credit Facility upfront fees	893	
Subtotal	6,171	5,254
Accumulated amortization	(2,375)	(2,102)
Net deferred financing costs	\$ 3,796	\$ 3,152

Note 7. Commitments and Contingencies

Commitments: As of June 30, 2014, the Company had four unfunded revolving loan commitments totaling \$3,614 to portfolio companies, one unfunded loan commitment totaling \$2,964 to a portfolio company and one unfunded capital commitment of \$308 related to a portfolio company. As of December 31, 2013, the Company had two unfunded revolving loan commitments totaling \$1,500, two unfunded loan commitments totaling \$4,589 to portfolio companies and one unfunded capital commitment of \$308 related to a portfolio company. The commitments are generally subject to the borrowers meeting certain criteria such as compliance with financial and nonfinancial covenants. Since commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Indemnifications: In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties that provide indemnifications under certain circumstances. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. The Company expects the risk of future obligation under these indemnifications to be remote.

Legal proceedings: In the normal course of business, the Company may be subject to legal and regulatory proceedings that are generally incidental to its ongoing operations. While the outcome of these legal proceedings cannot be predicted with certainty, the Company does not believe these proceedings will have a material adverse effect on the Company's consolidated financial statements.

Note 8. Financial Highlights

The following is a schedule of financial highlights for the six months ended June 30, 2014 and 2013:

	Six months ended June 30,	
	2014	2013
Per share data:		
Net asset value at beginning of period	\$ 15.35	\$ 15.32
Net investment income ⁽¹⁾	0.80	0.61
Net realized gain on investments (net of taxes) ⁽¹⁾	0.13	0.08
Net unrealized (depreciation) appreciation on investments ⁽¹⁾	(0.44)	0.67
Total increase from investment operations ⁽¹⁾	0.49	1.36
Accretive effect of share issuance above NAV		0.16
Dividends to stockholders	(0.76)	(0.76)
Other ⁽²⁾	0.01	(0.02)
Net asset value at end of period	\$ 15.09	\$ 16.06
Market value at end of period	\$ 20.54	\$ 18.71
Shares outstanding at end of period	13,775,101	13,716,763
Weighted average shares outstanding during the period	13,760,623	13,318,194
Ratios to average net assets:		
Expenses other than incentive fee ⁽³⁾	8.1%	7.5%
Incentive fee ⁽³⁾	1.6%	4.3%

Table of Contents**FIDUS INVESTMENT CORPORATION****Notes to Consolidated Financial Statements (unaudited)****(In thousands, except shares and per share data)**

Total expenses ⁽³⁾	9.7%	11.8%
Net investment income ⁽³⁾	10.5%	7.9%
Total return ⁽⁴⁾	(2.0)%	18.4%
Net assets at end of period	\$ 207,866	\$ 220,291
Average debt outstanding	\$ 144,833	\$ 144,500
Average debt per share ⁽¹⁾	\$ 10.53	\$ 10.85
Portfolio turnover ratio ⁽³⁾	13.1%	25.1%

- (1) Weighted average per share data.
- (2) Represents the impact of different share amounts used in calculating per share data as a result of calculating certain per share data based on weighted average shares outstanding during the period and certain per share data based on shares outstanding as of a period end or transaction date.
- (3) Annualized for periods less than one year.
- (4) The total return for the six months ended June 30, 2014 and 2013 equals the change in the ending market value of the Company's common stock plus dividends paid per share during the period, divided by the beginning common stock price and is not annualized.

Note 9. Dividends and Distributions

The Company's dividends and distributions are recorded on the record date. The following table summarizes the dividends paid during the six months ended June 30, 2014 and 2013.

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
Fiscal Six Months June 30, 2013:						
2/22/2013	3/14/2013	3/28/2013	\$ 0.38	\$ 4,822	20,501	\$ 376
5/1/2013	6/12/2013	6/26/2013	\$ 0.38	\$ 4,892	17,415	\$ 313
			\$ 0.76	\$ 9,714	37,916	\$ 689
Fiscal Six Months June 30, 2014:						
2/18/2014	3/21/2014	3/31/2014	\$ 0.38	\$ 5,028	10,410	\$ 199
5/5/2014	6/13/2014	6/27/2014	\$ 0.38	\$ 5,037	9,459	\$ 194
			\$ 0.76	\$ 10,065	19,869	\$ 393

For the six months ended June 30, 2014, \$393 of the total \$10,458 paid to stockholders represented DRIP participation. During this period, the Company satisfied the DRIP participation requirements with the issuance of 19,869 shares at an average value of \$19.76 per share at the date of issuance. For the six months ended June 30, 2013, \$689 of the total \$10,403 paid to stockholders represented DRIP participation. During this period, the Company satisfied the DRIP participation requirements with the issuance of 37,916 shares at an average value of \$18.18 per share at the date of issuance.

Since the Company's IPO, dividends and distributions to stockholders total \$58,748 or \$4.80 per share.

On May 5, 2014, the Board declared two special dividends totaling \$0.10 per share. The special dividends will be made in two equal payments of \$0.05 per share on July 31, 2014 to stockholders of record as of July 25, 2014 and August 29, 2014 to stockholders of record as of August 25, 2014.

Note 10. Subsequent Events

On July 3, 2014, the Company invested \$10,500 in the subordinated notes and common equity of US GreenFiber, LLC, a leading manufacturer of recycled fiber insulation products for use in residential property applications across the U.S.

On July 21, 2014, the Company purchased a \$1,000 loan participation in the senior secured loan of Paramount Building Solutions, LLC.

On July 24, 2014, the Company funded \$400 of the senior secured loan commitment to Restaurant Finance Co., LLC. On July 31, 2014, the Company increased the senior secured loan commitment to Restaurant Finance Co., LLC to \$10,500. On August 5, 2014, the Company funded an additional \$140 of the senior secured loan commitment to Restaurant Finance Co., LLC.

On August 5, 2014, the Board declared a regular quarterly dividend of \$0.38 per share, which is payable on September 26, 2014 to shareholders of record as of September 12, 2014.

