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

Form 10-K

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

For the fiscal year ended December 31, 2020

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** **(Address of Principal Executive Offices)**	**60201** **(Zip Code)**

(847) 859-3940
(Registrant's Telephone Number, including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	**FDUS**	**The NASDAQ Global Select Market**
6.000% Notes due 2024	**FDUSZ**	**The NASDAQ Global Select Market**
5.375% Notes due 2024	**FDUSG**	**The NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

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

Large accelerated filer	☐	Accelerated filer	☐

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2020 based on the closing price on that date of $9.07 on the NASDAQ Global Select Market was $218,493,597. For the purpose of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates. There were 24,437,400 shares of the registrant's common stock outstanding as of February 23, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed with the U.S. Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2021 Annual Meeting of Stockholders, which will be filed subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K. Such proxy statement will be filed with the U.S. Securities and Exchange Commission not later than 120 days following the end of the registrant's fiscal year ended December 31, 2020.

TABLE OF CONTENTS

Table of Contents

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K ("Annual Report") contains forward-looking statements that involve 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," "will," "may," "continue," "believes," "seeks," "estimates," "would," "should," "targets," "projects" and variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this Annual Report on Form 10-K involve risks and uncertainties, including statements as to:

- our future operating results and the impact of the coronavirus ("COVID-19") pandemic thereon;
- our business prospects and the prospects of our portfolio companies, including our and their ability to achieve our respective objectives as a result of the current COVID-19 pandemic;
- the impact of investments that we expect to make;
- pandemics or other serious public health events, such as the recent global outbreak of COVID-19;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest and the impact of the COVID-19 pandemic thereon;
- the ability of our portfolio companies to achieve their objectives;
- our expected financing and investments;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies and the impact of the COVID-19 pandemic thereon;
- the impact of increased competition;
- the ability of our investment advisor to identify suitable investments for us and to monitor and administer our investments and the impacts of the COVID-19 pandemic thereon;
- the ability of our investment advisor to attract and retain highly talented professionals;
- our regulatory structure and tax status;
- our ability to operate as a BDC, a SBIC and a RIC;
- the timing, form and amount of any dividend distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

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:

- an economic downturn, including as a result of the current COVID-19 pandemic, could impair our portfolio companies' ability to continue to operate, which could lead to the loss of value in some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets, including as a result of the COVID-19 pandemic, could impair our lending and investment activities;
- interest rate volatility could adversely affect our results, particularly because we use leverage as part of our investment strategy;
- currency fluctuations could adversely affect the results of our investments in portfolio companies with foreign operations; and,
- the risks, uncertainties and other factors we identify in Item 1A. – Risk Factors contained in this Annual Report on Form 10-K for the year ended December 31, 2020 and in our other filings with the SEC.

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 later prove to be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Annual Report 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 Item 1A entitled "Risk Factors" in Part 1 and elsewhere in this Annual Report. You should not place undue reliance on these forward-looking statements as a prediction of actual results, which apply only as of the date of this Annual Report. 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.

PART I

Except as otherwise specified, references to "we," "us," "our," "Fidus" and "FIC" refer to Fidus Investment Corporation and its consolidated subsidiaries. Some of the statements in this Annual Report constitute forward-looking statements, which apply to us and relate to future events, future performance or financial condition. The forward-looking statements involve risks and uncertainties for us and actual results could differ materially from those projected in the forward-looking statements for any reason, including those factors discussed in "Risk Factors" and elsewhere in this report.

Item 1. Business.

GENERAL

Fidus Investment Corporation, a Maryland Corporation, operates as an externally managed business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). FIC completed its initial public offering, or IPO, in June 2011. In addition, FIC has elected to be treated as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). As of December 31, 2020, our shares were listed on the NASDAQ Global Select Market under the symbol "FDUS."

FIC may make investments directly or through its two wholly-owned investment company subsidiaries, Fidus Mezzanine Capital II, L.P. ("Fund II") and Fidus Mezzanine Capital III, L.P. ("Fund III") (collectively Fund II and Fund III are referred to as the "Funds"). Fidus Investment GP, LLC, the general partner of the Funds, is also a wholly owned subsidiary of FIC. The Funds are licensed by the U.S. Small Business Administration (the "SBA") as small business investment companies ("SBICs"). The Funds utilize the proceeds of the issuance of SBA-guaranteed debentures to enhance returns to our stockholders. As of September 9, 2019, Fidus Mezzanine Capital, L.P. ("Fund I") completed a wind-down plan, relinquished its SBIC license, and can no longer issue additional SBA debentures. We believe that utilizing both 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 we will continue to make investments through the Funds until the Funds reach their borrowing limit under the program. For two or more SBICs under common control, the maximum amount of outstanding SBA debentures cannot exceed $350.0 million.

Overview of our Business

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.

We invest in companies that possess some or all of the following attributes: predictable revenues; positive cash flows; defensible and/or leading market positions; diversified customer and supplier bases; and proven management teams with strong operating discipline. We target companies in the lower middle-market with annual earnings, before interest, taxes, depreciation and amortization, or EBITDA, between $5.0 million and $30.0 million; however, we may from time to time opportunistically make investments in larger or smaller companies. Our investments typically range between $5.0 million and $35.0 million per portfolio company.

As of December 31, 2020, we had debt and equity investments in 69 portfolio companies with an aggregate fair value of $742.9 million. The weighted average yield on our debt investments as of December 31, 2020 was 12.2%. The weighted average yield of our debt investments is not the same as a return on investment for our stockholders but, rather, relates to a portion of our investment portfolio and is calculated before the payment of all of our fees and expenses. The weighted average yield was computed using the effective interest rates for debt investments at cost as of December 31, 2020, including accretion of original issue discount ("OID") and loan origination fees, but excluding investments on non-accrual status, if any. There can be no assurance that the weighted average yield will remain at its current level. For the year ended December 31, 2020, our total return based on net asset value ("NAV") per share was 7.6% and our total return based on market value was 1.0%. For the year ended December 31, 2019, our total return based on NAV was 12.0% and our total return based on market value was 37.6%. Total return based on net asset value per share equals the change in net asset value per share during the period, plus dividends paid per share during the period, less other non-operating changes during the period, and divided by beginning net asset value per share for the period. Non-operating changes include any items that affect net asset value per share other than increase from investment operations, such as the effects of share issuances and repurchases and other miscellaneous items. Total return based on market value equals the change in the market value of our common stock per share during the period divided by the market value per share at the beginning of the period, and assumes reinvestment of dividends at prices obtained by our dividend reinvestment plan during the period. While these two figures reflect fund expenses, they do not reflect any sales load that may be paid by investors.

Available Information

Our headquarters are in Evanston, Illinois, and our internet address is *www.fdus.com*. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report. We make available free of charge through our website our proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the U.S. Securities and Exchange Commission (the "SEC"). The SEC maintains an internet site at *http://www.sec.gov* that contains reports, proxy and information statements, and other information regarding issuers, like us, that file electronically with the SEC. Copies of this Annual Report and other reports are also available without charge by contacting us in writing at 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201, Attention: Investor Relations.

Our Advisor

Our investment activities are managed by Fidus Investment Advisors, LLC, our investment advisor, and supervised by our board of directors, a majority of whom are not "interested persons" of FIC as defined in section 2(a)(19) of the 1940 Act, and who we refer to hereafter as the Independent Directors. Pursuant to the terms of the investment advisory and management agreement, which we refer to as the Investment Advisory Agreement, between us and our investment advisor, our investment advisor is responsible for determining the composition of our portfolio, including sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio companies on an ongoing basis. Our investment advisor's investment professionals seek to capitalize on their significant deal origination and sourcing, underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience. These professionals have developed a broad network of contacts within the investment community, have gained extensive experience investing in assets that constitute our primary focus and have expertise in investing across all levels of the capital structure of lower middle-market companies.

Our relationship with our investment advisor is governed by and dependent on the Investment Advisory Agreement and may be subject to conflicts of interest. 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. The base management fee is calculated at an annual rate of 1.75% of the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed amounts). The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of our "pre-incentive fee net investment income" for the immediately preceding quarter, subject to a 2.0% preferred return, or "hurdle," and a "catch up" feature. The second part is determined and payable in arrears as of the end of each fiscal year in an amount equal to 20.0% of our realized capital gains, if any, on a cumulative basis from inception through the end of each fiscal year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any capital gain incentive fees paid in prior years. We accrue, but do not pay, a capital gains incentive fee in connection with any unrealized capital appreciation, as appropriate. For more information about how we compensate our investment advisor, see "Management and Other Agreements—Investment Advisory Agreement."

Among other things, our board of directors is charged with protecting our interests by monitoring how our investment advisor addresses conflicts of interest associated with its management services and compensation. Our board of directors is not expected to review or approve each borrowing or incurrence of leverage. However, our board of directors periodically reviews our investment advisor's portfolio management decisions and portfolio performance. In addition, our board of directors at least annually reviews the services provided by and fees paid to our investment advisor. In connection with these reviews, our board of directors, including a majority of our Independent Directors, considers whether the fees and expenses (including those related to leverage) that we pay to our investment advisor are fair and reasonable in relation to the services provided. Renewal of our Investment Advisory Agreement must be approved each year by our board of directors, including a majority of our Independent Directors.

Fidus Investment Advisors, LLC is a Delaware limited liability company that is registered as an investment advisor under the Investment Advisers Act of 1940, as amended, or the Advisers Act. In addition, Fidus Investment Advisors, LLC serves as our administrator and provides us with office space, equipment and clerical, book-keeping and record-keeping services pursuant to an administration agreement, which we refer to as the Administration Agreement.

Business Strategy

We intend to accomplish our goal of becoming one of the premier providers of capital to and value-added partner of lower middle-market companies by:

Leveraging the Experience of Our Investment Advisor. Our investment advisor's investment professionals have significant experience investing in, lending to and advising companies across multiple industries and changing market cycles. These professionals have diverse backgrounds with prior experience in senior management positions at investment banks, specialty finance companies, commercial banks and privately and publicly held companies and have extensive experience investing across all levels of the capital structure of lower middle-market companies. We believe these professionals possess an in-depth understanding of the strategic, financial and operational challenges and opportunities of lower middle-market companies, enabling our investment advisor to effectively identify, assess, structure and monitor our investments.

Capitalizing on Our Strong Transaction Sourcing Network. Our investment advisor's investment professionals possess an extensive network of long-standing relationships with private equity firms, middle-market senior lenders, junior capital partners, financial intermediaries and management teams of privately owned businesses. We believe that the combination of our investment advisor's relationships and our reputation as a reliable, responsive and value-added financing partner helps us generate a steady stream of new investment opportunities and proprietary deal flow.

Serving as a Value-Added Partner with Customized Financing Solutions. We follow a partnership-oriented investment approach and focus on opportunities where we believe we can add value to a portfolio company. We primarily concentrate on industries or market niches in which the investment professionals of our investment advisor have prior experience. These professionals also have expertise in structuring securities at all levels of the capital structure, which we believe positions us well to meet the unique financing needs of our portfolio companies. We invest primarily in first lien senior secured or unitranche loans, second lien and subordinated debt securities, typically coupled with an equity interest. Further, as a publicly-traded BDC, we have a longer investment horizon without the capital return requirements of traditional private investment vehicles. We believe this flexibility enables us to generate attractive risk-adjusted returns on invested capital and enables us to be a better long-term partner for our portfolio companies. We believe that by leveraging the industry and structuring expertise of our investment advisor coupled with our long-term investment horizon, we are well positioned to be a value-added partner for our portfolio companies.

Employing Rigorous Due Diligence and Underwriting Processes Focused on Capital Preservation. Our investment advisor follows a disciplined and credit-oriented approach to evaluating and investing in companies. We focus on companies with proven business models, significant free cash flow, defensible market positions and significant enterprise value cushion for our debt investments. In making investment decisions, we seek to minimize the risk of capital loss without foregoing the opportunity for capital appreciation. Our investment advisor's investment professionals have developed extensive due diligence and underwriting processes designed to better assess a portfolio company's prospects and to determine the appropriate investment structure. Our investment advisor thoroughly analyzes each potential portfolio company's competitive position, financial performance, management team, growth potential and industry attractiveness. As part of this process, our investment advisor also participates in meetings with management, tours of facilities, discussions with industry professionals and third-party reviews. We believe this approach enables us to build and maintain an attractive investment portfolio that meets our return and value criteria over the long term.

Actively Managing our Portfolio. We believe that our investment advisor's initial and ongoing portfolio review process allows us to effectively monitor the performance and prospects of our portfolio companies. We seek to obtain board observation rights or board seats with respect to our portfolio companies, and we conduct monthly financial reviews and have regular discussions with portfolio company management. We structure our investments with a comprehensive set of financial maintenance, affirmative and negative covenants. We believe that active monitoring of our portfolio companies' compliance with covenants provides us with an early warning of any financial difficulty and enhances our ability to protect our invested capital.

Maintaining Portfolio Diversification. We seek to maintain a portfolio of investments that is appropriately diversified among companies, industries, geographic regions and end markets. We have made investments in portfolio companies in the following industries: business services, industrial products and services, value-added distribution, healthcare products and services, consumer products and services (including retail, food and beverage), energy services, defense and aerospace, transportation and logistics, information technology services and niche manufacturing. We believe that investing across various industries helps mitigate the potential effects of negative economic events for particular companies, regions and industries.

Benefiting from Lower Cost of Capital. The Funds' SBIC licenses allow us to issue SBA-guaranteed debentures. These SBA debentures carry long-term fixed rates that are generally lower than rates on comparable bank and public debt. Because lower-cost SBA leverage is a significant part of our funding strategy, our relative cost of debt capital should be lower than many of our competitors. For two or more SBICs under common control, the maximum amount of outstanding SBA debentures cannot exceed $350.0 million.

Investments

We seek to create a diversified investment portfolio that primarily includes loans and, to a lesser extent, equity securities. Our investments typically range between $5.0 million to $35.0 million per portfolio company, although this investment size may vary proportionately with the size of our capital base. 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. We may invest in the equity securities of our portfolio companies, such as preferred stock, common stock, warrants and other equity interests, either directly or in conjunction with our debt investments.

Second Lien Debt. The majority of our debt investments take the form of second lien debt, which includes senior subordinated notes. Second lien debt investments obtain security interests in the assets of the portfolio company as collateral in support of the repayment of such loans. Second lien debt typically is senior on a lien basis to other liabilities in the issuer's capital structure and has the benefit of a security interest over assets of the issuer, though ranking junior to first lien debt secured by those assets. First lien lenders and second lien lenders typically have separate liens on the collateral, and an intercreditor agreement provides the first lien lenders with priority over the second lien lenders' liens on the collateral. These loans typically provide for no contractual loan amortization, with all amortization deferred until loan maturity, and may include payment-in-kind ("PIK") interest, which increases the principal balance over the term and, coupled with the deferred principal payment provision, increases credit risk exposure over the life of the loan.

Subordinated Debt. These investments are typically structured as unsecured, subordinated notes. Structurally, subordinated debt usually ranks subordinate in priority of payment to first lien and second lien debt and may not have the benefit of financial covenants common in first lien and second lien debt. Subordinated debt may rank junior as it relates to proceeds in certain liquidations where it does not have the benefit of a lien in specific collateral held by creditors (typically first lien and/or second lien) who have a perfected security interest in such collateral. However, subordinated debt ranks senior to common and preferred equity in an issuer's capital structure. These loans typically have relatively higher fixed interest rates (often representing a combination of cash pay and PIK interest) and amortization of principal deferred to maturity. The PIK feature (meaning a feature allowing for the payment of interest in the form of additional principal amount of the loan instead of in cash), which effectively operates as negative amortization of loan principal, coupled with the deferred principal payment provision, increases credit risk exposure over the life of the loan.

First Lien Debt. To a lesser extent, we also structure some of our debt investments as senior secured or first lien debt investments. First lien debt investments are secured by a first priority lien on existing and future assets of the borrower and may take the form of term loans or revolving lines of credit. First lien debt is typically senior on a lien basis to other liabilities in the issuer's capital structure and has the benefit of a first-priority security interest in assets of the issuer. The security interest ranks above the security interest of any second lien lenders in those assets. Our first lien debt may include stand-alone first lien loans, "last out" first lien loans, or "unitranche" loans. Stand-alone first lien loans are traditional first lien loans. All lenders in the facility have equal rights to the collateral that is subject to the first-priority security interest. "Last out" first lien loans have a secondary priority behind super-senior "first out" first lien loans in the collateral securing the loans in certain circumstances. The arrangements for a "last out" first lien loan are set forth in an "agreement among lenders," which provides lenders with "first out" and "last out" payment streams based on a single lien on the collateral. Since the "first out" lenders generally have priority over the "last out" lenders for receiving payment under certain specified events of default, or upon the occurrence of other triggering events under intercreditor agreements or agreements among lenders, the "last out" lenders bear a greater risk and, in exchange, receive a higher effective interest rate, through arrangements among the lenders, than the "first out" lenders or lenders in stand-alone first lien loans. Agreements among lenders also typically provide greater voting rights to the "last out" lenders than the intercreditor agreements to which second lien lenders often are subject.

Many of our debt investments also include excess cash flow sweep features, whereby principal repayment may be required before maturity if the portfolio company achieves certain defined operating targets. Additionally, our debt investments typically have principal prepayment penalties in the early years of the loan. The majority of our debt investments provide for a fixed interest rate.

Equity Securities. Our equity securities typically consist of either a direct minority equity investment in common or preferred stock or membership/partnership interests of a portfolio company, or we may receive warrants to buy a minority equity interest in a portfolio company in connection with a debt investment. Warrants we receive with our debt investments typically require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. Our equity investments are typically not control-oriented investments, and in many cases, we acquire equity securities as part of a group of private equity investors in which we are not the lead investor. We may structure such equity investments to include provisions protecting our rights as a minority-interest holder, as well as a "put," or right to sell such securities back to the issuer, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights. Our equity investments typically are made in connection with debt investments to the same portfolio companies.

Our Consolidated Portfolio

We generally seek to invest in companies from the broad range of industries in which our investment advisor has direct experience. The following is a representative list of the broad industry segments in which we have invested; however, we may invest in other industries if we are presented with attractive opportunities.

- aerospace & defense;
- business services;
- consumer products / multi-unit;
- energy services;
- healthcare products;
- industrial;
- infrastructure;
- logistics & transportation;
- niche manufacturing;
- software & tech-enabled services; and
- value-added distribution.