On August 7, 2014, the Company invested \$20,000 in the subordinated notes of Pinnergy, Ltd., a leading provider of fluid management and drilling services for oil and gas wells located throughout Texas and Louisiana.

Table of Contents

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Fidus Investment Corporation's consolidated financial statements and related notes appearing in our annual report on Form 10-K for the year ended December 31, 2013, filed with the U.S. Securities and Exchange Commission (SEC) on March 6, 2014. The information contained in this section should also be read in conjunction with our unaudited consolidated financial statements and related notes thereto appearing elsewhere in this quarterly report on Form 10-Q.

Except as otherwise specified, references to we, us, our, Fidus and FIC refer to Fidus Investment Corporation and its consolidated subsidiaries.

Forward Looking Statements

Some of the statements in this quarterly report on Form 10-Q contain forward-looking information that is subject to substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, would, should, targets, projects and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

our dependence on key personnel of our investment advisor and our executive officers;

our ability to maintain or develop referral relationships;

our use of leverage;

the availability of additional capital on attractive terms or at all;

uncertain valuations of our portfolio investments;

competition for investment opportunities;

actual and potential conflicts of interest with our investment advisor;

other potential conflicts of interest;

SBA regulations affecting our wholly-owned SBIC subsidiaries;

changes in interest rates;

the impact of a protracted decline in the liquidity of credit markets on our business and portfolio investments;

our ability to maintain our status as a RIC and as a BDC;

the timing, form and amount of any distributions from our portfolio companies;

changes in laws or regulations applicable to us;

dilution risks related to our ability to issue shares below our current net asset value;

possible resignation of our investment advisor or administrator;

the general economy and its impact on the industries in which we invest;

risks associated with investing in lower middle-market companies;

the ability of our investment advisor to identify, invest in and monitor companies that meet our investment criteria; and

our ability to invest in qualifying assets.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this quarterly report on Form 10-Q should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in Risk Factors in our annual report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 6, 2014. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this quarterly report on Form 10-Q. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements and projections contained in this quarterly report on Form 10-Q are excluded from the safe harbor protection provided by Section 27A of the 1933 Act.

Table of Contents

Overview

We provide customized debt and equity financing solutions to lower middle-market companies, which we define as U.S. based companies having revenues between \$10.0 million and \$150.0 million. Our investment objective is to provide attractive risk-adjusted returns by generating both current income from our debt investments and capital appreciation from our equity related investments. Our investment strategy includes partnering with business owners, management teams and financial sponsors by providing customized financing for ownership transactions, recapitalizations, strategic acquisitions, business expansion and other growth initiatives. We seek to maintain a diversified portfolio of investments in order to help mitigate the potential effects of adverse economic events related to particular companies, regions or industries.

FIC was formed as a Maryland corporation on February 14, 2011. On June 20, 2011, FIC acquired all of the limited partnership interests of Fund I and membership interests of FMCGP through the Formation Transactions, resulting in Fund I becoming our wholly-owned SBIC subsidiary. Immediately following the Formation Transactions, we and Fund I elected to be treated as BDCs under the 1940 Act and our investment activities have been managed by Fidus Investment Advisors, LLC, our investment advisor, and supervised by our board of directors, a majority of whom are independent of us.

In June 2011, we closed our initial public offering, or IPO, issuing a total of 5,370,500 shares of common stock at a price of \$15.00 per share resulting in net proceeds of \$73.6 million, after deducting underwriting fees and offering costs totaling \$6.9 million. In September 2012, we issued 2,472,500 shares in a follow-on public offering, including shares purchased by the underwriters pursuant to their exercise of the over-allotment option, at an offering price of \$16.10 per share resulting in net proceeds of \$38.0 million after deducting underwriting fees and offering costs totaling \$1.9 million. Additionally, in February 2013, we issued 1,725,000 shares of common stock in a follow-on public offering, including shares purchased by the underwriters pursuant to their exercise of the over-allotment option, at an offering price of \$17.60 per share resulting in net proceeds of approximately \$28.9 million after deducting underwriting commissions and offering costs totaling approximately \$1.5 million. Our shares are listed on The NASDAQ Global Select Market under the symbol FDUS.

On March 29, 2013, we commenced operations of a second wholly-owned subsidiary, Fund II. Fund I and Fund II are collectively referred to as the Funds.

Fund I received its SBIC license on October 22, 2007 and Fund II received its SBIC license on May 28, 2013. We plan to continue to operate the Funds as SBICs, subject to SBA approval, and to utilize the proceeds of the sale of SBA debentures to enhance returns to our stockholders. We have also made, and continue to make, investments directly through FIC. We believe that utilizing FIC and the Funds as investment vehicles provides us with access to a broader array of investment opportunities. Given our access to lower cost capital through the SBA's SBIC debenture program, we expect that the majority of our investments will continue to be made through the Funds until such time as we have met the limit for funds we can borrow under the SBIC Debenture Program. As of June 30, 2014, we had investments in 37 portfolio companies with an aggregate fair value of \$310.5 million and cost of \$324.8 million.

Revenues: We generate revenue in the form of interest income on debt investments and capital gains and distributions, if any, on equity investments. Our debt investments, whether in the form of mezzanine, senior secured or unitranche loans, typically have terms of five to seven years and bear interest at a fixed rate but may bear interest at a floating rate. In some instances, we receive payments on our debt investments based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our debt investments prior to their scheduled maturity dates. The frequency or volume of these repayments fluctuates significantly from period to period. Our portfolio activity may reflect the proceeds of sales of securities. In some cases, our investments provide for deferred

interest payments or PIK interest. The principal amount of loans and any accrued but unpaid interest generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, amendment, or structuring fees and fees for providing managerial assistance. Loan origination fees, original issue discount and market discount or premium, if any, are capitalized, and we accrete or amortize such amounts into interest income. We record prepayment premiums on loans as fee income. Interest and dividend income is recorded on the accrual basis to the extent that we expect to collect such amounts. Loans or preferred equity securities are placed on non-accrual status when principal, interest or dividend payments become materially past due, or when there is reasonable doubt that principal, interest or dividends will be collected. See Critical Accounting Policies and Use of Estimates Revenue Recognition. Interest and dividend income is accrued based upon the outstanding principal amount and contractual terms of debt and preferred equity investments. Interest is accrued on a daily basis. Dividend income is recorded as dividends are declared or at the point an obligation exists for the portfolio company to make a distribution. Distributions of earnings from portfolio companies are evaluated to determine if the distribution is a distribution of earnings or a return of capital.

We recognize realized gains or losses on investments based on the difference between the net proceeds from the disposition and the cost basis of the investment, without regard to unrealized gains or losses previously recognized. We record current period changes in fair value of investments that are measured at fair value as a component of the net change in unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

Table of Contents

Expenses: All investment professionals of our investment advisor and/or its affiliates, when and to the extent engaged in providing investment advisory and management services to us, and the compensation and routine overhead expenses allocable to personnel who provide these services to us, are provided and paid for by our investment advisor and not by us. We bear all other out-of-pocket costs and expenses of our operations and transactions, including, without limitation, those relating to:

organization;

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

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

interest payable on debt, if any, incurred to finance our investments;

offerings of our common stock and other securities;

investment advisory fees and management fees;

administration fees and expenses, if any, payable under the Administration Agreement (including payments under the Administration Agreement between us and our investment advisor based upon our allocable portion of our investment advisor's overhead in performing its obligations under the Administration Agreement, including rent and the allocable portion of the cost of our officers, including our chief compliance officer, our chief financial officer, and their respective staffs);

transfer agent, dividend agent and custodial fees and expenses;

federal and state registration fees;

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

U.S. federal, state and local taxes;

Independent Directors' fees and expenses;

costs of preparing and filing reports or other documents required by the SEC or other regulators including printing costs;

costs of any reports, proxy statements or other notices to stockholders, including printing and mailing costs;

our allocable portion of any fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;

direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs;

proxy voting expenses; and

all other expenses reasonably incurred by us or our investment advisor in connection with administering our business.

Portfolio Composition, Investment Activity and Yield

During the six months ended June 30, 2014, we invested \$24.7 million in two new and six existing portfolio companies. These investments consisted of subordinated notes (\$1.7 million, or 6.9%), senior secured loans (\$16.8 million, or 68.0%), equity securities (\$5.8 million, or 23.5%), and warrants (\$0.4 million, or 1.6%). During the six months ended June 30, 2014 we received proceeds from sales or repayments, including principal, return of capital dividends and realized gains, of \$20.3 million. During the six months ended June 30, 2013, we invested \$59.3 million in four new and seven existing portfolio companies. These new investments consisted of subordinated notes (\$51.5 million, or 86.9%), equity securities (\$7.5 million, or 12.7%) and warrants (\$0.3 million, or 0.4%). During the six months ended June 30, 2013 we received proceeds from repayments of principal, including return of capital dividends and realized gains, of \$36.7 million.

As of June 30, 2014, the fair value of our investment portfolio totaled \$310.5 million and consisted of 37 portfolio companies. As of June 30, 2014, our debt portfolio was entirely comprised of fixed rate investments. Overall, the portfolio had a net unrealized depreciation of \$14.3 million as of June 30, 2014. Our average portfolio company investment at amortized cost was \$8.8 million as of June 30, 2014.

As of December 31, 2013, the fair value of our investment portfolio totaled \$307.0 million and consisted of 37 portfolio companies. As of December 31, 2013, our debt portfolio was entirely comprised of fixed rate investments. Overall, the portfolio had a net unrealized depreciation of \$8.2 million as of December 31, 2013. Our average portfolio company investment at amortized cost was \$8.5 million as of December 31, 2013.

The weighted average yields on debt investments at their cost basis at June 30, 2014 and December 31, 2013 were 14.0% and 14.5%, respectively. The weighted average yields were computed using the effective interest rates for debt investments at cost as of June 30, 2014 and December 31, 2013, including the accretion of original issue discount and loan origination fees, but excluding investments on non-accrual status, if any.

Table of Contents

The following table shows the portfolio composition by investment type at fair value and cost as a percentage of total investments:

	Fair Value		Cost	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Subordinated notes	62.5%	69.8%	64.0%	69.9%
Senior secured loans	22.5	17.4	21.3	16.8
Equity	12.9	10.6	12.4	11.1
Warrants	2.1	2.2	2.3	2.2
Royalty rights				
Total	100.0%	100.0%	100.0%	100.0%

The following table shows the portfolio composition by geographic region at fair value and cost as a percentage of total investments. The geographic composition is determined by the location of the corporate headquarters of the portfolio company:

	Fair Value		Cost	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
West	23.6%	24.9%	23.6%	24.0%
Southeast	21.5	17.9	20.6	17.7
Midwest	21.3	21.9	23.4	23.6
Northeast	19.6	19.4	18.3	18.9
Southwest	14.0	15.9	14.1	15.8
Total	100.0%	100.0%	100.0%	100.0%

The following table shows the detailed industry composition of our portfolio at fair value and cost as a percentage of total investments:

	Fair Value		Cost	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Healthcare services	13.0%	10.6%	12.6%	10.1%
Healthcare products	9.1	8.8	8.4	8.5
Aerospace & defense manufacturing	8.8	11.2	7.6	9.6
Industrial cleaning & coatings	5.3	5.1	5.0	5.1
Transportation services	5.0	4.9	4.6	4.7
Financial services	4.7	4.8	4.1	4.5
Oil & gas services	4.7	4.6	4.4	4.5
Specialty distribution	4.3	4.3	3.5	3.6
Industrial products	4.0	2.0	3.8	1.9
Consumer products	3.8	3.7	3.5	3.5