As of December 31, 2020, we had investments in 69 portfolio companies with an aggregate fair value of $742.9 million. As of December 31, 2019, we had investments in 64 portfolio companies with an aggregate fair value of $766.9 million.

The following table shows the portfolio composition by geographic region at fair value and cost and as a percentage of total investments (dollars in millions). 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			
	December 31, 2020		December 31, 2019		December 31, 2020		December 31, 2019	
Midwest	$225.7	30.4%	$208.2	27.1%	$189.6	27.6%	$181.3	25.7%
Southeast	153.3	20.6	160.0	20.9	130.0	18.9	138.1	19.6
Northeast	123.3	16.6	154.7	20.2	127.8	18.6	142.1	20.2
West	108.7	14.6	76.3	9.9	109.2	15.9	76.6	10.9
Southwest	131.9	17.8	167.7	21.9	130.4	19.0	166.4	23.6
Total	$742.9	100.0%	$766.9	100.0%	$687.0	100.0%	$704.5	100.0%

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

	Fair Value		Cost	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Specialty Distribution	15.8%	16.9%	17.0%	18.3%
Information Technology Services	12.8	11.8	13.2	11.9
Business Services	12.3	12.1	13.0	13.0
Healthcare Products	9.0	8.6	4.8	5.7
Component Manufacturing	7.4	5.2	6.9	6.2
Healthcare Services	5.4	5.6	6.0	5.8
Aerospace & Defense Manufacturing	5.2	4.5	5.6	3.8
Consumer Products	5.1	2.8	5.5	3.4
Retail	3.6	3.8	4.4	4.2
Promotional Products	3.3	3.5	3.7	3.6
Building Products Manufacturing	3.2	2.7	3.8	3.3
Transportation Services	3.0	3.4	3.1	3.3
Oil & Gas Services	2.8	4.3	0.4	0.8
Utilities: Services	2.5	2.4	2.7	2.6
Environmental Industries	2.4	2.4	2.7	2.6
Packaging	2.1	2.0	2.1	2.1
Oil & Gas Distribution	1.5	0.8	1.5	0.8
Industrial Cleaning & Coatings	1.4	2.0	1.9	2.2
Utility Equipment Manufacturing	0.9	0.9	1.3	1.2
Vending Equipment Manufacturing	0.3	4.3	0.3	5.1
Restaurants	0.0(1)	0.0(1)	0.1	0.1
Specialty Chemicals	0.0(1)	0.0(1)	0.0(1)	0.0(1)
Total	100.0%	100.0%	100.0%	100.0%

(1) Percentage is less than 0.1% of respective total.

Investment Criteria/Guidelines

We use the following criteria and guidelines in evaluating investment opportunities and constructing our portfolio. However, not all of these criteria and guidelines have been, or will be, met in connection with each of our investments.

Value Orientation / Positive Cash Flow. Our investment advisor places a premium on analysis of business fundamentals from an investor's perspective and has a distinct value orientation. We focus on companies with proven business models in which we can invest at relatively low multiples of operating cash flow. We also typically invest in portfolio companies with a history of profitability and minimum trailing twelve month EBITDA of $5.0 million. We do not invest in start-up companies, "turn-around" situations or companies that we believe have unproven business plans.

Experienced Management Teams with Meaningful Equity Ownership. We target portfolio companies that have management teams with significant experience and/or relevant industry experience coupled with meaningful equity ownership. We believe management teams with these attributes are more likely to manage the companies in a manner that protects our debt investment and enhances the value of our equity investment.

Niche Market Leaders with Defensible Market Positions. We seek to invest in portfolio companies that have developed defensible and/or leading positions within their respective markets or market niches and are well positioned to capitalize on growth opportunities. We favor companies that demonstrate significant competitive advantages, which we believe helps to protect their market position and profitability.

Diversified Customer and Supplier Base. We prefer to invest in portfolio companies that have a diversified customer and supplier base. Companies with a diversified customer and supplier base are generally better able to endure economic downturns, industry consolidation and shifting customer preferences.

Significant Equity Value. We believe the existence of significant underlying equity value provides important support to our debt investments. With respect to our debt investments, we look for portfolio companies where management/sponsors have provided significant equity funding and where we believe aggregate enterprise value significantly exceeds aggregate indebtedness, after consideration of our investment.

Viable Exit Strategy. We invest in portfolio companies that we believe will provide steady cash flows to service our debt, ultimately repay our loans and provide working capital for their respective businesses. In addition, we seek to invest in portfolio companies whose business models and expected future cash flows offer attractive exit possibilities for our portfolio equity investments. We expect to exit our investments typically through one of three scenarios: (a) the sale of the portfolio company resulting in repayment of all outstanding debt and monetization of equity; (b) the recapitalization of the portfolio company through which our investments are replaced with debt or equity from a third party or parties; or (c) the repayment of the initial or remaining principal amount of our debt investment from cash flow generated by the portfolio company. In some investments, there may be scheduled amortization of some portion of our debt investment that would result in a partial exit of our investment prior to the maturity of the debt investment.

Investment Committee

Our investment advisor has formed an investment committee to evaluate and approve all of our investments. The investment committee process is intended to bring the diverse experience and perspectives of the committee's members to the analysis and consideration of each investment. The investment committee also serves to provide investment consistency and adherence to our investment advisor's core investment philosophy and policies. The investment committee also determines appropriate investment sizing and suggests ongoing monitoring requirements.

The members of the investment committee that evaluate and approve all of our investments are Edward H. Ross, Thomas C. Lauer, John H. Grigg, Robert G. Lesley, Jr., John J. Ross, II, Thomas J. Steiglehner, and W. Andrew Worth.

Investment Process Overview

Our investment advisor has developed the following investment process based on the experience of its investment professionals to identify investment opportunities and to structure investments quickly and effectively. Furthermore, our investment advisor seeks to identify those companies exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on the relative value of the security in the portfolio company's capital structure. The investment process consists of five distinct phases:

- Investment Generation/Origination;
- Initial Evaluation;
- Due Diligence and Underwriting;
- Documentation and Closing; and
- Active Portfolio Management.

Each of the phases is described in more detail below.

Investment Generation/Origination. Our investment origination efforts are focused on leveraging our investment advisor's extensive network of long-standing relationships with private equity firms, middle-market senior lenders, junior-capital partners, financial intermediaries, service providers and management teams of privately owned businesses. We believe that our investment advisor's investment professionals have reputations as reliable, responsive and value-added partners for lower middle-market companies. Our investment advisor's focus and reputation as a value-added partner generates a balanced mix of proprietary deal flow and a steady stream of new deal opportunities.

Initial Evaluation. After a potential transaction is received by our investment advisor, it will conduct an initial review of the transaction materials to determine whether it meets our investment criteria and complies with SBA and other regulatory compliance requirements.

If the potential transaction initially meets our investment criteria, at least two members of the investment committee, referred to as the deal team, will conduct a preliminary due diligence review, taking into consideration some or all of the following factors:

- A comprehensive financial model based on quantitative analysis of historical financial performance, projections and pro forma adjustments to determine a range of estimated internal rates of return.
- An initial call or meeting with the portfolio company management team, owner, private equity sponsor or other deal partner.
- A brief industry and market analysis, leveraging direct industry expertise from other investment professionals of our investment advisor.
- Preliminary qualitative analysis of the portfolio company management team's competencies and backgrounds.
- Potential investment structures and pricing terms.

Upon successful completion of the screening process, the deal team prepares a screening memorandum and makes a recommendation to the investment committee. At this time, the investment committee will also consider whether the investment would be made by FIC or through the Funds. If the investment committee supports the deal team's recommendation, the deal team issues a non-binding term sheet to the potential portfolio company. Such a term sheet will typically include the key economic terms based on our analysis conducted during the screening process. Upon agreement on a term sheet with the potential portfolio company, our investment advisor will begin a formal diligence and underwriting process.

Due Diligence and Underwriting. Our investment advisor has developed a rigorous and disciplined due diligence process that includes a comprehensive understanding of a borrower's industry, market, operational, financial, organizational and legal positions and prospects. The due diligence review will take into account information that the deal team deems necessary to make an informed decision about the creditworthiness of the borrower and the risks of the investment, which includes some or all of the following:

- Initial or additional site visits and facility tours with management and key personnel.
- Review of the business history, operations and strategy.
- In depth review of industry and competition.
- Analysis of key customers and suppliers, including review of any concentrations and key contracts.
- Detailed review of historical and projected financial statements, including a review of at least three years of performance (annual and monthly), key financial ratios, revenue, expense and profitability drivers and sensitivities to management's financial projections.
- Detailed evaluation of company management, including background checks.
- Third party reviews of accounting, environmental, legal, insurance, material contracts, competition, industry and market studies and interviews with customers and suppliers, (each as appropriate).
- Financial sponsor diligence, if applicable, including portfolio company and other reference checks.

During the due diligence process, significant attention is given to sensitivity analyses and how the portfolio company might be expected to perform given various scenarios, including downside, "base case" and upside. Upon satisfactory completion of the due diligence review process, the deal team will present their findings and a recommendation to the investment committee. If the investment committee supports the deal team's recommendation, the deal team will proceed with negotiating and documenting the investment.

Documentation and Closing. Our investment advisor works with the management of a potential portfolio company and its other capital providers, including, as applicable, senior, junior and equity capital providers to structure an investment. Our investment advisor structures each investment with an acute focus on capital preservation and will tailor the terms of each investment to the facts and circumstances of the transaction and the prospective portfolio company. We seek to limit the downside of our investments by:

- Targeting an optimal total return on our investments (including a combination of current and deferred interest, prepayment penalties and equity participation) that compensates us for credit risk.
- Negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, yet consistent with preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either board observation or rights to a seat on the board under some circumstances.
- Structuring financial covenants and terms in our debt investments that require a portfolio company to reduce leverage over time, thereby mitigating the risk of loss and increasing the likelihood of achieving targeted returns on investment. These methods may include, among others: leverage covenants requiring a decreasing ratio of debt to cash flow; cash flow covenants requiring an increasing ratio of cash flow to interest expense and possibly other cash expenses such as capital expenditures, cash taxes and mandatory principal payments; and debt incurrence prohibitions, or limiting a company's ability to relever its balance sheet. In addition, limitations on asset sales and capital expenditures prevent a company from changing the nature of its business or capitalization without our consent.

We expect to hold most of our investments to maturity or repayment, but may exit our investments earlier if a liquidity event takes place, such as a sale or recapitalization of a portfolio company, or if we determine that a sale of one or more of our investments is in our best interest.

Active Portfolio Management. Active portfolio monitoring is a vital part of our investment process and we continuously monitor the status and progress of the portfolio companies. The same deal team that was involved in the investment process will continue its involvement in the portfolio company post-investment. This provides for continuity of knowledge and allows the deal team to maintain a strong business relationship with key management of its portfolio companies for post-investment assistance and monitoring purposes.

As part of the monitoring process, the deal team conducts a comprehensive review of the financial and operating results of each portfolio company that includes a review of the monthly/quarterly financials relative to prior year and budget, a review of the financial projections including cash flow and liquidity needs, meeting with management, attending board meetings and reviewing compliance certificates and covenants. We maintain an ongoing dialogue with the management and any controlling equity holders of a portfolio company that will include discussions about the company's business plans and growth opportunities and any changes in industry and competitive dynamics. While we maintain limited involvement in the ordinary course operations of our portfolio companies, we may maintain a higher level of involvement in non-ordinary course financing or strategic activities and any non-performing scenarios. Our investment advisor's portfolio management will also include quarterly portfolio reviews with all investment professionals and investment committee members.

Investment Rating System

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

- Investment Rating 1 is used for investments that involve the least amount of risk in our portfolio. The portfolio company is performing above expectations, the debt investment is expected to be paid in the near term and the trends and risk factors are favorable, and may include an expected capital gain on the equity investment.
- Investment Rating 2 is used for investments that involve a level of risk similar to the risk at the time of origination. The portfolio company is performing substantially within our expectations and the risks factors are neutral or favorable. Each new portfolio investment enters our portfolio with Investment Rating 2.
- Investment Rating 3 is used for investments performing below expectations and indicates the investment's risk has increased somewhat since origination. The portfolio company requires closer monitoring, but we expect a full return of principal and collection of all interest and/or dividends.
- Investment Rating 4 is used for investments performing materially below our expectations and the risk has increased materially since origination. The investment has the potential for some loss of investment return, but we expect no loss of principal.
- Investment Rating 5 is used for investments performing substantially below our expectations and the risks have increased substantially since origination. We expect some loss of principal.

The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value and cost as of December 31, 2020 and 2019 (dollars in millions).

Investment Rating	Fair Value				Cost			
	December 31, 2020		December 31, 2019		December 31, 2020		December 31, 2019	
1	$109.3	14.7%	$100.1	13.1%	$ 38.7	5.6%	$ 29.0	4.2%
2	544.4	73.3	580.5	75.7	537.6	78.3	570.1	80.9
3	80.1	10.8	84.6	11.0	87.5	12.7	96.7	13.7
4	9.0	1.2	1.7	0.2	13.7	2.0	5.8	0.8
5	0.1	—	—	—	9.5	1.4	2.9	0.4
Total	$742.9	100.0%	$766.9	100.0%	$687.0	100.0%	$704.5	100.0%

Based on our investment rating system, the weighted average rating of our portfolio as of December 31, 2020 and 2019 was 2.0 and 2.0, respectively, on a fair value basis and 2.2 and 2.1, respectively, on a cost basis.

Determination of Net Asset Value and Valuation Process

We determine the net asset value per share of our common stock on at least a quarterly basis, and more frequently if we are required to do so in connection with the issuance of shares of our common stock or pursuant to applicable federal laws and regulations. The net asset value per share of common stock is equal to the carrying value of our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding. Our business plan calls for us to invest primarily in illiquid securities issued by private companies. These portfolio investments may be subject to restrictions on resale and will generally have no established trading market. Because there is not 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 in accordance with authoritative accounting guidelines. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates – Valuation of Portfolio Investments.”

Competition

Our primary competitors in providing financing to lower middle-market companies include public and private funds, other BDCs, SBICs, commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity and hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC or to the distribution and other requirements we must satisfy to maintain our RIC status.

We use the expertise of the investment professionals of our investment advisor to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, the relationships of the investment professionals of our investment advisor enable us to learn about, and compete effectively for, financing opportunities with attractive lower middle-market companies in the industries in which we seek to invest. For additional information concerning the competitive risks we face, see “Risk Factors — Risks Relating to Our Business and Structure — We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses.”

Employees

We do not have any direct employees, and our day-to-day investment operations are managed by our investment advisor, which is also acting as our administrator. We have a chief executive officer, president, chief financial officer and chief compliance officer and, to the extent necessary, our board of directors may elect to hire additional personnel going forward. Our officers are employees of, and are compensated by, our investment advisor, and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs are paid by us pursuant to the Administration Agreement. Some of our executive officers are also officers of our investment advisor. See “Management and Other Agreements — Administration Agreement.”

MANAGEMENT AND OTHER AGREEMENTS

Our investment advisor is located at 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201. Our investment advisor also maintains additional office space at 227 West Trade Street Suite 1910, Charlotte, North Carolina 28202, and 1140 Avenue of the Americas, 21st Floor, New York, New York 10036. Our investment advisor is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of our board of directors and in accordance with the 1940 Act, our investment advisor manages our day-to-day operations and provides investment advisory services to us. Under the terms of the Investment Advisory Agreement, our investment advisor:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- assists us in determining what securities we purchase, retain or sell;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and
- executes, closes, services and monitors the investments we make.

Investment Advisory Agreement

Management Fee

Pursuant to the Investment Advisory Agreement, we pay our investment advisor a fee for investment advisory and management services consisting of two components — a base management fee and an incentive fee.

Base Management Fee

The base management fee is calculated at an annual rate of 1.75% based on the average value of our 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, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial quarter are appropriately prorated. The base management fee is payable quarterly in arrears.

Incentive Fee

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears based on our 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 we receive 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 excise taxes on realized gains). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as market discount, debt instruments with PIK income, preferred stock with PIK dividends and zero-coupon securities), accrued income we have not yet received in cash. The Investment Advisor is not under any obligation to reimburse us for any part of the incentive fee it receives that was based on accrued interest that we never collect.

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

Pre-incentive fee net investment income, expressed as a rate of return on the value of our weighted average 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, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for our investment advisor to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income.

We pay our investment advisor an incentive fee with respect to our pre-incentive fee net investment income earned in each calendar quarter as follows:

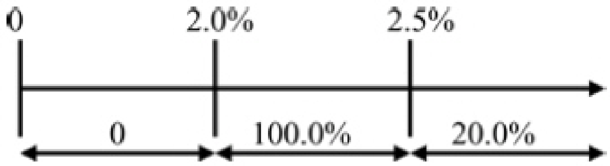
- no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle rate of 2.0%;
- 100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (that exceeds the hurdle rate but is less than 2.5%) as the “catch-up” provision. The catch-up is meant to provide our investment advisor with 20.0% of the pre-incentive fee net investment income as if a hurdle rate did not apply if net investment income exceeds 2.5% in any calendar quarter; and
- 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter.

These calculations are appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The following is a graphical representation of the calculation of the quarterly income-related portion of the incentive fee:

Quarterly Incentive Fee Based on Pre-Incentive Fee Net Investment Income

Pre-incentive fee net investment income
(expressed as a percentage of the value of net assets)



Percentage of pre-incentive fee net investment income
allocated to income-related portion of incentive fee

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 in cash to the Investment Advisor, the Company calculates the cumulative aggregate realized capital gains and losses since the IPO (realized capital gains and losses include realized gains and losses on investments, net of income tax provision from realized gains on investments, and realized losses on extinguishment of debt), and the aggregate unrealized capital depreciation on investments as of the date of the calculation. 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 on investments, less cumulative aggregate realized capital losses on investments, less aggregate unrealized capital depreciation on investments, and less cumulative aggregate realized losses on extinguishment of debt. If this number is positive at the end of such year, then the capital gains incentive fee to be paid in cash for such year equals 20.0% of such amount, less the aggregate amount of any capital gains incentive fees paid in all prior years. We accrue, but do not pay, a capital gains incentive fee in connection with any unrealized capital appreciation, as appropriate.

Examples of Quarterly Incentive Fee Calculation

Example 1: Income Related Portion of Incentive Fee

Alternative 1

Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle rate (1) = 2.0%

Management fee (2) = 0.4375%

Other expenses (administrative service expenses, legal, accounting, custodian, transfer agent, etc.) (3) = 0.2%

Pre-incentive fee net investment income
(investment income – (management fee + other expenses)) = 0.6125%

Pre-incentive fee net investment income does not exceed hurdle rate, therefore there is no income-related incentive fee.

Alternative 2

Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.9%

Hurdle rate (1) = 2.0%

Management fee (2) = 0.4375%

Other expenses (administrative service expenses, legal, accounting, custodian, transfer agent, etc.) (3) = 0.2%

Pre-incentive fee net investment income

(investment income – (management fee + other expenses)) = 2.2625%

Incentive fee = 100.0% × pre-incentive fee net investment income (subject to "catch-up") (4)
= 100.0% × (2.2625% – 2.0%)
= 0.2625%

Pre-incentive fee net investment income exceeds the hurdle rate, but does not fully satisfy the "catch-up" provision, therefore the income related portion of the incentive fee is 0.2625%.

Alternative 3

Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.5%

Hurdle rate (1) = 2.0%

Management fee (2) = 0.4375%

Other expenses (administrative service expenses, legal, accounting, custodian, transfer agent, etc.) (3) = 0.2%

Pre-incentive fee net investment income
(investment income – (management fee + other expenses)) = 2.8625%
Incentive fee = 100.0% × pre-incentive fee net investment income (subject to "catch-up") (4)
Incentive fee = 100.0% × "catch-up" + (20.0% × (pre-incentive fee net investment income – 2.5%))

"Catch-up" = 2.5% – 2.0%
= 0.5%

Incentive fee = (100.0% × 0.5%) + (20.0% × (2.8625% – 2.5%))
= 0.5% + (20.0% × 0.3625%)
= 0.5% + 0.0725%
= 0.5725%

Pre-incentive fee net investment income exceeds the hurdle rate and fully satisfies the "catch-up" provision, therefore the income related portion of the incentive fee is 0.5725%.

(1) Represents 8.0% annualized hurdle rate.
(2) Represents 1.75% annualized base management fee.
(3) Excludes organizational and offering expenses.
(4) The "catch-up" provision is intended to provide our investment advisor with an incentive fee of 20.0% on all pre-incentive fee net investment income as if a hurdle rate did not apply when our net investment income exceeds 2.5% in any fiscal quarter.

Example 2: Capital Gains Portion of Incentive Fee (*):

Alternative 1

Assumptions

Year 1 : $5.0 million investment made in Company A ("Investment A"), and $7.5 million investment made in Company B ("Investment B")

Year 2 : Investment A sold for $12.5 million and fair market value ("FMV") of Investment B determined to be $8.0 million

Year 3 : FMV of Investment B determined to be $6.25 million

Year 4 : Investment B sold for $7.75 million

The capital gains portion of the incentive fee would be:

Year 1 : None

Year 2 : Capital gains incentive fee of $1.5 million — ($7.5 million realized capital gains on sale of Investment A multiplied by 20.0%)

Year 3 : None — $1.25 million (20.0% multiplied by ($7.5 million cumulative capital gains less $1.25 million cumulative capital depreciation)) less $1.5 million (previous capital gains fee paid in Year 2)

Year 4 : Capital gains incentive fee of $50,000 — $1.55 million ($7.75 million cumulative realized capital gains multiplied by 20.0%) less $1.5 million (capital gains incentive fee taken in Year 2)

Alternative 2

Assumptions

Year 1 : $4.0 million investment made in Company A ("Investment A"), $7.5 million investment made in Company B ("Investment B") and $6.25 million investment made in Company C ("Investment C")

Year 2 : Investment A sold for $12.5 million, FMV of Investment B determined to be $6.25 million and FMV of Investment C determined to be $6.25 million

Year 3 : FMV of Investment B determined to be $6.75 million and Investment C sold for $7.5 million

Year 4 : FMV of Investment B determined to be $8.75 million

Year 5 : Investment B sold for $5.0 million

The capital gains incentive fee, if any, would be:

Year 1 : None

Year 2 : $1.45 million capital gains incentive fee — 20.0% multiplied by $7.25 million ($8.5 million realized capital gains on Investment A less $1.25 million unrealized capital depreciation on Investment B)

Year 3 : $0.35 million capital gains incentive fee (1) — $1.8 million (20.0% multiplied by $9.0 million ($9.75 million cumulative realized capital gains less $0.75 million unrealized capital depreciation)) less $1.45 million capital gains incentive fee received in Year 2

Year 4 : None

Year 5 : None — $1.45 million (20.0% multiplied by $7.25 million (cumulative realized capital gains of $9.75 million less realized capital losses of $2.5 million)) is less than $1.8 million cumulative capital gains incentive fee paid in Year 2 and Year 3 (2)

---

* The hypothetical amounts of returns shown are based on a percentage of our total net assets and assume no leverage. There is no guarantee that positive returns will be realized and actual returns may vary from those shown in this example. The examples shown pertain to the capital gains portion of the incentive fee payable at the end of the fiscal year. We accrue, but do not pay, a capital gains incentive fee in connection with any unrealized capital appreciation, as appropriate.

(1) As illustrated in Year 3 of Alternative 2 above, if we were to be dissolved on a date other than our fiscal year end of any year, we may have paid aggregate capital gains incentive fees that are more than the amount of such fees that would be payable if we had been dissolved on our fiscal year end of such year.

(2) As noted above, it is possible that the cumulative aggregate capital gains fee received by our investment advisor ($1.8 million) is effectively greater than $1.45 million (20.0% of cumulative aggregate realized capital gains less net realized capital losses or net unrealized depreciation ($7.25 million)).

Payment of Our 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 of personnel allocable to 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Expenses."

Duration and Termination

At a meeting of our board of directors on June 4, 2020, our board of directors, including a majority of the Independent Directors, unanimously voted to approve the continuation of the Investment Advisory Agreement to June 20, 2021. Unless terminated earlier, the Investment Advisory Agreement will automatically renew for successive annual periods if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities (as that term is defined in the 1940 Act), including, in either case, approval by a majority of the Independent Directors.

In reaching a decision to approve the current Investment Advisory Agreement, our board of directors reviewed information comparing our investment performance to other externally managed BDCs with similar investment objectives and to appropriate market indices. The board also reviewed other information and considered, among other things:

- the nature, extent and quality of the advisory and other services (including administrative services provided under the Administrative Agreement as discussed below) provided to us by our investment advisor;
- the fee structure of comparative externally managed BDCs with similar investment objectives;

- our projected operating expenses and expense ratio compared to BDCs with similar investment objectives;
- our investment advisor's pro forma profitability with respect to managing us and providing administrative services under the Administrative Agreement;
- the limited potential for our investment advisor and its affiliates to derive additional "fall-out" benefits as a result of our relationship with our investment advisor; and
- various other matters.

Our board of directors did not rank or otherwise assign relative weights to the specific factors it considered in connection with its evaluation of the Investment Advisory Agreement, nor did it undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the ultimate decision made by our board of directors. Rather, our board of directors based its approval of the Investment Advisory Agreement on the totality of information presented to it. In considering the factors discussed above, individual directors may have given different weights to different factors.

Based on the information reviewed and the factors discussed above, our board of directors (including the Independent Directors) concluded that the terms of the Investment Advisory Agreement, including the fee rates thereunder, are fair and reasonable in relation to the services provided and approved the continuation of the Investment Advisory Agreement as being in the best interests of FIC and our stockholders.

Conflicts of interest may arise if our investment advisor seeks to change the terms of the Investment Advisory Agreement, including, for example, the amount of the base management fee, the incentive fee or other compensation terms. In general, material amendments to the Investment Advisory Agreement must be approved by the affirmative vote of the holders of a majority of our outstanding voting securities (as that term is defined in the 1940 Act) and by a majority of our Independent Directors.

See "Item 1A. Risk Factors – Risks Relating to our Business and Structure – We are dependent upon our investment advisor's managing members and our executive officers for our future success. If our investment advisor was to lose any of its managing members or we lose any of our executive officers, our ability to achieve our investment objective could be significantly harmed."

Indemnification

The Investment Advisory Agreement provides that, absent willful misconduct, bad faith or gross negligence in the performance of its duties under the Investment Advisory Agreement or by reason of the reckless disregard of its duties and obligations under the Investment Advisory Agreement, our investment advisor and its affiliates, and their respective officers, directors, members, managers, partners, stockholders and employees, are entitled to indemnification from us from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our investment advisor's performance of its duties and obligations under the Investment Advisory Agreement or otherwise as our investment advisor.

Administration Agreement

Pursuant to the Administration Agreement, Fidus Investment Advisors, LLC acts as our administrator and furnishes us with office facilities and equipment and clerical, book-keeping and record-keeping services at such facilities. Under the Administration Agreement, our investment advisor performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, our investment advisor assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, our investment advisor also provides managerial assistance on our behalf to those portfolio companies that have accepted our offer to provide such assistance and we reimburse our Investment Advisor for fees and expenses incurred with providing such services. In addition, we reimburse our Investment Advisor for fees and expenses incurred while performing due diligence on our prospective portfolio companies, including "dead deal" costs for potential investments which are ultimately not pursued. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of our investment advisor's overhead in performing its obligations under the Administration Agreement, including rent and our allocable portion of the cost of our officers, including our chief financial officer and chief compliance officer and their respective staffs. To the extent that our investment advisor outsources any of its functions, we will pay the fees associated with such functions on a direct basis without profit to our investment advisor.

At a meeting of our board of directors on June 4, 2020, our board of directors, including a majority of the Independent Directors, unanimously voted to approve the continuation of the Administration Agreement to June 20, 2021. Unless terminated earlier, the Administration Agreement will automatically renew for successive annual periods if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities (as that term is defined in the 1940 Act), including, in either case, approval by a majority of our Independent Directors. In making the decision to approve the continuation of the Administration Agreement, our board of directors took into account, to the extent relevant, certain information set forth above under "Investment Advisory Agreement – Duration and Termination" with respect to its consideration of the Investment Advisory Agreement.

The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. The holders of a majority of our outstanding voting securities (as that term is defined in the 1940 Act) may also terminate the Administration Agreement without penalty.

Indemnification

The Administration Agreement provides that, absent willful misconduct, bad faith or gross negligence in the performance of its duties under the Administration Agreement or by reason of the reckless disregard of its duties and obligations under the Administration Agreement, our investment advisor and its affiliates, and their respective officers, directors, members, managers, stockholders and employees, are entitled to indemnification from us from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our investment advisor's performance of its duties or obligations under the Administration Agreement or otherwise as our administrator.

License Agreement

We have entered into a license agreement with Fidus Partners, LLC under which Fidus Partners, LLC has agreed to grant us a non-exclusive (provided that there is not a change in control of Fidus Partners, LLC), royalty-free license to use the name "Fidus." Under this agreement, we have a right to use the "Fidus" name for so long as our investment advisor remains our investment advisor. Other than with respect to this limited license, we have no legal right to the "Fidus" name. This license agreement will remain in effect for so long as the Investment Advisory Agreement with our investment advisor remains in effect.

REGULATION

General

We and Fund I have elected to be treated as BDCs under the 1940 Act and we have elected to be treated as a RIC under Subchapter M of the Code. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisors), principal underwriters and affiliates of those affiliates or principal underwriters and requires that a majority of the directors be persons other than "interested persons," as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding voting securities, as that term is defined in the 1940 Act.

We may invest up to 100.0% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act. Our intention is to not write (sell) or buy put or call options to manage risks associated with any publicly-traded securities that may from time-to-time be held by our portfolio companies, except that we may enter into hedging transactions to manage the risks associated with interest rate fluctuations. However, we may purchase or otherwise receive warrants to purchase the common stock of our portfolio companies in connection with acquisition financing or other investments. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, we generally cannot acquire more than 3.0% of the total outstanding voting stock of any investment company, invest more than 5.0% of the value of our total assets in securities issued by one investment company or invest more than 10.0% of the value of our total assets in securities issued by more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses. These policies are not fundamental and, as a result, each may be changed by the vote of a majority of our board of directors without stockholder approval.

Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in section 55(a) of the 1940 Act, which are referred to as "qualifying assets," unless, at the time the acquisition is made, qualifying assets represent at least 70.0% of the company's total assets. The principal categories of qualifying assets relevant to our business are the following:

(a) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer that:

- is organized under the laws of, and has its principal place of business in, the U.S.;
- is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and

- satisfies either of the following:
  - does not have any class of securities listed on a national securities exchange or has any class of securities listed on a national securities exchange subject to a $250.0 million market capitalization maximum; or
  - is controlled by a BDC or a group of companies including a BDC, the BDC actually exercises a controlling influence over the management or policies of the eligible portfolio company, and, as a result, the BDC has an affiliated person who is a director of the eligible portfolio company.

(b) Securities of any eligible portfolio company which we control.

(c) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident to such a private transaction, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities, was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(d) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60.0% of the outstanding equity of the eligible portfolio company.

(e) Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the exercise of warrants or rights relating to such securities.

(f) Cash, cash equivalents, U.S. government securities or high-quality debt securities that mature in one year or less from the date of investment.

The regulations defining qualifying assets may change over time. We may adjust our investment focus as needed to comply with and/or take advantage of any regulatory, legislative, administrative or judicial actions in this area.

Managerial Assistance to Portfolio Companies

A BDC must be organized and have its principal place of business in the U.S. and must be operated for the purpose of making investments in the types of securities described in (a), (b) or (c) above. However, in order to count portfolio securities as qualifying assets for the purpose of the 70.0% test, the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities significant managerial assistance; except that, when the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. Our investment advisor, acting as our administrator, has agreed to provide such managerial assistance on our behalf to portfolio companies that request this assistance. We may receive fees for these services and will reimburse our investment advisor, acting as our administrator, for its allocated costs in providing such assistance.

Temporary Investments

Pending investment in other types of qualifying assets, as described above, our investments may consist of cash, cash equivalents, U.S. government securities, repurchase agreements and high-quality debt investments that mature in one year or less from the date of investment, which we refer to, collectively, as temporary investments, so that 70.0% of our assets are invested in qualifying assets or temporary investments. We may from time to time invest in U.S. Treasury bills or in repurchase agreements, so long as the agreements are fully collateralized by cash or securities issued by the U.S. government, including securities issued by certain U.S. government agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price that is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25.0% of our total assets constitute repurchase agreements from a single counterparty (other than repurchase agreements fully collateralized by U.S. government securities), we would not satisfy the asset diversification requirements for tax treatment as a RIC for U.S. federal income tax purposes. Accordingly, we do not intend to enter into any such repurchase agreements that would cause us to fail such asset diversification requirements. Our investment advisor monitors the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Senior Securities

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 150.0% immediately after each such issuance (exclusive of the SBA debentures pursuant to our SEC exemptive relief). In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5.0% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see “Risk Factors — Risks Relating to Our Business and Structure — Regulations governing our operation as a BDC affect our ability to raise, and the way in which we raise, additional capital which may have a negative effect on our growth.”

The SEC has proposed a new rule under the 1940 Act that would govern financial commitment transactions (defined to include reverse repurchase agreements, short sale borrowings and any firm or standby commitment agreement or similar agreement) by BDCs. Under the proposed rule, a BDC would be required to comply with one of two alternative portfolio limitations, one of which would have the effect of treating such financial commitment transactions as senior securities. There are no assurances as to when the SEC will adopt a final version of the proposed rules or as to the form that the final rules will take.

Codes of Ethics

We, Fund I and our investment advisor have adopted a joint code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Additionally, our investment advisor has adopted a code of ethics pursuant to rule 204A-1 under the Advisers Act and in accordance with Rule 17j-1(c). Personnel subject to the code of ethics may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. You may read and copy these codes at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0300. You may also obtain copies of the joint code of ethics, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549. The joint code of ethics is also available on our website at *www.fdus.com*. We have also adopted a code of business conduct that is applicable to all officers, directors and employees of Fidus and our investment advisor that is available on our website.

Proxy Voting Policies and Procedures

In light of the types of investments held in our portfolio, it is unlikely that we will be called upon to vote our shares very often. In the event that we receive a proxy statement related to one of our portfolio companies, however, we have delegated our proxy voting responsibility to our investment advisor. The proxy voting policies and procedures of our investment advisor are set out below. The guidelines are reviewed periodically by our investment advisor and our Independent Directors, and, accordingly, are subject to change. For purposes of these proxy voting policies and procedures described below, "we," "our" and "us" refer to our investment advisor.

Introduction

As an investment adviser registered under the Advisers Act, our investment advisor has a fiduciary duty to act solely in our best interests. As part of this duty, our investment advisor recognizes that it must vote our securities in a timely manner free of conflicts of interest and in our best interests.

Our investment advisor's policies and procedures for voting proxies for its investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Proxy Policies

Our investment advisor will vote proxies relating to our portfolio securities in what it perceives to be the best interest of our stockholders. Our investment advisor reviews on a case-by-case basis each proposal submitted to a stockholder vote to determine its effect on the portfolio securities we hold. In most cases our investment advisor will vote in favor of proposals that it believes are likely to increase the value of the portfolio securities we hold. Although our investment advisor will generally vote against proposals that may have a negative effect on our portfolio securities, our investment advisor may vote for such a proposal if there exist compelling long-term reasons to do so.

Proxy voting decisions are made by our investment advisor's senior investment professionals who are responsible for monitoring each of our portfolio investments. To ensure that our investment advisor's vote is not the product of a conflict of interest, our investment advisor requires that (a) anyone involved in the decision-making process disclose to our chief compliance officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (b) employees involved in the decision-making process or vote administration are prohibited from revealing how our investment advisor intends to vote on a proposal in order to reduce any attempted influence from interested parties. Where conflicts of interest may be present, our investment advisor will disclose such conflicts to us, including our Independent Directors, and may request guidance from us on how to vote such proxies.

Proxy Voting Records

You may obtain information about how our investment advisor voted proxies for us by making a written request for proxy voting information to: Fidus Investment Corporation, 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201, Attention: Investor Relations, or by calling Fidus Investment Corporation collect at (847) 859-3940.

Compliance Policies and Procedures

We, Fund I and our investment advisor have each adopted and implemented written policies and procedures reasonably designed to prevent violation of federal securities laws and are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation. Our chief compliance officer is responsible for administering these policies and procedures.

Privacy Principles

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

From time to time, we may receive nonpublic personal information relating to our stockholders. We do not disclose nonpublic personal information about our stockholders or former stockholders to anyone, except as required by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third-party administrator).

We restrict access to nonpublic personal information about our stockholders to employees of our investment advisor, its affiliates or authorized service providers that have a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the nonpublic personal information of our stockholders.