Edgar Filing: FIDUS INVESTMENT Corp - Form 10-Q

Utility equipment manufacturing	3.5	3.5	3.1	3.2
Safety products manufacturing	3.5	3.5	3.3	3.4
Retail	3.3	3.3	3.1	3.2
Printing services	3.2	3.1	3.0	3.0
Furniture rental	2.9	2.8	2.5	2.6
Commercial cleaning	2.8	2.7	2.7	2.7
Specialty chemicals	2.8		2.7	
Information technology services	2.7	2.6	3.0	3.1
Components manufacturing	2.5	2.6	2.4	2.5
Business services	2.4	2.4	2.3	2.4
Retail cleaning	1.8	2.3	2.8	2.8
Laundry services	1.8	1.8	1.7	1.6
Apparel distribution	1.6	1.6	1.6	1.7
Restaurants	1.5	1.9	3.7	3.4
Specialty cracker manufacturing	0.5	0.4	0.4	0.4
Electronic components supplier	0.5	3.6	4.2	6.2
Debt collection services		1.9		1.8
Total	100.0%	100.0%	100.0%	100.0%

Based on our investment rating system, the weighted average rating of our portfolio as of June 30, 2014 and December 31, 2013 was 1.9 and 2.0, respectively.

Non-Accrual

As of June 30, 2014, we had investments in two portfolio companies on non-accrual status, which had an aggregate cost and fair value of \$14.1 million and \$0.0 million, respectively. In addition, we had an investment in one portfolio company that was on non-accrual status only with respect to the PIK interest component of the investment, which had a cost and fair value of \$7.5 million and \$5.6 million, respectively. As of December 31, 2013, we had investments in one portfolio company on non-accrual status, which had a cost and fair value of \$7.3 million and \$3.0 million, respectively.

For the three and six months ended June 30, 2014, we recognized unrealized depreciation on our non-accrual debt investments of \$5.1 million and \$8.4 million, respectively.

Table of Contents**Discussion and Analysis of Results of Operations*****Comparison of three months ended June 30, 2014 and June 30, 2013******Investment Income***

For the three months ended June 30, 2014, total investment income was \$10.6 million, an increase of \$0.1 million, or 1.0%, over the \$10.5 million of total investment income for the three months ended June 30, 2013. The increase was primarily attributable to a \$0.2 million increase in dividend income and a \$0.3 million increase in fee income, which was partially offset by a \$0.3 million decrease in interest income from investments and a \$0.1 million decrease in interest on idle funds and other income. The \$0.2 million increase in dividend income is primarily due to higher average levels of income producing equity investments outstanding during the three months ended June 30, 2014, as compared to the three months ended June 30, 2013. The fee income increase of \$0.3 million is the result of an increase in the prepayment fees during the three months ended June 30, 2014 compared to the prior year.

Expenses

For the three months ended June 30, 2014, total expenses, including income tax provision, were \$5.1 million, a decrease of \$2.2 million or 30.6%, over the \$7.3 million of total expenses for the three months ended June 30, 2013. The capital gains incentive fee decreased \$2.5 million leading to a capital gains incentive fee reversal of \$0.4 million for the three months ended June 30, 2014 compared to a capital gains incentive fee accrual of \$2.1 million for the three months ended June 30, 2013. The \$2.5 million decrease was primarily due to the \$2.1 million net change in unrealized (depreciation) on investments recognized during the three months ended June 30, 2014 compared to the \$9.2 million net change in unrealized appreciation on investments recognized during the three months ended June 30, 2013. The administrative service fee, professional fees and other general and administrative expenses increased \$0.2 million, or 22.6%, to \$1.0 million primarily due to increased personnel.

Net Investment Income

As a result of the \$0.1 million increase in total investment income and the \$2.2 million decrease in total expenses, net investment income for the three months ended June 30, 2014 was \$5.5 million, which was an increase of \$2.3 million, or 74.1%, compared to net investment income of \$3.2 million during the three months ended June 30, 2013.

Net Increase in Net Assets Resulting From Operations

For the three months ended June 30, 2014, the total realized gain on investments was \$0.1 million, which consisted of realized gains on an investment in one non-control/non-affiliate portfolio company. For the three months ended June 30, 2013, the total realized gain on investments was \$1.1 million, which consisted of realized gains on an investment in a control portfolio company and realized gains on two investments in a non-control/non affiliate portfolio company.

During the three months ended June 30, 2014, we recorded a net change in unrealized depreciation on investments of \$2.1 million attributable to (i) net unrealized depreciation of \$4.1 million on debt investments and (ii) net unrealized appreciation of \$2.0 million on equity investments. During the three months ended June 30, 2013, we recorded net unrealized appreciation of \$9.2 million attributable to (i) the reversal of net unrealized appreciation on investments of \$1.0 million related to the exit or sale of investments, resulting in unrealized depreciation, (ii) net unrealized depreciation of \$1.3 million on debt investments and (iii) net unrealized appreciation of \$11.5 million on equity investments.

As a result of these events, our net increase in net assets resulting from operations during the three months ended June 30, 2014 was \$3.4 million, or a decrease of \$10.0 million, or 74.5%, compared to a net increase in net assets resulting from operations of \$13.4 million during the prior year period.

Comparison of six months ended June 30, 2014 and June 30, 2013

Investment Income

For the six months ended June 30, 2014, total investment income was \$21.1 million, an increase of \$0.9 million, or 4.2%, over the \$20.3 million of total investment income for the six months ended June 30, 2013. The increase was primarily attributable to a \$0.3 million increase in interest income and a \$0.5 million increase in fee income from investments. The \$0.3 million increase in interest income is primarily due to higher average levels of portfolio debt investments outstanding during the six months ended June 30, 2014, as compared to the six months ended June 30, 2013. The fee income increase of \$0.5 million is the result of an increase in the prepayment fees during the six months ended June 30, 2014 compared to the prior year.