Other

Under the 1940 Act, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person’s office.

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our Independent Directors and, in some cases, prior approval by the SEC. On March 27, 2012, the SEC granted us and Fund I exemptive relief allowing us to operate effectively as one company and to take certain actions, including engaging in certain transactions with our affiliates, and to be subject to modified consolidated asset coverage requirements for senior securities issued by a BDC, that would otherwise be prohibited by the 1940 Act. Effective June 30, 2014, our exemptive relief was amended to include Fund II and any future direct or indirect wholly owned subsidiary. Therefore, any SBA debentures issued by Fund II and Fund III are not subject to the 150.0% asset coverage requirement.

Small Business Administration Regulations

The Funds are licensed by the SBA to operate as SBICs under Section 301(c) of the Small Business Investment Act of 1958. Fund II and Fund III received their SBIC licenses on May 28, 2013, and March 21, 2019, respectively. We may issue SBA debentures to fund additional investments through the Funds.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs can provide financing in the form of debt and/or equity securities and provide consulting and advisory services to “eligible” small businesses. The Funds have typically invested in senior subordinated debt, acquired warrants and/or made other equity investments in qualifying small businesses.

Under current SBA regulations, eligible small businesses generally include businesses that (together with their affiliates) have a tangible net worth not exceeding $19.5 million and have average annual net income after U.S. federal income taxes not exceeding $6.5 million (average net income to be computed without benefit of any carryover loss) for the two most recent fiscal years. In addition, an SBIC must devote between 20.0% and 25.0% (depending upon when it was licensed, when it obtained leverage commitments, the amount of leverage drawn and when financings occur) of its investment activity to “smaller” concerns as defined by the SBA. A smaller concern generally includes businesses (including their affiliates) that have a tangible net worth not exceeding $6.0 million and have average annual net income after U.S. federal income taxes not exceeding $2.0 million (average net income to be computed without benefit of any net carryover loss) for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility for designation as an eligible small business or smaller concern, which criteria depend on the industry in which the business (including its affiliates) is engaged and are based on the number of employees and gross revenue. However, once an SBIC has invested in a portfolio company, it may continue to make follow-on investments in the portfolio company, regardless of the size of the portfolio company at the time of the follow-on investment, up to the time of the portfolio company’s initial public offering.

The SBA prohibits an SBIC from providing funds to small businesses for certain purposes, such as relending and investment outside the U.S., to businesses engaged in a few prohibited industries, and to certain “passive” (non-operating) companies. In addition, under SBA regulations, without prior SBA approval, an SBIC may not invest more than 30.0% of its regulatory capital in any one portfolio company (assuming the SBIC intends to draw leverage equal to twice its regulatory capital).

The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies (such as limiting the permissible interest rate on debt securities held by an SBIC in a portfolio company). SBA regulations allow an SBIC to exercise control over a small business for a period of seven years from the date on which the SBIC initially acquires its control position. This control period may be extended for an additional period of time with the SBA’s prior written approval.

The SBA restricts the ability of an SBIC to lend money to any of its officers, directors and employees or to invest in affiliates thereof. The SBA also prohibits, without prior SBA approval, a “change of control” of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. A “change of control” is any event that would result in the transfer of the power, direct or indirect, to direct the management and policies of an SBIC, whether through ownership, contractual arrangements or otherwise.

An SBIC (or group of SBICs under common control) may generally have outstanding debentures guaranteed by the SBA in amounts up to two times the amount of the regulatory capital of the SBIC(s). Debentures guaranteed by the SBA have a maturity of ten years, require semi-annual payments of interest, and do not require any principal payments prior to maturity. The amount of SBA-guaranteed debentures that affiliated SBIC funds can have outstanding is limited to $350.0 million, subject to SBA approval.

SBICs must invest idle funds that are not being used to make loans in investments permitted under SBA regulations in the following limited types of securities: (i) direct obligations of, or obligations guaranteed as to principal and interest by, the U.S. government, which mature within 15 months from the date of the investment; (ii) repurchase agreements with federally insured institutions with a maturity of seven days or less (and the securities underlying the repurchase obligations must be direct obligations of or guaranteed by the federal government); (iii) certificates of deposit with a maturity of one year or less, issued by a federally insured institution; (iv) a deposit account in a federally insured institution that is subject to a withdrawal restriction of one year or less; (v) a checking account in a federally insured institution; or (vi) a reasonable petty cash fund.

SBICs are periodically examined and audited by the SBA’s staff to determine their compliance with SBA regulations and are periodically required to file certain forms with the SBA.

Neither the SBA nor the U.S. government or any of its agencies or officers has approved any ownership interest to be issued by us or any obligation that we or any of our subsidiaries may incur.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, imposes a wide variety of regulatory requirements on publicly held companies and their insiders. Many of these requirements affect us. For example:

- pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, our principal executive officer and principal financial officer must certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 under Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
- pursuant to Rule 13a-15 under the Exchange Act, our management must prepare an annual report regarding its assessment of our internal control over financial reporting; and
- pursuant to Item 308 of Regulation S-K and Rule 13a-15 under the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated under such act. We will continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we comply with that act.

The NASDAQ Global Select Market Corporate Governance Regulations

The NASDAQ Global Select Market has adopted corporate governance regulations with which listed companies must comply. We are in compliance with such corporate governance listing standards applicable to BDCs.

Election to Be Taxed as a RIC

We have elected to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally will not be subject to corporate-level U.S. federal income taxes on any income that we distribute to our stockholders. To maintain our tax status as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, in order to maintain our status as a RIC, we must timely distribute to our stockholders, for each taxable year, at least 90.0% of our “investment company taxable income,” which is generally our net ordinary income plus the excess, if any, of realized net short-term capital gain over realized net long-term capital loss, or the Annual Distribution Requirement. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4.0% nondeductible U.S. federal excise tax on such income. In such case, we must distribute any such carryover taxable income through a distribution declared prior to filing the final tax return for the year in which we generated such taxable income. Even if we maintain our status as a RIC, we generally will be subject to corporate-level U.S. federal income tax on our undistributed taxable income and could be subject to U.S. federal excise, state, local and foreign taxes.

Taxation as a RIC

Provided that we maintain our status as a RIC and satisfy the Annual Distribution Requirement, we will not be subject to U.S. federal income tax on the portion of our investment company taxable income and net capital gain (which is defined as net long-term capital gain in excess of net short-term capital loss) that we timely distribute to stockholders as dividends. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4.0% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98.0% of our investment company taxable income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year (or, if we so elect, for that calendar year) and (3) any income and capital gain net income that we recognized in preceding years, but were not distributed during such years, and on which we paid no U.S. federal income tax.

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

- continue to qualify as a BDC or be registered as a management investment company under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90.0% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale or other disposition of stock or other securities or foreign currencies, other income derived with respect to our business of investing in such stock, securities or currencies and net income derived from an interest in a “qualified publicly traded partnership” (as defined in Subchapter M of the Code), or the 90% Income Test; and
- diversify our holdings so that at the end of each quarter of the taxable year:
  - at least 50.0% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5.0% of the value of our assets or more than 10.0% of the outstanding voting securities of the issuer (which for these purposes includes the equity securities of a “qualified publicly traded partnership”); and
  - no more than 25.0% of the value of our assets is invested in the securities, other than U.S. Government securities or securities of other RICs, (i) of one issuer (ii) of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) of one or more “qualified publicly traded partnerships,” or the Diversification Tests.

To the extent that we invest in entities treated as partnerships for U.S. federal income tax purposes (other than a “qualified publicly traded partnership”), we generally must include our allocable share of the items of gross income derived by the partnerships for purposes of the 90% Income Test, and the income that is derived from a partnership (other than, a “qualified publicly traded partnership”) will be treated as qualifying income for purposes of the 90% Income Test only to the extent that such income is attributable to items of income of the partnership which would be qualifying income if realized by us directly. In addition, we generally must take into account our proportionate share of the assets held by partnerships (other than a “qualified publicly traded partnership”) in which we are a partner for purposes of the Diversification Tests.

In order to meet the 90% Income Test, we have established several special purpose corporations, and in the future may establish additional such corporations, to hold assets from which we do not anticipate earning dividends, interest or other qualifying income under the 90% Income Test (the “Taxable Subsidiaries”). Any investments held through the Taxable Subsidiaries are generally subject to U.S. federal income and other taxes, and therefore we can expect to achieve a reduced after-tax yield on such investments.

We may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, if we hold debt instruments that are treated under applicable tax rules as having OID or debt instruments with PIK interest, we must include in income each year a portion of the OID that accrues over the life of the instrument and PIK interest, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. We anticipate that a portion of our income may constitute OID or other income required to be included in taxable income prior to our receipt of cash.

Because any OID or other amounts accrued will be included in our investment company taxable income for the year of the accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount. As a result, we may have difficulty meeting the Annual Distribution Requirement. We may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level U.S. federal income tax.

Furthermore, a portfolio company in which we invest may face financial difficulty that requires us to work-out, modify or otherwise restructure our investment in the portfolio company. Any such restructuring may result in unusable capital losses and future non-cash income. Any restructuring may also result in our recognition of a substantial amount of non-qualifying income for purposes of the 90% Income Test, such as cancellation of indebtedness income in connection with the work-out of a leveraged investment (which, while not free from doubt, may be treated as non-qualifying income) or the receipt of other non-qualifying income.

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

Investments by us in non-U.S. securities may be subject to non-U.S. income, withholding and other taxes, and therefore, our yield on any such securities may be reduced by such non-U.S. taxes. Stockholders will generally not be entitled to claim a credit or deduction with respect to non-U.S. taxes paid by us.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy the Annual Distribution Requirement and to avoid corporate-level U.S. federal income tax and the 4.0% U.S. federal excise tax. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. See "Regulation — Qualifying Assets" and "Regulation — Senior Securities." Moreover, our ability to dispose of assets to satisfy the Annual Distribution Requirement and to avoid corporate-level U.S. federal income tax and the 4.0% U.S. federal excise tax may be limited by (1) the illiquid nature of our portfolio and (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or to avoid corporate-level U.S. federal income tax or the 4.0% U.S. federal excise tax, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, unless certain cure provisions apply, we will be subject to tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders. In that case, all of such income will be subject to corporate-level U.S. federal income tax, reducing the amount available to be distributed to our stockholders. See "Failure To Qualify as a RIC" below.

As a RIC, we are not allowed to carry forward or carry back a net operating loss for purposes of computing our investment company taxable income in other taxable years. U.S. federal income tax law generally permits a RIC to carry forward (i) the excess of its net short-term capital loss over its net long-term capital gain for a given year as a short-term capital loss arising on the first day of the following year and (ii) the excess of its net long-term capital loss over its net short-term capital gain for a given year as a long- term capital loss arising on the first day of the following year. However, future transactions in which we may engage could cause our ability to use any capital loss carryforwards, and unrealized losses once realized, to be limited under Section 382 of the Code.

Certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert lower taxed long-term capital gain and qualified dividend income into higher taxed short-term capital gain or ordinary income, (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (iv) cause us to recognize income or gain without a corresponding receipt of cash, (v) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (vi) adversely alter the characterization of certain complex financial transactions, and (vii) produce income that will not be qualifying income for purposes of the 90% Income Test. We will monitor our transactions and may make certain tax elections in order to mitigate the effect of these provisions.

As described above, to the extent that we invest in equity securities of entities that are treated as partnerships for U.S. federal income tax purposes, the effect of such investments for purposes of the 90% Income Test and the Diversification Tests will depend on whether or not the partnership is a "qualified publicly traded partnership" (as defined in Subchapter M of the Code). If the partnership is a "qualified publicly traded partnership," the net income derived from such investments will be qualifying income for purposes of the 90% Income Test and will be "securities" for purposes of the Diversification Tests. If the partnership, however, is not treated as a "qualified publicly traded partnership," then the consequences of an investment in the partnership will depend upon the amount and type of income and assets of the partnership allocable to us. The income derived from such investments may not be qualifying income for purposes of the 90% Income Test and, therefore, could adversely affect our tax treatment as a RIC. We intend to monitor our investments in equity securities of entities that are treated as partnerships for U.S. federal income tax purposes to prevent our disqualification as a RIC.

We may invest in preferred securities or other securities the U.S. federal income tax treatment of which may not be clear or may be subject to recharacterization by the Internal Revenue Service ("IRS"). To the extent the tax treatment of such securities or the income from such securities differs from the expected tax treatment, it could affect the timing or character of income recognized, requiring us to purchase or sell securities, or otherwise change our portfolio, in order to comply with the tax rules applicable to RICs under Subchapter M of the Code.

We may make distributions that are payable in cash or shares of our stock at the election of each stockholder. In accordance with Treasury regulations and published guidance issued by the Internal Revenue Service, a publicly offered RIC may treat distributions of its own stock as counting towards its RIC distribution requirements if each stockholder may elect to receive his, her, or its entire distribution in either cash or stock of the RIC. The IRS has issued a revenue procedure indicating that this rule will apply if the total amount of cash to be distributed is not less than 20% of the total distribution. Under this revenue procedure, if too many stockholders elect to receive their distributions in cash, the cash available for distribution must be allocated among the shareholders electing to receive cash (with the balance of the distribution paid in stock). If we decide to make any distributions that are payable in part in shares of our stock, U.S. stockholders receiving such distributions will be required to include the full amount of the distribution (whether received in cash, shares of our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits. As a result, a U.S. stockholder may be required to pay tax with respect to such distributions in excess of any cash received. If a U.S. stockholder sells the stock it receives in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. federal tax with respect to such distributions, including in respect of all or a portion of such distributions that are payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on such distributions, it may put downward pressure on the trading price of shares of our stock.

We may decide to retain some or all of our long-term capital gains in excess of the amount required to satisfy the Annual Distribution Requirement, but designate the retained amount as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount on behalf of the stockholders. Each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. Since non-U.S. stockholders generally would not have U.S. tax liability with respect to the deemed capital gain distribution, they would not be entitled to credit the tax paid by us for U.S. tax purposes. Whether non-U.S. stockholders could claim a credit with respect to their non-U.S. tax liability will depend on the foreign tax credit rules of the country in which they are a resident. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

Failure to Obtain RIC Tax Treatment

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

If we were unable to maintain our tax treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would distributions be compulsory. Distributions would generally be taxable to our stockholders as dividend income to the extent of our current and accumulated earnings and profits (in the case of non-corporate U.S. stockholders, at a maximum U.S. federal income tax rate applicable to qualified dividend income of 20.0%). Subject to certain limitations under Subchapter M of the Code, corporate distributees would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain.

If we fail to qualify as a RIC for two or more taxable years, to qualify as a RIC in a subsequent year we may be subject to regular corporate-level U.S. federal income tax on any net built-in gains with respect to certain of our assets (i.e., the excess of the aggregate gains, including items of income, over aggregate losses that would have been realized with respect to such assets if we had been liquidated) that we elect to recognize on requalification or when recognized over the next five years.

Item 1A. Risk Factors.

RISK FACTORS

Investing in our securities involves a number of significant risks. You should carefully consider these risk factors, together with all of the other information included in this Annual Report and other reports and documents filed by us with the SEC. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

SUMMARY OF RISK FACTORS

The following is a summary of the principal risks that you should carefully consider before investing in our securities. These and other risk factors are described more fully in this "Item 1A. Risk Factors."

Risks Relating to Our Business and Structure

- We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses.
- We may have potential conflicts of interest related to obligations that our investment advisor may have to other clients.
- We may have conflicts related to other arrangements with our investment advisor.
- The Funds are licensed by the SBA, and, therefore, are subject to SBA regulations.
- SBA regulations limit the amount of SBA-guaranteed debt that may be borrowed by an SBIC.
- Changes relating to the LIBOR calculation process may adversely affect the value of our portfolio of LIBOR-indexed, floating-rate debt securities.
- Global economic, political and market conditions may adversely affect our business, results of operations and financial condition, including our revenue growth and profitability.
- Events outside of our control, including public health crises such as the ongoing COVID-19 pandemic, may negatively affect our results of operations and financial performance.
- We are currently operating in a period of capital markets disruption and economic uncertainty.
- We may not be able to pay you distributions, our distributions may not grow over time, a portion of distributions paid to you may be a return of capital, and investors in our debt securities may not receive all of the interest income to which they are entitled.
- We may choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.
- Due to the COVID-19 pandemic or other disruptions in the economy, we may not be able to increase our dividends and may reduce or defer our dividends and choose to incur US federal excise tax in order preserve cash and maintain flexibility.
- Internal and external cyber threats, as well as other disasters, could impair our ability to conduct business effectively.
- Public health threats may affect the market for the 2023 Notes, the February 2024 Notes and the November 2024 Notes, impact the businesses in which we invest and affect our business, operating results and financial condition.

Risks Relating to Our Investments

- Economic recessions or downturns could impair our portfolio companies and harm our operating results.
- Our investments in portfolio companies may be risky, and we could lose all or part of our investment.
- The lack of liquidity in our investments may adversely affect our business.
- We may not have the funds to make additional investments in our portfolio companies which could impair the value of our portfolio.
- Defaults by our portfolio companies will harm our operating results.
- We are a non-diversified investment company within the meaning of the 1940 Act; therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

Risks Relating to Our Common Stock

- Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value.
- If, in the future, we sell common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material.
- Our net asset value may have changed significantly since our last valuation.
- The market price of our securities may fluctuate significantly.
- Sales of substantial amounts of our common stock may have an adverse effect on the market price of our common stock.

Risks Relating to Our Business and Structure

We are dependent upon our investment advisor's managing members and our executive officers for our future success. If our investment advisor was to lose any of its managing members or we lose any of our executive officers, our ability to achieve our investment objective could be significantly harmed.

We depend on the investment expertise, skill and network of business contacts of the managing members of our investment advisor, who evaluate, negotiate, structure, execute and monitor our investments. Our future success will depend to a significant extent on the continued service and coordination of the investment professionals of our investment advisor and executive officers. Certain investment professionals and executives may not devote all of their business time to our operations and may have other demands on their time as a result of other activities. The departure of any of these individuals could have a material adverse effect on our ability to achieve our investment objective.

Our business model depends, to a significant extent, upon strong referral relationships with financial institutions, sponsors and investment professionals. Any inability of our investment advisor to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.