Table of Contents*Expenses*

For the six months ended June 30, 2014, total expenses, including income tax provision, were \$10.2 million, a decrease of \$2.0 million or 16.5%, over the \$12.2 million of total expenses for the six months ended June 30, 2013. The base management fee increased \$0.1 million, or 5.6%, due to higher average total assets less cash and cash equivalents for the six months ended June 30, 2014 than the comparable period in 2013. The capital gains incentive fee decreased \$2.8 million to a capital gains incentive fee reversal of \$0.8 million for the six months ended June 30, 2014 compared to a capital gains incentive fee accrual of \$2.0 million for the six months ended June 30, 2013. The \$2.8 million decrease was primarily due to the \$6.0 million net change in unrealized (depreciation) on investments recognized during the six months ended June 30, 2014 compared to the \$8.9 million net change in unrealized appreciation on investments recognized during the six months ended June 30, 2013. The administrative service fee, professional fees and other general and administrative expenses increased \$0.6 million, or 40.9%, to \$2.2 million primarily due to increased personnel and a change in the timing of audit related work.

Net Investment Income

As a result of the \$0.9 million increase in total investment income and the \$2.0 million decrease in total expenses, net investment income for the six months ended June 30, 2014 was \$11.0 million, which was an increase of \$2.9 million, or 35.4%, compared to net investment income of \$8.1 million during the six months ended June 30, 2013.

Net Increase in Net Assets Resulting From Operations

For the six months ended June 30, 2014, the total realized gain on investments was \$1.9 million, which consisted of realized gains on an investment in one affiliate portfolio company and realized gains on three investments in two non-control/non-affiliate portfolio company. For the six months ended June 30, 2013, the total realized gain on investments was \$1.1 million, which consisted of realized gains on an investment in a control portfolio company and realized gains on two investments in a non-control/non affiliate portfolio company.

During the six months ended June 30, 2014, we recorded a net change in unrealized depreciation on investments of \$6.0 million attributable to (i) the reversal of net unrealized appreciation on investments of \$1.9 million related to the exit or sale of investments, resulting in unrealized depreciation, (ii) net unrealized depreciation of \$7.5 million on debt investments and (iii) net unrealized appreciation of \$3.4 million on equity investments. During the six months ended June 30, 2013, we recorded net unrealized depreciation of \$8.9 million attributable to (i) the reversal of net unrealized appreciation on investments of \$0.7 million related to the exit or sale of investments, resulting in unrealized depreciation, (ii) net unrealized depreciation of \$1.3 million on debt investments and (ii) net unrealized appreciation of \$10.9 million on equity investments.

As a result of these events, our net increase in net assets resulting from operations during the six months ended June 30, 2014 was \$6.8 million, a decrease of \$11.3 million, or 62.3%, compared to a net increase in net assets resulting from operations of \$18.1 million during the prior year period.

Liquidity and Capital Resources

As of June 30, 2014, we had \$40.7 million in cash and cash equivalents and our net assets totaled \$207.9 million. We believe that our current cash and cash equivalents on hand, our available SBA leverage, our Credit Facility and our anticipated cash flows from operations will be adequate to meet our cash needs for our daily operations for at least the next 12 months. We intend to generate additional cash primarily from future offerings of securities, future borrowings as well as cash flows from operations, including income earned from investments in our portfolio companies. On both

a short-term and long-term basis, our primary use of funds will be investments in portfolio companies and cash distributions to our stockholders.

Cash Flows

For the six months ended June 30, 2014, we experienced a net decrease in cash and cash equivalents in the amount of \$12.7 million. During that period, we generated \$0.1 million of cash from operating activities, primarily from repayments and sales proceeds received of \$20.3 million and net investment income of \$11.0 million, which was partially offset by the funding of \$24.7 million of investments. During the same period, we used \$12.9 million for financing activities, consisting of cash dividends paid to stockholders of \$10.1 million and a \$2.9 million payment for taxes related to the 2013 deemed distribution which was paid on behalf of the stockholders.

For the six months ended June 30, 2013, we experienced a net increase in cash and cash equivalents in the amount of \$4.3 million. During that period, we used \$14.9 million in cash in operating activities, primarily for the funding of \$59.3 million of investments and \$3.2 million of interest payments, which was partially offset by \$36.7 million of principal repayments received and \$8.1 million of net investment income. During the same period, we generated \$19.1 million from financing activities, consisting primarily of proceeds from a follow-on equity offering of \$28.9 million, net of expenses. This increase was partially offset by cash dividends paid to stockholders in the amount of \$9.7 million.

Table of Contents*Capital Resources*

We anticipate that we will continue to fund our investment activities on a long-term basis through a combination of additional debt and equity capital. The Funds are licensed SBICs, and have the ability to issue debentures guaranteed by the SBA at favorable interest rates. Under the Small Business Investment Act and the SBA rules applicable to SBICs, an SBIC can have outstanding at any time debentures guaranteed by the SBA in an amount up to twice its regulatory capital. The SBA regulations currently limit the amount that is available to be borrowed by any SBIC and guaranteed by the SBA to 200.0% of an SBIC's regulatory capital or \$150.0 million, whichever is less. For two or more SBICs under common control, the maximum amount of outstanding SBA debentures cannot exceed \$225.0 million. SBA debentures have fixed interest rates that approximate prevailing 10-year Treasury Note rates plus a spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the SBA debentures is not required to be paid before maturity but may be pre-paid at any time. As of June 30, 2014, Fund I had \$144.5 million of outstanding SBA debentures. Based on its \$75.0 million of regulatory capital as of June 30, 2014, Fund I has the current capacity to issue up to an additional \$5.5 million of SBA debentures. As of June 30, 2014, Fund II had \$1.0 million of outstanding SBA debentures. Based on its \$25.0 million of regulatory capital as of June 30, 2014, Fund II has the current capacity to issue up to an additional \$49.0 million of SBA debentures. As of June 30, 2014, the weighted average interest rate of the SBA debentures was 4.5%. For more information on the SBA debentures, please see Note 6 to our consolidated financial statements.

In June 2014, we entered the Credit Facility to provide additional funding for our investment and operational activities. The Credit Facility, which matures on June 16, 2018, has an initial commitment of \$30.0 million and an accordion feature that allows for an increase in the total commitments up to \$75.0 million, subject to certain customary conditions. The Credit Facility is secured primarily by our assets, excluding the assets of the Funds.