We depend upon the investment professionals of our investment advisor to maintain their relationships with financial institutions, sponsors and investment professionals, and we intend to rely to a significant extent upon these relationships to provide us with potential investment opportunities. If the investment professionals of our investment advisor fail to maintain such relationships, or to develop new relationships with other sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom the investment professionals of our investment advisor have relationships are not obligated to provide us with investment opportunities, and, therefore, we can offer no assurance that these relationships will generate investment opportunities for us in the future.

Our financial condition and results of operation depends on our ability to manage our business effectively.

Our ability to achieve our investment objective and grow depends on our ability to manage our business and deploy our capital effectively. This depends, in turn, on our investment advisor's ability to identify, evaluate and monitor companies that meet our investment criteria. Accomplishing our investment objectives on a cost-effective basis depends upon our investment advisor's execution of our investment process, its ability to provide competent, attentive and efficient services to us and, to a lesser extent, our access to financing on acceptable terms. Our investment advisor has substantial responsibilities under the Investment Advisory Agreement. In addition, our investment advisor's investment professionals may be called upon to provide managerial assistance to our portfolio companies. These activities may distract them or slow our rate of investment. Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

We may suffer credit losses and our investments could be rated below investment grade.

Private debt in the form of second lien, subordinated, and first lien (senior secured or unitranche loans) to corporate and asset-based borrowers is highly speculative and involves a high degree of risk of credit loss, and therefore an investment in our shares of common stock may not be suitable for someone with a low tolerance for risk. These risks are likely to increase during an economic recession.

In addition, investments in our portfolio are typically not rated by any rating agency. We believe that if such investments were rated, the vast majority would be rated below investment grade (which is sometimes referred to as "junk") due to speculative characteristics of the issuer's capacity to pay interest and repay principal. Our investments may result in an amount of risk, volatility or potential loss of principal that is greater than that of alternative investments.

Because we borrow money and may in the future issue additional senior securities, including preferred stock and debt securities, the potential for gain or loss on amounts invested in us is magnified and may increase the risk of investing in us.

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in us. The Funds borrow from and issue debt securities to the SBA, and we may borrow from banks and other lenders in the future. The SBA has fixed dollar claims on the Funds' assets that are superior to the claims of our stockholders. We may also borrow from banks and other lenders or issue additional senior securities including preferred stock and debt securities in the future. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not used leverage. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make distributions to our stockholders. Leverage is generally considered a speculative investment technique.

Our ability to achieve our investment objectives may depend in part on our ability to achieve additional leverage on favorable terms by borrowing from the SBA, banks or other lenders, and there can be no assurance that such additional leverage can in fact be achieved.

As a BDC, we are generally required to meet a coverage ratio at least equal to 150.0% of total assets to total borrowings and other senior securities, which include all of our borrowings (other than the Funds' SBA leverage under the terms of SEC exemptive relief) and any preferred stock we may issue in the future. If this ratio declines below 150.0%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions to our stockholders.

The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10.0)%	(5.0)%	0.0%	5.0%	10.0%
Corresponding return to common stockholder (1)	(26.5)%	(15.8)%	(5.2)%	5.5%	16.1%

(1) Assumes $875.7 million in total assets, $147.0 million in outstanding SBA debentures, $0.0 million in borrowings under the Credit Facility (as defined below), $307.3 million oustanding of our Notes, $410.8 million in net assets as of December 31, 2020, and an average cost of funds of 4.680%.

Legislation that took effect in 2018 would allow us to incur additional leverage.

The 1940 Act generally prohibits the Company from incurring indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200.0% (i.e., the amount of debt may not exceed 50.0% of the value of our assets). However, in March 2018, the Small Business Credit Availability Act ("the "SBCA") modified the 1940 Act by allowing a BDC to increase the maximum amount of leverage it may incur from an asset coverage ratio of 200.0% to an asset coverage ratio of 150.0%, if certain requirements are met. Under the SBCA, we are allowed to increase our leverage capacity if stockholders representing at least a majority of the votes cast, when a quorum is present, approve a proposal to do so. If we receive stockholder approval, we would be allowed to increase our leverage capacity on the first day after such approval. Alternatively, the SBCA allows the "required majority" of our independent directors, as defined in Section 57(o) of the 1940 Act, to approve an increase in our leverage capacity, and such approval would become effective after the one-year anniversary of such proposal. In either case, we would be required to make certain disclosures on our website and in SEC filings regarding, among other things, the receipt of approval to increase our leverage, our leverage capacity and usage, and risks related to leverage.

On April 29, 2019, our Board, including a majority of the non-interested directors, approved a minimum asset coverage ratio of 150% under Sections 18(a)(1) and 18(a)(2) of the 1940 Act. As a result, we will become subject to the 150% asset coverage ratio effective as of April 29, 2020.

Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, our stockholders will experience increased risks of investing in our securities. If the value of our assets increases, then leveraging would cause the NAV attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause NAV to decline more sharply than it otherwise would have had we not leveraged our business. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments, or other payments related to our securities. Increased leverage may also cause a downgrade of our credit rating. Leverage is generally considered a speculative investment technique.

All of our portfolio investments are recorded at fair value as determined in good faith by our board of directors, and, as a result, there is uncertainty as to the value of our portfolio investments and the valuation process for certain of our portfolio holdings creates a conflict of interest.

All of our portfolio investments take the form of debt and equity securities that are not publicly-traded. The debt and equity securities in which we invest for which market quotations are not readily available are valued at fair value as determined in good faith by our board of directors. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments:

- a comparison of the portfolio company's securities to comparable publicly-traded securities;
- the enterprise value of a portfolio company;
- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments and its earnings and discounted cash flow;
- the markets in which the portfolio company does business; and
- changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors.

The fair value of each investment in our portfolio is determined quarterly by our board of directors. Any changes in fair value of portfolio securities from the prior period are recorded in our consolidated statement of operations as net change in unrealized appreciation or depreciation.

In connection with that determination, investment professionals from our investment advisor prepare portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. In addition, certain members of our board of directors have a pecuniary interest in our investment advisor. The participation of our investment advisor's investment professionals in our valuation process, and the pecuniary interest in our investment advisor by certain members of our board of directors, may result in a conflict of interest as the management fees that we pay our investment advisor are based on our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts).

Our board of directors engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of our portfolio investments for which market quotations are not readily available. Each portfolio company investment is generally appraised by the valuation firm(s) at least once every calendar year and each new portfolio company investment is appraised at least once in the twelve-month period following the initial investment. In certain instances, we may determine that it is not cost-effective, and as a result it is not in our stockholders' best interest, to request the independent appraisal of certain portfolio company investments. Such instances include, but are not limited to, situations where we determine that the fair value of the portfolio company investment is relatively insignificant to the fair value of the total portfolio. Our board of directors consulted with the independent valuation firm(s) in arriving at our determination of fair value for 12 and 13 of our portfolio company investments representing 25.8% and 30.9% of the total portfolio investments at fair value (exclusive of new portfolio company investments made during the three months ended December 31, 2020 and 2019, respectively) as of December 31, 2020 and 2019, respectively.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material. Declines in prices and liquidity in the corporate debt markets may also result in significant net unrealized depreciation in our debt portfolio. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such investments.

We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses.

A number of entities compete with us to make the types of investments that we make. We compete with public and private funds, other BDCs, commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity and hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some of our competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we match our competitors' pricing, terms and structure, we may experience a decrease in net investment income or an increase in risk of capital loss. A significant part of our competitive advantage stems from the fact that the lower middle-market is underserved by traditional commercial and investment banks, and generally has less access to capital. A significant increase in the number and/or the size of our competitors in this target market could force us to accept less attractive investment terms.

Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC or the source of income, asset diversification and distribution requirements we must satisfy to maintain our RIC status. The competitive pressures we face may have a material adverse effect on our business, financial condition and results of operations. As a result of this existing and potentially increasing competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we may not be able to identify and make investments that are consistent with our investment objective.

Our management and incentive fee structure may create incentives for our investment advisor that are not fully aligned with the interests of our stockholders and may encourage our investment advisor to make speculative investments.

The management and incentive fees paid to our investment advisor are based on our total assets (other than cash or cash equivalents but including assets purchased with borrowed amounts), and our investor advisor may therefore benefit when we incur debt or use leverage. This fee structure may encourage our investment advisor to cause us to borrow money to finance additional investments. Under certain circumstances, the use of borrowed money may increase the likelihood of default, which would disfavor our stockholders. Our board of directors is charged with protecting our interests by monitoring how our investment advisor addresses these and other conflicts of interests. Our board of directors is not expected to review or approve each borrowing or incurrence of leverage. However, our board of directors, periodically reviews our investment advisor's portfolio management decisions and portfolio performance. In addition, our board of directors at least annually reviews the services provided by and fees paid to our investment advisor. In connection with these reviews, our board of directors, including a majority of our Independent Directors, considers whether the fees and expenses (including those related to leverage) that we pay to our investment advisor are fair and reasonable in relation to the services provided and must approve renewal of our Advisory Agreement.

The part of the incentive fee payable to our investment advisor that relates to our net investment income is computed and paid on income that includes interest income that has been accrued but not yet received in cash. This fee structure may encourage our investment advisor to favor debt financings that provide for deferred interest (PIK interest), rather than current cash payments of interest. Our investment advisor may have an incentive to invest in deferred interest securities in circumstances where it would not have done so but for the opportunity to continue to earn the incentive fee even when the issuers of the deferred interest securities would not be able to make actual cash payments to us on such securities. This risk could be increased because our investment advisor is not obligated to reimburse us for any incentive fees received even if we subsequently incur losses or never receive in cash the deferred interest that was previously accrued.

The incentive fee is based, in part, upon net capital gains realized on our investments. Unlike the portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, our investment advisor may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

We may be obligated to pay our investment advisor incentive compensation even if we incur a loss and may pay more than 20.0% of our net capital gains because we cannot recover payments made in previous years.

Our investment advisor will be entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our pre-incentive fee net investment income for that quarter above a threshold return for that quarter. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our consolidated statement of operations for that quarter. Thus, we may be required to pay our investment advisor incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter. Further, if we pay an incentive fee of 20.0% of our realized capital gains (net of all realized capital losses and unrealized capital depreciation on a cumulative basis) and thereafter experience additional realized capital losses or unrealized capital depreciation, we will not be able to recover any portion of the incentive fee previously paid.

A general increase in interest rates will likely have the effect of making it easier for the investment advisor to receive incentive fees, without necessarily resulting in an increase in our net earnings.

Given the structure of the Investment Advisory Agreement, any general increase in interest rates can be expected to lead to higher interest rates applicable to our debt investments and will likely have the effect of making it easier for the investment advisor to meet the quarterly hurdle rate for payment of income incentive fees under the Investment Advisory Agreement without any additional increase in relative performance on the part of the investment advisor. This may occur without a corresponding increase in distributions to our stockholders. In addition, in view of the catch-up provision applicable to income incentive fees under the Investment Advisory Agreement, the investment advisor could potentially receive a significant portion of the increase in our investment income attributable to such a general increase in interest rates. If that were to occur, our increase in net earnings, if any, would likely be significantly smaller than the relative increase in the investment advisor's income incentive fee resulting from such a general increase in interest rates.

We may have potential conflicts of interest related to obligations that our investment advisor may have to other clients.

Currently, the Company, the Funds, Fidus Credit Opportunities, L.P., Fidus Equity Opportunities Fund, L.P., and Fidus Equity Fund I, L.P. are the only investment vehicles managed by our investment advisor. The Investment Advisory Agreement does not limit our investment advisor's ability to act as an investment advisor to other funds, including other BDCs, or other investment advisory clients. To the extent our investment advisor acts as an investment advisor to other funds or clients, including Fidus Credit Opportunities, L.P., Fidus Equity Opportunities Fund, L.P., and Fidus Equity Fund I, L.P., we may have conflicts of interest with our investment advisor or its other clients that elect to invest in similar types of securities as those in which we invest. Members of our investment advisor's investment committee serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do, or of investment funds or other investment vehicles managed by our investment advisor. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interests of us or our stockholders. Our investment advisor will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with an allocation policy approved by our board of directors.

To the extent our investment advisor forms affiliates, including Fidus Credit Opportunities, L.P., Fidus Equity Opportunities Fund, L.P., and Fidus Equity Fund I, L.P., we may co-invest on a concurrent basis with such affiliates, subject to compliance with applicable regulations and regulatory guidance and our allocation procedures. While we may co-invest with investment entities managed by our investment advisor or its affiliates, to the extent permitted by the 1940 Act and the rules and regulations thereunder, the 1940 Act imposes significant limits on co-investment. On January 4, 2017, the SEC granted us relief sought in an exemptive application that expands our ability to co-invest in portfolio companies with certain of our affiliates managed by our investment advisor in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, subject to compliance with certain conditions (the "Order"). Pursuant to the Order, we are permitted to co-invest with our affiliates if a "required majority" (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching by us or our stockholders on the part of any person concerned, and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. We intend to co-invest, subject to the conditions included in the Order.

Our investment advisor or its investment committee may, from time to time, possess material non-public information, limiting our investment discretion.

The investment professionals of our investment advisor may serve as directors of, or in a similar capacity with, companies in which we invest, the securities of which are purchased or sold on our behalf. In the event that material non-public information is obtained with respect to such companies, or we become subject to trading restrictions under the internal trading policies of those companies or as a result of applicable law or regulations, we could be prohibited for a period of time from purchasing or selling the securities of such companies, and this prohibition may have an adverse effect on us.

We may have conflicts related to other arrangements with our investment advisor.

We entered into a license agreement with Fidus Partners, LLC under which Fidus Partners, LLC granted us a non-exclusive (provided that there is not a change in control of Fidus Partners, LLC), royalty-free license to use the name "Fidus." Some of the members of our investment advisor's investment committee and the senior origination professionals of our investment advisor are members of Fidus Partners, LLC. See "Management and Other Agreements — License Agreement." In addition, we rent office space from our investment advisor and pay to our investment advisor our allocable portion of overhead and other expenses incurred in performing its obligations under the Administration Agreement, such as our allocable portion of the cost of our chief financial officer and chief compliance officer. This creates conflicts of interest that our board of directors must monitor.

The Funds are licensed by the SBA, and, therefore, are subject to SBA regulations.

The Funds are licensed to operate as SBICs and are regulated by the SBA. Under current SBA regulations, a licensed SBIC can provide capital to those entities that have a tangible net worth not exceeding $19.5 million and an average annual net income after U.S. federal income taxes not exceeding $6.5 million for the two most recent fiscal years. In addition, a licensed SBIC must devote 25.0% of its investment activity to those entities that have a tangible net worth not exceeding $6.0 million and an average annual net income after U.S. federal income taxes not exceeding $2.0 million for the two most recent fiscal years. The SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on either the number of employees or the gross sales of the business. The SBA regulations permit licensed SBICs to make long term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. The SBA also places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in certain prohibited industries. Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA staff to determine its compliance with the relevant SBA regulations. Compliance with these SBA requirements may cause the Funds to forego attractive investment opportunities that are not permitted under the SBA regulations, and may cause the Funds to make investments they otherwise would not make in order to remain in compliance with these regulations.

Failure to comply with the SBA regulations could result in the loss of the SBIC licenses and the resulting inability to participate in the SBA debenture program. The SBA prohibits, without prior SBA approval, a “change of control” of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. Current SBA regulations provide the SBA with certain rights and remedies if an SBIC violates their terms. A key regulatory metric for SBA is the extent of “Capital Impairment,” which is the extent of realized (and, in certain circumstances, net unrealized) losses compared with the SBIC’s private capital commitments. Interest payments, management fees, organization and other expenses are included in determining “realized losses.” SBA regulations preclude the full amount of “unrealized appreciation” from portfolio companies from being considered when calculating Capital Impairment in certain circumstances. Remedies for regulatory violations are graduated in severity depending on the seriousness of Capital Impairment or other regulatory violations. For minor regulatory infractions, the SBA issues a warning. For more serious infractions, the use of SBA debentures may be limited or prohibited, outstanding debentures can be declared to be immediately due and payable, restrictions on distributions and making new investments may be imposed and management fees may be required to be reduced. In severe cases, the SBA may require the removal of a general partner of an SBIC or its officers, directors, managers or partners, or the SBA may obtain appointment of a receiver for the SBIC.

SBA regulations limit the amount of SBA-guaranteed debt that may be borrowed by an SBIC.

The SBA regulations currently limit the amount that is available to be borrowed by any SBIC and guaranteed by the SBA to 300.0% of an SBIC’s regulatory capital or $175.0 million, whichever is less. For two or more SBICs under common control, the maximum amount of outstanding SBA debentures cannot exceed $350.0 million. If the Funds borrow the maximum amount from the SBA and thereafter require additional capital, our cost of capital may increase, and there is no assurance that we will be able to obtain additional financing on acceptable terms.

Moreover, the Funds’ current status as SBICs does not automatically assure that they will continue to receive funding through the SBA debenture program. Receipt of SBA debenture funding is dependent upon the Funds’ continuing compliance with SBA regulations and policies and there being funding available. The amount of SBA debenture funding available to SBICs is dependent upon annual Congressional authorizations and in the future may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient SBA debenture funding available at the times desired by the Funds.

The debentures issued by the Funds and guaranteed by the SBA have a maturity of ten years and bear interest semi-annually at fixed rates. Certain of the Funds’ SBA debentures begin to mature in 2025 and will require repayment on or before the respective maturity dates. The Funds will need to generate sufficient cash flow to make required debt payments on such debentures. If the Funds are unable to generate such cash flow, the SBA, as guarantor of the debentures, will have a superior claim to our assets over our stockholders in the event the Funds liquidate or the SBA exercises its remedies under such debentures as the result of a default by the Funds.

The Funds, as SBICs, are limited in their ability to make distributions to us, which could result in us being unable to meet the minimum distribution requirements to maintain our status as a RIC.

In order to maintain our tax treatment as a RIC, we are required to timely distribute to our stockholders on an annual basis 90.0% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses. For this purpose, our taxable income will include the income of the Funds (and any other entities that are disregarded as separate from us for U.S. federal income tax purposes). The Funds’ ability to make distributions to us may be limited by the Small Business Investment Act of 1958. As a result, in order to maintain our tax treatment as a RIC, we may be required to make distributions attributable to the Funds’ income without receiving any corresponding cash distributions with respect to such income. We can make no assurances that the Funds will be able to make, or not be limited in making, distributions to us. If we are unable to satisfy the annual distribution requirements, we may fail to maintain our tax treatment as a RIC, which would result in the imposition of corporate-level U.S. federal income tax on our entire taxable income without regard to any distributions made by us. See “We will be subject to corporate-level U.S. federal income tax if we are unable to maintain our tax treatment as a RIC under Subchapter M of the Code.”