Borrowings under the Credit Facility are subject to a minimum borrowing/collateral base that applies an advance rate to certain portfolio investments. We are subject to additional limitations with respect to the investments securing the Credit Facility, including, but not limited to, restrictions on sector concentrations, loan size, payment frequency and status and collateral interests, as well as restrictions on portfolio company leverage, which may also affect the borrowing base and therefore amounts available to borrow.

Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) the alternate base rate plus 2.5% or (ii) the applicable LIBOR rate plus 3.5%. The alternate base rate is equal to the greater of (i) prime rate, (ii) the federal funds rate plus 0.5% or (iii) the three-month LIBOR rate plus 1.0%. We pay a commitment fee ranging from 0.5% to 1.0% per annum on undrawn amounts.

We have made customary representations and warranties and are required to comply with various affirmative, negative and financial covenants, reporting requirements and other customary requirements for similar credit facilities. These covenants are subject to important limitations and exceptions that are described in the documents governing the Credit Facility. As of June 30, 2014, we are in compliance with all covenants of the Credit Facility and there were no amounts outstanding under the Credit Facility.

As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which include borrowings and any preferred stock we may issue in the future, of at least 200.0%. This requirement limits the amount that we may borrow. We have received exemptive relief from the Securities and Exchange Commission, or the SEC, to allow us to exclude any indebtedness guaranteed by the SBA and issued by the Funds from the 200.0% asset coverage requirements, which, in turn, will enable us to fund more investments with debt capital.

As a BDC, we are generally not permitted to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our board of directors, including Independent Directors, determines that such sale is in the best interests of us and our stockholders, and if our stockholders approve such sale. On June 4, 2014, our stockholders voted to allow us to sell or otherwise issue common stock at a price below net asset value per share for a period of one year ending on the earlier of June 4, 2015 or the date of our 2015 Annual Meeting of Stockholders. Our stockholders will be asked to vote on a similar proposal at our 2015 Annual Meeting of Stockholders. Our stockholders specified that the cumulative number of shares sold in each offering during the one-year period ending on the earlier of June 4, 2015 or the date of our 2015 Annual Meeting of Stockholders may not exceed 25.0% of our outstanding common stock immediately prior to each such sale.

Current Market Conditions

Though global credit and other financial market conditions have improved and stability has increased throughout the international financial system, the uncertainty surrounding the United States rapidly increasing national debt and continuing global economic malaise have kept markets volatile. These unstable conditions could continue for a prolonged period of time. Although we have been able to secure access to additional liquidity, including our follow-on stock offerings and leverage available through the SBIC program and Credit Facility, there is no assurance that debt or equity capital will be available to us in the future on favorable terms, or at all.

Table of Contents

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make certain estimates and assumptions affecting amounts reported in the financial statements. We have identified investment valuation and revenue recognition as our most critical accounting estimates. We continuously evaluate our estimates, including those related to the matters described below. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from those estimates under different assumptions or conditions. A discussion of our critical accounting policies follows.

Valuation of Portfolio Investments

We conduct the valuation of our investments, pursuant to which our net asset value is determined, at all times consistent GAAP and the 1940 Act.

Our investments generally consist of illiquid securities including debt and equity investments in lower middle-market companies. Investments for which market quotations are readily available are valued at such market quotations. Because we expect that there will not be a readily available market for substantially all of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board of directors using a documented valuation policy and consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the difference could be material.

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

our quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals of our investment advisor responsible for the portfolio investment;

preliminary valuation conclusions are then documented and discussed with the investment committee of our investment advisor;

our board of directors also engages one or more independent valuation firms to provide an independent appraisal for each of our investments at least once in every calendar year, and for new portfolio companies, at least once in the twelve-month period subsequent to the initial investment;

the audit committee of our board of directors reviews the preliminary valuations of our investment advisor and of the independent valuation firm(s) and responds and supplements the valuation recommendations to reflect any comments; and

the board of directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our investment advisor, the independent valuation firm(s) and the audit committee.

In making the good faith determination of the value of portfolio investments, we start with the cost basis of the security. The transaction price is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit values.

We perform detailed valuations of our debt and equity investments, using both the market and income approaches as appropriate. Under the market approach, we typically use the enterprise value methodology to determine the fair value of an investment. There is no one methodology to estimate enterprise value and, in fact, for any one portfolio company, enterprise value is generally best expressed as a range of values, from which we derive a single estimate of enterprise value. Under the income approach, we typically prepare and analyze discounted cash flow models to estimate the present value of future cash flows of either an individual debt investment or of the underlying portfolio company itself.

We evaluate investments in portfolio companies using the most recent portfolio company financial statements and forecasts. We also consult with the portfolio company's senior management to obtain further updates on the portfolio company's performance, including information such as industry trends, new product development and other operational issues.

For our debt investments, including senior secured loans and subordinated notes, the primary valuation technique used to estimate the fair value is the discounted cash flow method. However, if there is deterioration in credit quality or a debt investment is in workout status, we may consider other methods in determining the fair value, including the value attributable to the debt investment from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. Our discounted cash flow models estimate a range of fair values by applying an appropriate discount rate to the future cash flow streams of our debt investments, based on future interest and principal payments as set forth in the associated loan agreements. We prepare a weighted average cost of capital for use in the discounted cash flow model for each investment, based on factors including, but not limited to: current pricing and credit metrics for similar proposed or executed investment transactions of private companies; the portfolio company's historical financial results and outlook; and the portfolio company's current leverage and credit quality as compared to leverage and credit quality as of the date the investment was made. We may also consider the following factors when determining the fair value of debt investments: the portfolio company's ability to make future scheduled payments; prepayment penalties; estimated remaining life; the nature and realizable value of any collateral; and changes in the

Table of Contents

interest rate environment and the credit markets that generally may affect the price at which similar investments may be made. We estimate the remaining life of our debt investments to generally be the legal maturity date of the instrument, as we generally intend to hold loans to maturity. However, if we have information available to us that the loan is expected to be repaid in the near term, we would use an estimated remaining life based on the expected repayment date.