Changes in interest rates will affect our cost of capital and net investment income.

Most of our debt investments bear interest at fixed rates and the value of these investments could be negatively affected by increases in market interest rates. In addition, to the extent that we borrow additional funds to make investments, an increase in interest rates would make it more expensive for us to use debt to finance our investments. As a result, a significant increase in market interest rates could both reduce the value of our portfolio investments and increase our cost of capital, which would reduce our net investment income. Conversely, a decrease in interest rates may have an adverse impact on our returns by requiring us to seek lower yields on our debt investments and by increasing the risk that our portfolio companies will prepay the debt investments, resulting in the need to redeploy capital at potentially lower rates.

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

In the recent past, concerns have been publicized that some of the member banks surveyed by the British Bankers' Association ("BBA") in connection with the calculation of The London Inter-bank Offered Rate ("LIBOR") across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivative positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

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

On July 27, 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. We have exposure to LIBOR, including in financial instruments that mature after 2021. Our exposure arises from the value of our portfolio of LIBOR-indexed, floating-rate debt securities. The Company intends to monitor the developments with respect to the scheduled phasing out of LIBOR after 2021 and work with its portfolio companies and lenders to ensure such transition away from LIBOR will have minimal impact on its financial condition, but can provide no assurances regarding the impact of the discontinuation of LIBOR.

In the United States, the Federal Reserve Board and the Federal Reserve Bank of New York, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index calculated by short-term repurchase agreements, backed by Treasury securities called the Secured Overnight Financing Rate ("SOFR"). The Federal Reserve Bank of New York began publishing SOFR in April 2018. In addition, on March 25, 2020, the U.K. Financial Conduct Authority stated that, although the central assumption that firms cannot rely on LIBOR being published after the end of 2021 has not changed, the outbreak of COVID-19 has impacted the timing of many firms' transition planning, and the U.K. Financial Conduct Authority will continue to assess the impact of the COVID-19 outbreak on transition timelines and update the marketplace as soon as possible. Furthermore, on November 30, 2020, the Intercontinental Exchange, Inc. ("ICE") announced that the ICE Benchmark Administration Limited, a wholly owned subsidiary of ICE and the administrator of LIBOR, announced its plan to extend the date that most U.S. LIBOR values would cease being computed from December 31, 2021 to June 30, 2023. Despite this extension of the U.S. LIBOR transition deadline for certain LIBOR values, U.S. regulators continue to urge financial institutions to stop entering into new LIBOR transactions by the end of 2021.

Although SOFR appears to be the preferred replacement rate for U.S. dollar LIBOR, at this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or other reforms to LIBOR that may be enacted in the United States, United Kingdom or elsewhere or, whether the COVID-19 outbreak will have further effect on LIBOR transition plans. The elimination of LIBOR or any other changes or reforms to the determination or supervision of LIBOR could have an adverse impact on the market for or value of any LIBOR-indexed, floating-rate debt securities, loans, and other financial obligations or extensions of credit held by or due to us or on our overall financial condition or results of operations.

Our ability to enter into transactions involving derivatives and financial commitment transactions may be limited.

Through comprehensive new global regulatory regimes impacting derivatives (*e.g.*, the Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), European Market Infrastructure Regulation ("EMIR"), Markets in Financial Investments Regulation ("MIFIR")/Markets in Financial Instruments Directive ("MIFID II")), certain over-the-counter derivatives transactions in which we may engage are either now or will soon be subject to various requirements, such as mandatory central clearing of transactions which include additional margin requirements and in certain cases trading on electronic platforms, pre-and post-trade transparency reporting requirements and mandatory bi-lateral exchange of initial margin for non-cleared swaps. The Dodd-Frank Act also created new categories of regulated market participants, such as "swap dealers," "security-based swap dealers," "major swap participants," and "major security-based swap participants" who are subject to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements. The EU and some other jurisdictions are implementing similar requirements. Because these requirements are new and evolving (and some of the rules are not yet final), their ultimate impact remains unclear. However, even if the Company itself is not located in a particular jurisdiction or directly subject to the jurisdiction's derivatives regulations, we may still be impacted to the extent we enter into a derivatives transaction with a regulated market participant or counterparty that is organized in that jurisdiction or otherwise subject to that jurisdiction's derivatives regulations.

Based on information available as of the date of this annual report on Form 10-K, the effect of such requirements will be likely to (directly or indirectly) increase our overall costs of entering into derivatives transactions. In particular, new margin requirements, position limits and significantly higher capital charges resulting from new global capital regulations, even if not directly applicable to us, may cause an increase in the pricing of derivatives transactions entered into by market participants to whom such requirements apply or affect our overall ability to enter into derivatives transactions with certain counterparties. Such new global capital regulations and the need to satisfy the various requirements by counterparties are resulting in increased funding costs, increased overall transaction costs, and significantly affecting balance sheets, thereby resulting in changes to financing terms and potentially impacting our ability to obtain financing. Administrative costs, due to new requirements such as registration, recordkeeping, reporting, and compliance, even if not directly applicable to us, may also be reflected in our derivatives transactions. New requirements to trade certain derivatives transactions on electronic trading platforms and trade reporting requirements may lead to (among other things) fragmentation of the markets, higher transaction costs or reduced availability of derivatives, and/or a reduced ability to hedge, all of which could adversely affect the performance of certain of our trading strategies. In addition, changes to derivatives regulations may impact the tax and/or accounting treatment of certain derivatives, which could adversely impact us.

In November 2020, the SEC adopted new rules regarding the ability of a BDC (or a registered investment company) to use derivatives and other transactions that create future payment or delivery obligations. BDCs that use derivatives would be subject to a value-at-risk leverage limit, certain other derivatives risk management program and testing requirements and requirements related to board reporting. These new requirements would apply unless the BDC qualified as a “limited derivatives user,” as defined in the SEC’s adopted rules. A BDC that enters into reverse repurchase agreements or similar financing transactions would need to aggregate the amount of indebtedness associated with the reverse repurchase agreements or similar financing transactions could either (i) comply with the asset coverage requirements of the Section 18 of the 1940 Act when engaging in reverse repurchase agreements or (ii) choose to treat such agreements as derivative transactions under the adopted rule. Under the adopted rule, a BDC may enter into an unfunded commitment agreement that is not a derivatives transaction, such as an agreement to provide financing to a portfolio company, if the BDC has a reasonable belief, at the time it enters into such an agreement, that it will have sufficient cash and cash equivalents to meet its obligations with respect to all of its unfunded commitment agreements, in each case as it becomes due. If the BDC cannot meet this test, it is required to treat unfunded commitments as a derivatives transaction subject to the requirements of the rule. Collectively, these requirements may limit our ability to use derivatives and/or enter into certain other financial contracts.

Global economic, political and market conditions may adversely affect our business, results of operations and financial condition, including our revenue growth and profitability.

We and our portfolio companies are subject to regulation by laws at the U.S. federal, state and local levels. These laws and regulations, as well as their interpretation, could change from time to time, including as the result of interpretive guidance or other directives from the U.S. President and others in the executive branch, and new laws, regulations and interpretations could also come into effect. Any such new or changed laws or regulations could have a material adverse effect on our business, and political uncertainty could increase regulatory uncertainty in the near term.

The effects of legislative and regulatory proposals directed at the financial services industry or affecting taxation, could negatively impact the operations, cash flows or financial condition of us and our portfolio companies, impose additional costs on us or our portfolio companies, intensify the regulatory supervision of us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies. In addition, if we do not comply with applicable laws and regulations, we could lose any licenses that we then hold for the conduct of business and could be subject to civil fines and criminal penalties.

Over the last several years, there also has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new regulation. While it cannot be known at this time whether any regulation will be implemented or what form it will take, increased regulation of non-bank credit extension could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business, financial condition and results of operations.

On May 24, 2018, the President of the United States signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act, which increased from $50 billion to $250 billion the asset threshold for designation of “systemically important financial institutions” or “SIFIs” subject to enhanced prudential standards set by the Federal Reserve Board, staggering application of this change based on the size and risk of the covered bank holding company. On May 30, 2018, the Federal Reserve Board voted to consider changes to the Volcker Rule that would loosen compliance requirements for all banks. The effect of this change and any further rules or regulations are and could be complex and far-reaching, and the change and any future laws or regulations or changes thereto could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business, financial condition and results of operations.

Although we cannot predict the impact, if any, of these changes to our business, they could adversely affect our business, financial condition, operating results and cash flows. Until we know what policy changes are made and how those changes impact business and the business of our competitors over the long term, we will not know if, overall, it will benefit from them or be negatively affected by them.

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt, which created concerns about the ability of certain nations to continue to service their sovereign debt obligations. Risks resulting from such debt crisis, including any austerity measures taken in exchange for bailout of certain nations, and any future debt crisis in Europe or any similar crisis elsewhere could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in certain countries and the financial condition of financial institutions generally. On January 31, 2020, the United Kingdom (the “UK”) ended its membership in the European Union (“Brexit”). Under the terms of the withdrawal agreement negotiated and agreed between the UK and the European Union, the UK’s departure from the European Union was followed by a transition period (the “Transition Period”), which ran until December 31, 2020 and during which the UK continued to apply European Union law and was treated for all material purposes as if it were still a member of the European Union. On December 24, 2020, the European Union and UK governments signed a trade deal that became provisionally effective on January 1, 2021 and that now governs the relationship between the UK and European Union (the “Trade Agreement”). The Trade Agreement implements significant regulation around trade, transport of goods and travel restrictions between the UK and the European Union. Notwithstanding the foregoing, the longer-term economic, legal, political and social implications of Brexit are unclear at this stage and are likely to continue to lead to ongoing political and economic uncertainty and periods of increased volatility in both the UK and in wider European markets for some time. In particular, Brexit could lead to calls for similar referendums in other European jurisdictions, which could cause increased economic volatility in the European and global markets. This mid- to long-term uncertainty could have adverse effects on the economy generally and on our ability to earn attractive returns. In particular, currency volatility could mean that our returns are adversely affected by market movements and could make it more difficult, or more expensive, for us to execute prudent currency hedging policies. Potential decline in the value of the British Pound and/or the Euro against other currencies, along with the potential further downgrading of the UK’s sovereign credit rating, could also have an impact on the performance of certain investments made in the UK or Europe.

Events outside of our control, including public health crises such as the ongoing COVID-19 pandemic, may negatively affect our results of operations and financial performance.

Periods of market volatility have occurred and could continue to occur in response to pandemics or other events outside of our control. These types of events have adversely affected and could continue to adversely affect operating results for us and for our portfolio companies. For example, the COVID-19 pandemic has delivered a shock to the global economy. This outbreak has led and for an unknown period of time will continue to lead to disruptions in local, regional, national and global markets and economies affected thereby, including a recession and a steep increase in unemployment in the United States.

With respect to the U.S. credit markets (in particular for middle market loans), this outbreak has resulted in, and until fully resolved is likely to continue to result in, the following among other things: (i) government imposition of various forms of shelter-in-place orders and the closing of “non-essential” businesses, resulting in significant disruption to the businesses of many middle-market loan borrowers including supply chains, demand and practical aspects of their operations, as well as in lay-offs of employees, and, while these effects are hoped to be temporary, some effects could be persistent or even permanent; (ii) increased draws by borrowers on revolving lines of credit; (iii) increased requests by borrowers for amendments and waivers of their credit agreements to avoid default, increased defaults by such borrowers and/or increased difficulty in obtaining refinancing at the maturity dates of their loans; (iv) volatility and disruption of these markets including greater volatility in pricing and spreads and difficulty in valuing loans during periods of increased volatility, and liquidity issues; and (v) rapidly evolving proposals and/or actions by state and federal governments to address problems being experienced by the markets and by businesses and the economy in general which will not necessarily adequately address the problems facing the loan market and middle market businesses.

While several countries, as well as certain states, counties and cities in the United States, have relaxed initial public health restrictions with the view to partially or fully reopening their economies, many cities have since experienced a surge in the reported number of cases, hospitalizations and deaths related to the COVID-19 pandemic. These surges have led to the re-introduction of such restrictions and business shutdowns in certain states in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. Health advisors warn that recurring COVID-19 outbreaks will continue if reopening is pursued too soon or in the wrong manner, which may lead to the re-introduction or continuation of certain public health restrictions (such as instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues). Additionally, as of late December 2020, travelers from the United States are not allowed to visit Canada, Australia or the majority of countries in Europe, Asia, Africa and South America. These continued travel restrictions may prolong the global economic downturn. In addition, although the Federal Food and Drug Administration authorized vaccines produced by Pfizer-BioNTech and Moderna for emergency use starting in December 2020, it remains unclear how quickly the vaccines will be distributed nationwide and globally or when “herd immunity” will be achieved and the restrictions that were imposed to slow the spread of the virus will be lifted entirely. The delay in distributing the vaccines could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period of time. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may continue to experience a recession, and we anticipate our business and operations could be materially adversely affected by a prolonged recession in the United States and other major markets.

This outbreak is having, and any future outbreaks could have, an adverse impact on the markets and the economy in general, which could have a material adverse impact on, among other things, the ability of lenders to originate loans, the volume and type of loans originated, and the volume and type of amendments and waivers granted to borrowers and remedial actions taken in the event of a borrower default, each of which could negatively impact the amount and quality of loans available for investment by us and returns to us, among other things. As of the date of this annual report on Form 10-K, it is impossible to determine the scope of this outbreak, or any future outbreaks, how long any such outbreak, market disruption or uncertainties may last, the effect any governmental actions will have or the full potential impact on us and our portfolio companies. Any potential impact to our results of operations will depend to a large extent on future developments and new information that could emerge regarding the duration and severity of COVID-19 and the actions taken by authorities and other entities to contain COVID-19 or treat its impact, all of which are beyond our control. These potential impacts, while uncertain, could adversely affect our and our portfolio companies' operating results.

If the economy is unable to substantially reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, loan non-accruals, problem assets, and bankruptcies may increase. In addition, collateral for our loans may decline in value, which could cause loan losses to increase and the net worth and liquidity of loan guarantors could decline, impairing their ability to honor commitments to us. An increase in loan delinquencies and non-accruals or a decrease in loan collateral and guarantor net worth could result in increased costs and reduced income which would have a material adverse effect on our business, financial condition or results of operations. Additionally, oil prices collapsed to an 18-year low on supply glut concerns, as shutdowns across the global economy sharply reduced oil demand while Saudi Arabia and Russia engaged in a price war. Central banks and governments have responded with liquidity injections to ease the strain on financial systems and stimulus measures to buffer the shock to businesses and consumers. These measures have helped stabilize certain portions of the financial markets over the short term, but volatility will likely remain elevated until the health crisis itself is under control (via fewer new cases, lower infection rates and/or verified treatments). There are still many unknowns and new information is incoming daily, compounding the difficulty of modeling outcomes for epidemiologists and economists alike.

We cannot be certain as to the duration or magnitude of the economic impact of the COVID-19 pandemic in the markets in which we and our portfolio companies operate, including with respect to travel restrictions, business closures, mitigation efforts (whether voluntary, suggested, or mandated by law) and corresponding declines in economic activity that may negatively impact the U.S. economy and the markets for the various types of goods and services provided by U.S. middle market companies. Depending on the duration, magnitude and severity of these conditions and their related economic and market impacts, certain portfolio companies may suffer declines in earnings and could experience financial distress, which could cause them to default on their financial obligations to us and their other lenders.

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

Any public health emergency, including the COVID-19 pandemic or any outbreak of other existing or new epidemic diseases, or the threat thereof, and the resulting financial and economic market uncertainty could have a significant adverse impact on us and the fair value of our investments. Our valuations, and particularly valuations of private investments and private companies, are inherently uncertain, may fluctuate over short periods of time and are often based on estimates, comparisons and qualitative evaluations of private information that may not show the complete impact of the COVID-19 pandemic and the resulting measures taken in response thereto. These potential impacts, while uncertain, could adversely affect our and our portfolio companies' operating results.

We are currently operating in a period of capital markets disruption and economic uncertainty.

The U.S. capital markets have experienced extreme volatility and disruption following the global outbreak of COVID-19 that began in December 2019. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, have created significant disruption in supply chains and economic activity. The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess. Some economists and major investment banks have expressed concern that the continued spread of the virus globally could lead to a world-wide economic downturn.

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

In addition, due to the outbreak in the United States, certain personnel of our investment advisor are currently working remotely, which may introduce additional operational risk to us. Staff members of certain of our other service providers may also work remotely during the COVID-19 outbreak. An extended period of remote working could lead to service limitations or failures that could impact us or our performance.

Further, current market conditions resulting from the COVID-19 pandemic may make it difficult for us to obtain debt capital on favorable terms and any failure to do so could have a material adverse effect on our business. The debt capital that will be available to us in the future, if at all, may be at a higher cost and on less favorable terms and conditions than what we would otherwise expect, including being at a higher cost in rising rate environments. If we are unable to raise debt, then our equity investors may not benefit from the potential for increased returns on equity resulting from leverage and we may be limited in our ability to make or fund commitments to portfolio companies. An inability to obtain indebtedness could have a material adverse effect on our business, financial condition or results of operations.

We may experience fluctuations in our quarterly operating results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

We will be subject to corporate-level U.S. federal income tax if we are unable to maintain our tax treatment as a RIC under Subchapter M of the Code.

We have elected to be treated as a RIC under Subchapter M of the Code; however, no assurance can be given that we will be able to maintain our RIC tax treatment. To maintain our tax treatment as a RIC under Subchapter M of the Code and to avoid the imposition of U.S. federal income taxes on income and gains distributed to our stockholders, we must meet certain requirements, including source-of-income, asset diversification and annual distribution requirements. The source-of-income requirement will be satisfied if we derive at least 90.0% of our gross income for each year from dividends, interest, gains from sale of securities or similar sources. To maintain our tax treatment as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these requirements may result in our losing our RIC tax treatment or our having to dispose of certain investments quickly in order to prevent the loss of RIC tax treatment. Because most of our investments will be in private or thinly traded public companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. The annual distribution requirement applicable to RICs will be satisfied if we timely distribute at least 90.0% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. In addition, we will be subject to a 4.0% nondeductible U.S. federal excise tax to the extent that we do not satisfy certain additional minimum distribution requirements on a calendar-year basis. We will be subject, to the extent we use debt financing, to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making annual distributions necessary to maintain our tax treatment as a RIC. If we are unable to obtain cash from other sources, we may fail to maintain our tax treatment as a RIC and, thus, may be subject to U.S. federal corporate income tax on our entire taxable income without regard to any distributions made by us. If we fail to maintain our tax treatment as a RIC for any reason and become subject to U.S. corporate income tax, the resulting tax liability could substantially reduce our net assets, the amount of income available for distributions to stockholders and the amount of our distributions and the amount of funds available for new investments. Such a failure could have a material adverse effect on us and our stockholders.