For our equity investments, including equity and warrants, we generally use a market approach, including valuation methodologies consistent with industry practice, to estimate the enterprise value of portfolio companies. Typically, the enterprise value of a private company is based on multiples of EBITDA, cash flows, net income, revenues, or in limited cases, book value. In estimating the enterprise value of a portfolio company, we analyze various factors consistent with industry practice, including but not limited to original transaction multiples, the portfolio company's historical and projected financial results, applicable market trading and transaction comparables, applicable market yields and leverage levels, the nature and realizable value of any collateral, the markets in which the portfolio company does business, and comparisons of financial ratios of peer companies that are public. Where applicable, we consider our ability to influence the capital structure of the portfolio company, as well as the timing of a potential exit.

We may also utilize an income approach when estimating the fair value of our equity securities, either as a primary methodology if consistent with industry practice or if the market approach is otherwise not applicable, or as a supporting methodology to corroborate the fair value ranges determined by the market approach. We typically prepare and analyze discounted cash flow models based on projections of the future free cash flows (or earnings) of the portfolio company. We consider various factors, including but not limited to the portfolio company's projected financial results, applicable market trading and transaction comparables, applicable market yields and leverage levels, the markets in which the portfolio company does business, and comparisons of financial ratios of peer companies that are public.

The fair value of our royalty rights are calculated based on projected future cash flows and the specific provisions contained in the pertinent royalty agreement. The determination of the fair value of such royalty rights is not a significant component of our valuation process.

Determination of fair value involves subjective judgments and estimates. Accordingly, the notes to our consolidated financial statements express the uncertainties with respect to the possible effect of such valuations, and any changes in such valuations, on the consolidated financial statements.

Revenue Recognition

Investments and related investment income. Realized gains or losses on investments are recorded upon the sale or disposition of a portfolio investment and are calculated as the difference between the net proceeds from the sale or disposition and the cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized. Changes in the fair value of investments from the prior period, as determined by our board of directors through the application of our valuation policy, are included as net change in unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

Interest and dividend income. Interest and dividend income is recorded on the accrual basis to the extent that we expect to collect such amounts. Interest and dividend income is accrued daily based on the outstanding principal amount and the contractual terms of the debt or preferred equity investment. Dividend income is recorded on the declaration date or at the point an obligation exists for the portfolio company to make a distribution. Distributions from portfolio companies are evaluated to determine if the distribution is a distribution of earnings or a return of capital.

Payment-in-kind interest. We have investments in our portfolio that contain a PIK income provision. The PIK income, computed at the contractual rate specified in the applicable investment agreement, is added to the principal balance of the investment, rather than being paid in cash, and recorded as interest or dividend income on the consolidated statements of operations. Generally, PIK can be paid-in-kind or all in cash. We stop accruing PIK income when it is determined that PIK income is no longer collectible. In addition, to maintain our status as a RIC and to avoid paying corporate federal income tax, substantially all of this income must be paid out to stockholders in the form of distributions, even though we have not yet collected the cash. We may have difficulty paying our required distributions if we recognize income before, or without, receiving cash representing such income.

Non-accrual. Loans or preferred equity investments are placed on non-accrual status and we will generally cease recognizing interest or dividend income when principal, interest or dividend payments become materially past due, or when there is reasonable doubt that principal, interest or dividends will be collected. Interest payments received on non-accrual investments may be recognized as income or applied to the investment principal balance based on management's judgment. Non-accrual investments are restored to accrual status when past due principal, interest or dividends are paid and, in management's judgment, are likely to remain current.

Table of Contents

Warrants. In connection with our debt investments, we will sometimes receive warrants or other equity-related securities, or Warrants. We determine the cost basis of Warrants based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded fair value resulting from the assignment of value to the Warrants are treated as original issue discount, or OID, and accreted into interest income using the effective interest method over the term of the investment.

Fee income. All transaction fees earned in connection with our investments are recognized as fee income. Such fees typically include fees for services, including structuring and advisory services, provided to portfolio companies. We recognize income from fees for providing such structuring and advisory services when the services are rendered or the transactions are completed. Upon the prepayment of a loan or debt security, any prepayment penalties are recorded as fee income when earned. Prior to the Formation Transactions, and in accordance with the prior limited partnership agreement, we historically recorded transaction fees provided in connection with our investments as a direct offset to management fee expense.

We also typically receive upfront loan origination or closing fees in connection with investments. Such upfront loan origination and closing fees are capitalized as unearned income offset against investment cost basis on our consolidated statements of assets and liabilities and accreted into income over the life of the investment.

Recently Issued Accounting Standards

In June 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-08, *Financial Services – Investment Companies (Topic 946) Amendments to the Scope, Measurement and Disclosure Requirements (ASU 2013-08)*, containing new guidance on assessing whether an entity is an investment company, requiring noncontrolling ownership interest in investment companies to be measured at fair value and requiring certain additional disclosures. This guidance is effective for annual and interim periods beginning on or after December 15, 2013. The adoption of ASU 2013-08 did not have a material impact on our consolidated financial statements or disclosures.

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of June 30, 2014, we had off-balance sheet arrangements consisting of four unfunded revolving loan commitments totaling \$3.6 million to portfolio companies, one unfunded loan commitment totaling \$3.0 million to portfolio companies, and one unfunded capital commitment of \$0.3 million related to a portfolio company. As of December 31, 2013, we had off-balance sheet arrangements consisting of two unfunded revolving loan commitments totaling \$1.5 million, two unfunded loan commitments totaling \$4.6 million to portfolio companies, and one unfunded capital commitment of \$0.3 million related to a portfolio company.