We may not be able to pay you distributions, our distributions may not grow over time, a portion of distributions paid to you may be a return of capital, and investors in our debt securities may not receive all of the interest income to which they are entitled.

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by the impact of one or more of the risk factors described in this annual report on Form 10-K, including the COVID-19 pandemic described above. For example, if the temporary closure of many corporate offices, retail stores, and manufacturing facilities and factories in the jurisdictions, including the United States, affected by the COVID-19 pandemic were to continue for an extended period of time, it could result in reduced cash flows to us from our existing portfolio companies, which could reduce cash available for distribution to our stockholders. If we violate certain covenants under our existing or future credit facilities or other leverage, we may be limited in our ability to make distributions. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of RIC tax treatment, compliance with applicable BDC regulations, SBA regulations, state corporate laws affecting the distribution of corporate assets and such other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will make distributions to our stockholders in the future.

The above-referenced restrictions on distributions may also inhibit our ability to make required interest payments to holders of our debt securities, which may cause a default under the terms of our then-existing debt agreements. Such a default could materially increase our cost of raising capital, as well as cause us to incur penalties under the terms of our then-existing debt agreements.

When we make quarterly distributions, we will be required to determine the extent to which such distributions are paid out of current and accumulated earnings and profits, recognized capital gain or capital. To the extent there is a return of capital, an investor gets his or her own invested capital returned to him or her, but reduced by the amount of the Company's expenses and any sales load he or she may have paid. In addition, investors will be required to reduce their basis in our stock for U.S. federal income tax purposes.

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

Under certain applicable provisions of the Code and the Treasury regulations and a revenue procedure issued by the IRS, a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 20% of the aggregate declared distribution. If too many stockholders elect to receive their distributions in cash, we must allocate the cash available for distribution among the shareholders electing to receive cash (with the balance of the distribution paid in shares of our common stock). If we decide to make any distributions consistent with this revenue procedure that are payable in part in our stock, taxable stockholders receiving such dividends will be required to include the full amount of the dividend (whether received in cash, our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale.

Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. If a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

Due to the COVID-19 pandemic or other disruptions in the economy, we may not be able to increase our dividends and may reduce or defer our dividends and choose to incur US federal excise tax in order preserve cash and maintain flexibility.

As a BDC, we are not required to make any distributions to shareholders other than in connection with our election to be taxed as a RIC under subchapter M of the Code. In order to maintain our tax treatment as a RIC, we must distribute to shareholders for each taxable year at least 90% of our investment company taxable income (i.e., net ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses). If we qualify for taxation as a RIC, we generally will not be subject to corporate-level US federal income tax on our investment company taxable income and net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) that we timely distribute to shareholders. We will be subject to a 4% US federal excise tax on undistributed earnings of a RIC unless we distribute each calendar year at least the sum of (i) 98.0% of our ordinary income for the calendar year, (ii) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and (iii) any ordinary income and net capital gains for preceding years that were not distributed during such years and on which we paid no federal income tax.

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

Due to the COVID-19 pandemic or other disruptions in the economy, we anticipate that we may take certain actions with respect to the timing and amounts of our distributions in order to preserve cash and maintain flexibility. For example, we anticipate that we will not be able to increase our dividends. In addition, we may reduce our dividends and/or defer our dividends to the following taxable year. If we defer our dividends, we may choose to utilize the spillover dividend rules discussed above and incur the 4% U.S. federal excise tax on such amounts. To further preserve cash, we may combine these reductions or deferrals of dividends with one or more distributions that are payable partially in our stock as discussed above under "We may choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive."

We may have difficulty paying our required distributions if we recognize income before, or without, receiving cash representing such income.

For U.S. federal income tax purposes, we are required to include in our income certain amounts that we have not yet received in cash, such as OID, which may arise if we receive warrants in connection with the making of a loan or in other circumstances, and contractual PIK interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such OID, or increases in loan balances as a result of contracted PIK arrangements, will be included in our income before we receive any corresponding cash payments. We also may be required to include in our income certain other amounts that we will not receive in cash.

Since in certain cases we may be required to recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute on an annual basis at least 90.0% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to maintain our tax treatment as a RIC. In such a case, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities to satisfy the annual distribution requirements. In such circumstances, if we are unable to obtain such cash from other sources, we may fail to maintain our tax treatment as a RIC and thus be subject to corporate-level U.S. federal income tax. See "We will be subject to corporate-level U.S. federal income tax if we are unable to maintain our tax treatment as a RIC under Subchapter M of the Code."

If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible. Our investment advisor will not be under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never receive as a result of a default by an entity on the obligation that resulted in the accrual of such income. That part of the incentive fee payable by us that relates to our net investment income will be computed and paid on income that may include interest that has been accrued but not yet received in cash, such as market discount, debt instruments with PIK interest, preferred stock with PIK dividends and zero coupon securities.

To the extent we invest in OID instruments, including PIK loans, zero coupon bonds, and debt securities with attached warrants, investors will be exposed to the risks associated with the inclusion of such non-cash income in taxable and accounting income prior to receipt of cash, including the following risks:

- the interest payments deferred on a PIK loan are subject to the risk that the borrower may default when the deferred payments are due in cash at the maturity of the loan;
- the interest rates on PIK loans are higher to reflect the time-value of money on deferred interest payments and the higher credit risk of borrowers who may need to defer interest payments;
- PIK instruments may have unreliable valuations because the accruals require judgments about ultimate collectability of the deferred payments and the value of the associated collateral;
- an election to defer PIK interest payments by adding them to principal increases our gross assets and, thus, increases future base management fees to the investment advisor and, because interest payments will then be payable on a larger principal amount, the PIK election also increases the investment advisor's future income incentive fees at a compounding rate;
- market prices of OID instruments are more volatile because they are affected to a greater extent by interest rate changes than instruments that pay interest periodically in cash;
- the deferral of interest on a PIK loan increases its loan-to-value ratio, which is a measure of the riskiness of a loan;
- OID creates the risk of non-refundable cash payments to the investment advisor based on non-cash accruals that may never be realized;
- for U.S. federal income tax purposes, we will be required to make distributions of OID income to shareholders without receiving any cash and such distributions have to be paid from offering proceeds or the sale of assets without investors being given any notice of this fact; and

- the required recognition of OID, including PIK, interest for U.S. federal income tax purposes may have a negative impact on liquidity, because it represents a non-cash component of the our taxable income that must, nevertheless, be distributed in cash to investors to avoid it being subject to corporate level taxation.

You may have a current tax liability on distributions you elect to reinvest in our common stock but would not receive cash to pay such tax liability.

If you participate in our dividend reinvestment plan, you will be deemed to have received, and for U.S. federal income tax purposes will be taxed on, the amount reinvested in our common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of our common stock received as a result of the distribution.

Because we expect to distribute substantially all of our net investment income and net realized capital gains to our stockholders, we will need additional capital to finance our growth, and such capital may not be available on favorable terms or at all.

We have elected to be taxed for U.S. federal income tax purposes as a RIC under Subchapter M of the Code. If we continue to meet certain requirements, including source-of-income, asset diversification and distribution requirements, and if we continue to be regulated as a BDC, we will continue to qualify to be taxed as a RIC and therefore will not have to pay corporate-level U.S. federal income tax on income that we timely distribute to our stockholders, allowing us to substantially reduce or eliminate our corporate-level income tax liability. As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings (other than SBA leverage) and any preferred stock we may issue in the future, of at least 150.0% at the time we issue any debt or preferred stock. This requirement limits the amount of our leverage. Because we will continue to need capital to grow our investment portfolio, this limitation may prevent us from incurring debt or issuing preferred stock and require us to raise additional equity at a time when it may be disadvantageous to do so.

While we expect to be able to borrow and to issue additional debt and equity securities, we cannot assure you that debt and equity financing will be available to us on favorable terms, or at all. If additional funds are not available to us, we could be forced to curtail or cease new investment activities, and our net asset value could decline. In addition, as a BDC, we generally are not permitted to issue equity securities priced below net asset value without stockholder approval. At our Annual Stockholders Meeting on June 4, 2020, our stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending on the earlier of June 20, 2021 or the date of our 2021 Annual Meeting of Stockholders. We expect to present to our stockholders a similar proposal at our 2021 Annual Meeting of Stockholders. The maximum number of shares issuable below net asset value pursuant to the authority granted by our stockholders that could result in such dilution is limited to 25.0% of FIC’s then outstanding common stock immediately prior to each such sale. We do not intend to issue shares of our common stock below net asset value unless our board of directors determines that it would be in our stockholders’ best interests to do so. The level of net asset value dilution that could result from such an offering is not limited.

Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.

Our board of directors has the authority, except as otherwise provided by the 1940 Act, to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval. Under Maryland law, we also cannot be dissolved without prior stockholder approval except by judicial action. In addition, upon approval of a majority of our stockholders, we may elect to withdraw our status as a BDC. If we, or Fund I, decide to withdraw our election, or if we otherwise fail to maintain our qualification, as a BDC, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility, and could significantly increase our costs of doing business. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results or the value of our common stock. Nevertheless, any such changes could adversely affect our business and impair our ability to make distributions.

Regulations governing our operation as a BDC affect our ability to raise, and the way in which we raise, additional capital which may have a negative effect on our growth.

Our business will require capital to operate and grow. We may acquire such additional capital from the following sources:

Senior Securities. Currently we, through the Funds, issue debt securities guaranteed by the SBA and have access to funds under a revolving credit facility. In the future, we may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities. As a result of issuing senior securities, we will be exposed to additional risks, including, but not limited to, the following:

- Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200.0% after each issuance of senior securities (or 150.0%, if certain requirements are met). If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our debt at a time when such sales and/or repayments may be disadvantageous. Further, we will not be permitted to declare or make any distribution to stockholders or repurchase shares until such time as we satisfy this test.
- Any amounts that we use to service our debt or make payments on preferred stock will not be available for distributions to our common stockholders.
- It is likely that any senior securities or other indebtedness we issue will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, some of these securities or other indebtedness may be rated by rating agencies, and in obtaining a rating for such securities and other indebtedness, we may be required to abide by operating and investment guidelines that further restrict operating and financial flexibility.
- We and, indirectly, our stockholders will bear the cost of issuing and servicing such securities and other indebtedness.
- Preferred stock or any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock, including separate voting rights and could delay or prevent a transaction or a change in control to the detriment of the holders of our common stock.

Additional Common Stock. Under the provisions of the 1940 Act, we are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our board of directors determines that such sale is in the best interests of our stockholders, and our stockholders approve such sale. At our Annual Stockholders Meeting on June 4, 2020, our stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending on the earlier of June 20, 2021 or the date of our 2021 Annual Meeting of Stockholders. We expect to present to our stockholders a similar proposal at our 2021 Annual Meeting of Stockholders. The maximum number of shares issuable below net asset value pursuant to the authority granted by our stockholders that could result in such dilution is limited to 25.0% of FIC's then outstanding common stock immediately prior to each such sale. We do not intend to sell or otherwise issue shares of our common stock below net asset value unless our board of directors determines that it would be in our stockholders' best interests to do so. The level of net asset value dilution that could result from such an offering is not limited. In any such case, however, the price at which our common stock is to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). We may also make rights offerings to our stockholders at prices per share less than the net asset value per share, subject to applicable requirements of the 1940 Act and the regulations and staff interpretations thereunder. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders at that time would decrease, and they may experience dilution. Moreover, we can offer no assurance that we will be able to issue and sell additional equity securities in the future, on favorable terms or at all.

Uncertainty about U.S. Presidential Administration initiatives could negatively impact our business, financial condition and results of operations.

The U.S. government has recently called for significant changes to U.S. trade, healthcare, immigration, foreign and government regulatory policy. In this regard, there is significant uncertainty with respect to legislation, regulation and government policy at the federal level, as well as the state and local levels. Recent events have created a climate of heightened uncertainty and introduced new and difficult-to-quantify macroeconomic and political risks with potentially far-reaching implications. There has been a corresponding meaningful increase in the uncertainty surrounding interest rates, inflation, foreign exchange rates, trade volumes and fiscal and monetary policy. To the extent the U.S. Congress or the current administration implements changes to U.S. policy, those changes may impact, among other things, the U.S. and global economy, international trade and relations, unemployment, immigration, corporate taxes, healthcare, the U.S. regulatory environment, inflation and other areas. Although we cannot predict the impact, if any, of these changes to our business, they could adversely affect our business, financial condition, operating results and cash flows. Until we know what policy changes are made and how those changes impact our business and the business of our competitors over the long term, we will not know if, overall, we will benefit from them or be negatively affected by them.

A particular area identified as subject to potential change, amendment or repeal includes the Dodd-Frank Act, including the Volcker Rule and various swaps and derivatives regulations, credit risk retention requirements and the authorities of the Federal Reserve, the Financial Stability Oversight Council and the SEC. Given the uncertainty associated with the manner in which and whether the provisions of the Dodd-Frank Act will be implemented, repealed, amended, or replaced, the full impact such requirements will have on our business, results of operations or financial condition is unclear. The changes resulting from the Dodd-Frank Act or any changes to the regulations already implemented thereunder may require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with any such laws, regulations or principles, or changes thereto, may negatively impact our business, results of operations or financial condition. While we cannot predict what effect any changes in the laws or regulations or their interpretations would have on us as a result of recent financial reform legislation, these changes could be materially adverse to us and our stockholders.

Legislative or other actions relating to taxes could have a negative effect on the Company.

Legislative or other actions relating to taxes could have a negative effect on the Company and its investors. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. We cannot predict with certainty how any changes in the tax laws might affect the Company, its investments or its investors. New legislation and any U.S. Treasury regulations, administrative interpretations or court decisions interpreting such legislation could significantly and negatively affect the Company's ability to qualify for tax treatment as a RIC or the U.S. federal income tax consequences to the Company and its investors of such qualification, or could have other adverse consequences. You are urged to consult with your tax advisor with respect to the impact of the status of any legislative, regulatory or administrative developments and proposals and their potential effect on your investment in our securities.

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

As a result of the November 2020 elections in the United States, the Democratic Party gained control of both the Presidency and the Senate from the Republican Party. Therefore, changes in federal policy, including tax policies, and at regulatory agencies are expected to occur over time through policy and personnel changes, which may lead to changes involving the level of oversight and focus on the financial services industry or the tax rates paid by corporate entities. The nature, timing and economic and political effects of potential changes to the current legal and regulatory framework affecting financial institutions remain highly uncertain. Uncertainty surrounding future changes may adversely affect our operating environment and therefore our business, financial condition, results of operations and growth prospects.

Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.

We are subject to regulation at the local, state and federal level. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we are permitted to make, any of which could harm us and our stockholders, potentially with retroactive effect. In addition, any change to the SBA's current debenture program could have a significant impact on our ability to obtain low-cost leverage and, therefore, our competitive advantage over other funds.

Legal, tax and regulatory changes could occur that may adversely affect us. For example, from time to time the market for private equity transactions has been (and is currently being) adversely affected by a decrease in the availability of senior and subordinated financings for transactions, in part in response to credit market disruptions and/or regulatory pressures on providers of financing to reduce or eliminate their exposure to the risks involved in such transactions.

Additionally, any changes to the laws and regulations governing our operations related to permitted investments may cause us to alter our investment strategy in order to meet our investment objectives. Such changes could result in material differences to the strategies and plans set forth in this Annual Report and may shift our investment focus from the areas of expertise of our investment advisor to other types of investments in which our investment advisor may have little or no expertise or experience. Any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

Changes to U.S. tariff and import/export regulations may have a negative effect on our portfolio companies and, in turn, harm us.

There has been ongoing discussion and commentary regarding potential significant changes to U.S. trade policies, treaties and tariffs. The current U.S. presidential administration, along with the U.S. Congress, has created significant uncertainty about the future relationship between the United States and other countries with respect to trade policies, treaties and tariffs. These developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between the impacted nations and the United States. Any of these factors could depress economic activity and restrict our portfolio companies' access to suppliers or customers and have a material adverse effect on their business, financial condition and results of operations, which in turn would negatively impact us.

Our ability to enter into and exit investment transactions with our affiliates will be restricted.

Except in those instances where we have received prior exemptive relief from the SEC, we will be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our Independent Directors. We, our investment advisor, the Funds, and Fidus Credit Opportunities, L.P. received exemptive relief from the SEC under the 1940 Act, which permits us to co-invest with other funds managed by our investment advisor or its affiliates in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors. In addition, any person that owns, directly or indirectly, 5.0% or more of our outstanding voting securities is deemed our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our Independent Directors. The 1940 Act also prohibits "joint" transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our Independent Directors. If a person acquires more than 25.0% of our voting securities, we will be prohibited from buying or selling any security from or to such person, or entering into joint transactions with such person, absent the prior approval of the SEC. These restrictions could limit or prohibit us from making certain attractive investments that we might otherwise make absent such restrictions.

Our investment advisor can resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

Our investment advisor has the right, under the Investment Advisory Agreement, to resign at any time upon not less than 60 days' written notice, whether we have found a replacement or not. If our investment advisor resigns, we may not be able to find a new investment advisor and administrator or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, investment activities are likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our investment advisor and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

Our investment advisor can resign from its role as our administrator under the Administration Agreement, and we may not be able to find a suitable replacement, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

Our investment advisor also has the right to resign under the Administration Agreement, whether we have found a replacement or not. If our investment advisor resigns as our administrator, we may not be able to find a new administrator or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, administrative activities are likely to suffer if we are unable to identify and reach an agreement with a service provider or individuals with the expertise possessed by our investment advisor. Even if we are able to retain a comparable service provider or individuals to perform such services, whether internal or external, their integration into our business and lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

Internal and external cyber threats, as well as other disasters, could impair our ability to conduct business effectively.