Related Party Transactions

We have entered into a number of business relationships with affiliated or related parties, including the following:

In connection with the Formation Transactions, Fund I terminated its management services agreement with Fidus Capital, LLC and we entered into the Investment Advisory Agreement with Fidus Investment Advisors, LLC, as our investment advisor. The investment professionals of Fidus Investment Advisors, LLC

were also the investment professionals of Fidus Capital, LLC. We entered into the Investment Advisory Agreement with Fidus Investment Advisors, LLC to manage our day-to-day operating and investing activities. We pay our investment advisor a fee for its services under the Investment Advisory Agreement consisting of two components – a base management fee and an incentive fee. See Note 5 to our consolidated financial statements.

Edward H. Ross, our Chairman and Chief Executive Officer, Shelby E. Sherard, our Chief Financial Officer and Secretary, Cary L. Schaefer, our Chief Compliance Officer, and Thomas C. Lauer, one of our directors, are all managers of Fidus Investment Advisors, LLC.

We entered into the Administration Agreement with Fidus Investment Advisors, LLC to provide us with the office facilities and administrative services necessary to conduct day-to-day operations. See Note 5 to our consolidated financial statements.

We entered into a license agreement with Fidus Partners, LLC, pursuant to which Fidus Partners, LLC has granted us a non-exclusive, royalty-free license to use the name – Fidus.

In connection with the IPO and our election to be regulated as a BDC, we applied for and received exemptive relief from the SEC on March 27, 2012 to allow us to take certain actions that would otherwise be prohibited by the 1940 Act, as applicable to BDCs. The relief permits FIC and Fund I to operate effectively as one company, specifically allowing them to: (1) engage in certain transactions with each other; (2) invest in securities in which the other is or proposes to be an investor; (3) file consolidated reports with the Commission; and (4) be subject to modified consolidated asset coverage requirements for senior securities issued by a BDC and its SBIC subsidiary. The fourth exemption described above allows us to exclude any indebtedness guaranteed by the SBA and issued by Fund I from the 200.0% asset coverage requirements applicable to us. Effective June 30, 2014, any SBA debentures issued by Fund II are not considered senior securities for purposes of the 200.0% asset coverage requirements.

Table of Contents

In addition, we, Fund I and our investment advisor have each adopted a joint code of ethics pursuant to Rule 17j-1 under the 1940 Act that governs the conduct of our and our investment advisor's officers, directors and employees. Additionally, our investment advisor has adopted a code of ethics pursuant to rule 240A-1 under the 1940 Act and in accordance with Rule 17j-1(c). We, and Fund I, have also adopted a code of business conduct that is applicable to all officers, directors and employees of Fidus and our investment advisor. Our officers and directors also remain subject to the duties imposed by both the 1940 Act and the Maryland General Corporation Law.

Recent Developments

On July 3, 2014, we invested \$10.5 million in the subordinated notes and common equity of US GreenFiber, LLC, a leading manufacturer of recycled fiber insulation products for use in residential property applications across the U.S.

On July 21, 2014, we purchased a \$1.0 million loan participation in the senior secured loan of Paramount Building Solutions, LLC.

On July 24, 2014, we funded \$0.4 million of the senior secured loan commitment to Restaurant Finance Co., LLC. On July 31, 2014, we increased the senior secured loan commitment to Restaurant Finance Co., LLC to \$10.5 million. On August 5, 2014, we funded an additional \$0.1 million of the senior secured loan commitment to Restaurant Finance Co., LLC.

On August 5, 2014, the Board declared a regular quarterly dividend of \$0.38 per share, which is payable on September 26, 2014 to stockholders of record as of September 12, 2014.

On August 7, 2014, we invested \$20.0 million in the subordinated notes of Pinnergy, Ltd., a leading provider of fluid management and drilling services for oil and gas wells located throughout Texas and Louisiana.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are subject to financial market risks, including changes in interest rates. Changes in interest rates affect both our cost of funding and the valuation of our investment portfolio. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs. In the future, our investment income may also be affected by changes in various interest rates, including LIBOR and prime rates, to the extent of any debt investments that include floating interest rates. As of June 30, 2014, all of our debt investments bore interest at fixed rates. Assuming that the consolidated statements of assets and liabilities as of June 30, 2014 and December 31, 2013 were to remain constant, a hypothetical 100 basis point change in interest rates would not have a material effect on our level of interest income from debt investments or interest expense.

Our SBA debentures bear interest at fixed rates. Our Credit Facility bears interest, subject to our election, on a per annum basis equal to (i) the alternate base rate plus 2.5% or (ii) the applicable LIBOR rate plus 3.5%. The alternate base rate is equal to the greater of (i) prime rate, (ii) the federal funds rate plus 0.5% or (iii) the three-month LIBOR rate plus 1.0%.

Because we currently borrow, and plan to borrow in the future, money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest the funds borrowed. Accordingly, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income if there is not a corresponding increase in interest

income generated by our investment portfolio.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "1934 Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act) as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. There were no changes in our internal control over financial reporting during the second quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

Although we may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise, we are currently not a party to any pending material legal proceedings.

Item 1A. Risk Factors.

In addition to other information set forth in this report, you should carefully consider the Risk Factors discussed in our Form 10-K for the year ended December 31, 2013 and filed with the SEC on March 6, 2014, which are incorporated herein by reference. These Risk Factors could materially affect our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Table of Contents

Item 6. Exhibits.

Number	Exhibit
10.1	Senior Secured Revolving Credit Agreement, dated June 16, 2014, by and among the Company as borrower, the Lender party thereto, and ING Capital LLC, as Administrative Agent (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 814-00861) filed with the Securities and Exchange Commission on June 20, 2014 and incorporated herein by reference).
31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIDUS INVESTMENT CORPORATION

Date: August 7, 2014

/s/ EDWARD H. ROSS
Edward H. Ross
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 7, 2014

/s/ SHELBY E. SHERARD
Shelby E. Sherard
Chief Financial Officer

(Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Number	Exhibit
10.1	Senior Secured Revolving Credit Agreement, dated June 16, 2014, by and among the Company as borrower, the Lenders party thereto, and ING Capital LLC, as Administrative Agent (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 814-00861) filed with the Securities and Exchange Commission on June 20, 2014 and incorporated herein by reference).
31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.