The occurrence of a disaster, such as a cyber-attack against us or against a third-party that has access to our data or networks, a natural catastrophe, an industrial accident, failure of our disaster recovery systems, or consequential employee error, could have an adverse effect on our ability to communicate or conduct business, negatively impacting our operations and financial condition. This adverse effect can become particularly acute if those events affect our electronic data processing, transmission, storage, and retrieval systems, or impact the availability, integrity, or confidentiality of our data.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems, networks, and data, like those of other companies, could be subject to cyber-attacks and unauthorized access, use, alteration, or destruction, such as from physical and electronic break-ins or unauthorized tampering, malware and computer virus attacks, or system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary, and other information processed, stored in, and transmitted through our computer systems and networks. Such an attack could cause interruptions or malfunctions in our operations, which could result in financial losses, litigation, regulatory penalties, client dissatisfaction or loss, reputational damage, and increased costs associated with mitigation of damages and remediation. If unauthorized parties gain access to such information and technology systems, they may be able to steal, publish, delete or modify private and sensitive information, including nonpublic personal information related to stockholders (and their beneficial owners) and material nonpublic information. The systems we have implemented to manage risks relating to these types of events could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly or fail to adequately secure private information. Breaches such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm and preventing them from being addressed appropriately. The failure of these systems or of disaster recovery plans for any reason could cause significant interruptions in our and our investment advisor's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to stockholders, material nonpublic information and other sensitive information in our possession.

A disaster or a disruption in the infrastructure that supports our business, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Third parties with which we do business may also be sources of cybersecurity or other technological risk. We outsource certain functions and these relationships allow for the storage and processing of our information, as well as client, counterparty, employee, and borrower information. While we engage in actions to reduce our exposure resulting from outsourcing, ongoing threats may result in unauthorized access, loss, exposure, destruction, or other cybersecurity incident that affects our data, resulting in increased costs and other consequences as described above.

In addition, cybersecurity has become a top priority for regulators around the world, and some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. If we fail to comply with the relevant laws and regulations, we could suffer financial losses, a disruption of our businesses, liability to investors, regulatory intervention or reputational damage.

We and our service providers are currently impacted by quarantines and similar measures being enacted by governments in response to the global COVID-19 pandemic, which are obstructing the regular functioning of business workforces (including requiring employees to work from external locations and their homes). Policies of extended periods of remote working, whether by us or by our Service Providers, could strain technology resources, introduce operational risks and otherwise heighten the risks described above. Remote working environments may be less secure and more susceptible to hacking attacks, including phishing and social engineering attempts that seek to exploit the COVID-19 pandemic. Accordingly, the risks described above are heightened under current conditions.

Public health threats may affect the market for the 2023 Notes, the February 2024 Notes and the November 2024 Notes, impact the businesses in which we invest and affect our business, operating results and financial condition.

Public health threats, such as COVID-19 or any other illness, have and may continue to disrupt the operations of the businesses in which we invest. Such threats can create economic and political uncertainties and can contribute to global economic instability. A public health threat poses the risk that our portfolio companies may have significantly reduced or be prevented from conducting business activities for an unknown period of time, including shutdowns that may be requested or mandated by governmental authorities. We cannot estimate the impact that a public health threat could have on our portfolio companies, but it could disrupt their businesses and their ability to make interest or dividend payments and decrease the overall value of our investments which adversely impact our business, financial condition or results of operations. Additionally, as a result of the volatile market conditions that may result from public health threats, such as COVID-19 or any other illness, we cannot provide any assurance that the 2023 Notes, the February 2024 Notes and the November 2024 Notes will trade at a favorable price.

Risks Relating to Our Investments

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies are susceptible to economic slowdowns or recessions (including industry specific downturns) and may be unable to repay our debt investments during these periods. The recent global outbreak of COVID-19 has disrupted economic markets, and the prolonged economic impact is uncertain. Many manufacturers of goods in China and other countries in Asia have seen a downturn in production due to the suspension of business and temporary closure of factories in an attempt to curb the spread of the illness. As the impact of COVID-19 spreads to other parts of the world, similar impacts may occur with respect to affected countries. In the past, instability in the global capital markets resulted in disruptions in liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major domestic and international financial institutions. In particular, in past periods of instability, the financial services sector was negatively impacted by significant write-offs as the value of the assets held by financial firms declined, impairing their capital positions and abilities to lend and invest. In addition, continued uncertainty surrounding the negotiation of trade deals between Britain and the European Union following the United Kingdom’s exit from the European Union and uncertainty between the United States and other countries, including China, with respect to trade policies, treaties, and tariffs, among other factors, have caused disruption in the global markets. There can be no assurance that market conditions will not worsen in the future.

In an economic downturn, we may have non-performing assets or non-performing assets may increase, and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions may also decrease the value of any collateral securing some of our debt investments and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing our investments and harm our operating results.

The occurrence of recessionary conditions and/or negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our investments, and our ongoing operations, costs and profitability. Any such unfavorable economic conditions, including rising interest rates, may also increase our funding costs, limit our access to capital markets or negatively impact our ability to obtain financing, particularly from the debt markets. In addition, any future financial market uncertainty could lead to financial market disruptions and could further impact our ability to obtain financing. These events could limit our investment originations, limit our ability to grow and negatively impact our operating results and financial condition.

Terrorist attacks, acts of war, or natural disasters may affect any market for our common stock, impact the businesses in which we invest and harm our business, operating results and financial condition.

Portfolio investments may be affected by force majeure events *(i.e.,* events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, war, terrorism and labor strikes). Some force majeure events may adversely affect the ability of a party (including a portfolio company or a counterparty to us or a portfolio company) to perform its obligations until it is able to remedy the force majeure event. In addition, the cost to a portfolio company of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Additionally, a major governmental intervention into industry, including the nationalization of an industry or the assertion of control over one or more companies or its assets, could result in a loss to us, including if its investment in such issuer is cancelled, unwound or acquired (which could be without what we consider to be adequate compensation). To the extent we are exposed to investments in portfolio companies that as a group are exposed to such force majeure events, the risks and potential losses to us are enhanced.

Our investments in certain industry sectors, such as the energy sector, may be subject to significant political, economic and capacity risks that may increase the possibility that we lose all or a part of our investment.

The revenues and profitability of certain portfolio companies may be significantly affected by the future prices of and the demand for oil, natural gas liquids and natural gas, which are inherently uncertain. Investments in energy companies may have significant shortfalls in projected cash flow if prices decline from levels projected at the time the investment is made. Various factors beyond our control could affect energy prices, including worldwide supplies, political instability or armed conflicts in oil, natural gas liquids and natural gas producing regions, the price of foreign imports, the level of consumer demand, the price and availability of alternative fuels, capacity constraints and changes in existing government regulation, taxation and price controls. Energy prices have fluctuated greatly during the past, and energy markets continue to be volatile.

Changes in healthcare laws and other regulations applicable to some of our portfolio companies' businesses may constrain their ability to offer their products and services.

Changes in healthcare or other laws and regulations applicable to the businesses of some of our portfolio companies may occur that could increase their compliance and other costs of doing business, require significant systems enhancements, or render their products or services less profitable or obsolete, any of which could have a material adverse effect on their results of operations. There has also been an increased political and regulatory focus on healthcare laws in recent years, and new legislation could have a material effect on the business and operations of some of our portfolio companies.

If our portfolio companies are unable to protect their intellectual property rights, our business and prospects could be harmed, and if portfolio companies are required to devote significant resources to protecting their intellectual property rights, the value of our investment could be reduced.

Our future success and competitive position will depend in part upon the ability of our portfolio companies to obtain, maintain and protect proprietary technology used in their products and services. The intellectual property held by our portfolio companies often represents a substantial portion of the collateral securing our investments and/or constitutes a significant portion of the portfolio companies' value and may be available in a downside scenario to repay our loans. Our portfolio companies will rely, in part, on patent, trade secret, and trademark law to protect that technology, but competitors may misappropriate their intellectual property, and disputes as to ownership of intellectual property may arise. Portfolio companies may, from time to time, be required to institute litigation to enforce their patents, copyrights, or other intellectual property rights; protect their trade secrets; determine the validity and scope of the proprietary rights of others; or defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources. Similarly, if a portfolio company is found to infringe or misappropriate a third-party's patent or other proprietary rights, it could be required to pay damages to the third party, alter its products or processes, obtain a license from the third-party, and/or cease activities utilizing the proprietary rights, including making or selling products utilizing the proprietary rights. Any of the foregoing events could negatively affect both the portfolio company's ability to service our debt investment and the value of any related debt and equity securities that we own, as well as any collateral securing our investment.

Cybersecurity risks and cyber incidents may adversely affect our business or the business of our portfolio companies by causing a disruption to our operations or the operations of our portfolio companies, a compromise or corruption of our confidential information or the confidential information of our portfolio companies and/or damage to our business relationships or the business relationships of our portfolio companies, all of which could negatively impact the business, financial condition and operating results of us or our portfolio companies.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the information resources of us or our portfolio companies. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems or those of our portfolio companies for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to business relationships. As our and our portfolio companies' reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided by third-party service providers, and the information systems of our portfolio companies. We have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber-incident, do not guarantee that a cyber-incident will not occur and/or that our financial results, operations or confidential information will not be negatively impacted by such an incident.

Our investments in portfolio companies may be risky, and we could lose all or part of our investment.

Investing in lower middle-market companies involves a number of significant risks. Among other things, these companies:

- may have limited financial resources and may be unable to meet their obligations under their debt instruments that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees from subsidiaries or affiliates of portfolio companies that we may have obtained in connection with our investment;
- may have shorter operating histories, narrower product lines and smaller market shares, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns, than larger businesses;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and
- generally have less publicly available information about their businesses, operations and financial condition. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and may lose all or part of our investment.

In addition, in the course of providing significant managerial assistance to certain portfolio companies, certain of our management and directors may serve as directors on the boards of such companies. To the extent that litigation arises out of investments in these portfolio companies, our management and directors may be named as defendants in such litigation, which could result in an expenditure of funds (through our indemnification of such officers and directors) and the diversion of management time and resources.

The lack of liquidity in our investments may adversely affect our business.

All of our assets may be invested in illiquid securities, and a substantial portion of our investments in leveraged companies will be subject to legal and other restrictions on resale or will otherwise be less liquid than more broadly traded public securities. The illiquidity of these investments may make it difficult for us to sell such investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. However, to maintain the elections to be regulated as a BDC and as a RIC, we may have to dispose of investments if they do not satisfy one or more of the applicable criteria under the respective regulatory frameworks. We may also face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or our investment advisor have material nonpublic information regarding such portfolio company.

We may not have the funds to make additional investments in our portfolio companies which could impair the value of our portfolio.

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment through the exercise of a warrant to purchase common stock. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments. Any decisions not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment, may result in a missed opportunity for us to increase our participation in a successful operation or may reduce the expected yield on the investment. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our level of risk, because we prefer other opportunities or because we are inhibited by compliance with BDC requirements, SBA regulations or the desire to maintain our RIC tax treatment. Our ability to make follow-on investments may also be limited by our investment advisor's allocation policy.

Portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

We will invest primarily in second lien and subordinated debt as well as equity issued by lower middle-market companies. The portfolio companies generally have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt in which we invest. By their terms, such senior debt instruments may entitle the holders to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to the debt instruments in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt instruments in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or could be subject to lender liability claims.

Even though we may have structured certain of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt investment and subordinate all or a portion of our claim to that of other creditors. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or instances where we exercise control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken in rendering significant managerial assistance.

Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.

Certain loans we make to portfolio companies are and will be secured on a second priority basis by the same collateral securing senior secured debt of such companies. The first priority liens on the collateral secure the portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the company under the agreements governing the loans. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay their obligations in full before us. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds are not sufficient to repay amounts outstanding under the loan obligations secured by the second priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the company's remaining assets, if any.

The rights we may have with respect to the collateral securing the loans we make to portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements entered into with the holders of senior debt. Under an intercreditor agreement, at any time that obligations having the benefit of the first priority liens are outstanding, any of the following actions that may be taken in respect to the collateral will be at the direction of the holders of the obligations secured by the first priority liens:

- the ability to cause the commencement of enforcement proceedings against the collateral;
- the ability to control the conduct of such proceedings;
- the approval of amendments to collateral documents;
- releases of liens on the collateral; and
- waivers of past defaults under collateral documents.

We may not have the ability to control or direct such actions, even if our rights are adversely affected.

We may hold the debt securities of leveraged companies that may, due to the significant volatility of such companies, enter into bankruptcy proceedings.

Leveraged companies may experience bankruptcy or similar financial distress. The bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors. A bankruptcy filing by an issuer may adversely and permanently affect the issuer. If the proceeding is converted to a liquidation, the value of the issuer may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor's return on investment can be adversely affected by delays until the plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, our influence with respect to the class of securities or other obligations we own may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial.

Any unrealized depreciation we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.

As a BDC, we are required to carry our investments at fair value as determined in good faith by our board of directors. Decreases in the fair values of our investments will be recorded as unrealized depreciation. Any unrealized depreciation in our investment portfolio could be an indication of a portfolio company's inability to meet its repayment obligations to us with respect to the affected investments. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods.

Defaults by our portfolio companies will harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets. This could trigger cross-defaults under other agreements and jeopardize the portfolio company's ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, reduced interest and/or loss of principal, with a defaulting portfolio company.

To the extent OID and PIK-interest constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.

Our investments may include original-issue-discount instruments and contractual PIK-interest arrangements. To the extent OID or PIK-interest constitutes a portion of our income, we are exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash, including the following:

- The higher interest rates of OID and PIK instruments reflect the payment deferral, which results in a higher principal amount at the maturity of the instrument as compared to the original principal amount of the instrument, and increased credit risk associated with these instruments, and OID and PIK instruments generally represent a significantly higher credit risk than coupon loans.
- Even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is supposed to occur at the maturity of the obligation.
- OID and PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. OID and PIK-income may also create uncertainty about the source of our cash distributions.
- To the extent we provide loans with interest-only payments or moderate loan amortization, the majority of the principal payment or amortization of principal may be deferred until loan maturity. Because this debt generally allows the borrower to make a large lump-sum payment of principal at the end of the loan term, there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity.
- For accounting purposes, any cash distributions to stockholders representing OID and PIK-income are not treated as coming from paid-in capital, even though the cash to pay them comes from the offering proceeds. As a result, despite the fact that a distribution representing OID and PIK-income could be paid out of amounts invested by our stockholders, the 1940 Act does not require that stockholders be given notice of this fact by reporting it as a return of capital.

- In certain cases, we may recognize taxable income before or without receiving corresponding cash payments and, as a result, we may have difficulty meeting the annual distribution requirement necessary to maintain our tax treatment as a RIC.

We do not expect to control many of our portfolio companies.

We do not expect to control many of our portfolio companies, even though we may have board representation or board observation rights, and the debt agreements may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of the company's common equity, may take risks or otherwise act in ways that do not serve our interests as debt investors. Due to the lack of liquidity for our investments in private companies in the lower middle-market, we may not be able to dispose of our interests in our portfolio companies as readily as we would like or at an appropriate valuation. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

We are a non-diversified investment company within the meaning of the 1940 Act; therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer and the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Additionally, while we are not targeting any specific industries, our investments may be concentrated in relatively few industries. As a result, a downturn in any particular industry in which we are invested could also significantly impact the aggregate returns we realize. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond the asset diversification requirements applicable to RICs, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in temporary investments (cash equivalents), pending future investments in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being repaid, and we could experience significant delays in reinvesting these amounts. In addition, any future investment of such amounts in a new portfolio company may also be at lower yields than the investment that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

We may not realize gains from our equity investments.

Certain investments that we have made in the past and may make in the future include warrants or other equity or equity-related securities. Typically we make non-control equity investments in portfolio companies. Our goal is to realize gains upon our disposition of such equity interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow us to sell the underlying equity interests. We often seek puts or similar rights to give us the right to sell our equity securities back to the portfolio company issuer. We may be unable to exercise these put rights for the consideration provided in our investment documents if the issuer is in financial distress. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

If our primary investments are deemed not to be qualifying assets, we could be precluded from investing in our desired manner or deemed to be in violation of the 1940 Act.

In order to maintain our status as a BDC, we may not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70.0% of our total assets are qualifying assets. We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could violate the 1940 Act provisions applicable to BDCs and be precluded from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or required to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. If we need to dispose of such investments quickly, it could be difficult to dispose of such investments on favorable terms. We may not be able to find a buyer for such investments and, even if we do find a buyer, we may have to sell the investments at a substantial loss. Any such outcomes would have a material adverse effect on our business, financial condition, results of operations and cash flows. Furthermore, any failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act. As a registered closed-end investment company, we would be subject to substantially more regulatory restrictions under the 1940 Act, which would significantly decrease our operating flexibility.

The disposition of our investments may result in contingent liabilities.

A significant portion of our investments involve private securities and we expect that a significant portion of our investments will continue to involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. Additionally, customary terms of such sales agreements generally provide adjustments to the initial purchase price determined on the closing date if the portfolio company's net working capital varies from preliminary amounts utilized in determining the initial purchase price; such adjustments could subsequently result in upward or downward revisions to the initial purchase price and impact our amount of realized gain or loss on sale. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to potential liabilities. These arrangements may result in contingent liabilities that ultimately result in funding obligations that we must satisfy through its return of distributions previously made to it.

We may be unable to invest a significant portion of any net proceeds from an offering or from exiting an investment or other capital on acceptable terms, which could harm our financial condition and operating results.

We may be unable to invest the net proceeds of any offering or from exiting an investment or other sources of capital on acceptable terms within the time period that we anticipate or at all. Delays in investing such capital may cause our performance to be worse than that of fully invested BDCs or other lenders or investors pursuing comparable investment strategies.

Depending on market conditions and the amount of the capital involved, it may take us a substantial period of time to invest substantially all the capital in securities meeting our investment objective. During this period, we will invest such capital primarily in short-term securities consistent with our BDC election and our election to be taxed as a RIC, which may produce returns that are significantly lower than the returns which we expect to achieve when our portfolio is fully invested in longer-term investments in pursuit of our investment objective. Any distributions that we pay during such period may be substantially lower than the distributions that we may be able to pay when our portfolio is fully invested. In addition, until such time as the net proceeds of any offering or from exiting an investment or other sources capital are invested in new investments meeting our investment objective, the market price for our common stock may decline.

Our investment advisor's liability is limited under the Investment Advisory Agreement, and we have agreed to indemnify our investment advisor against certain liabilities, which may lead our investment advisor to act in a riskier manner on our behalf than it would when acting for its own account.

Under the Investment Advisory Agreement, our investment advisor does not assume any responsibility to us other than to render the services called for under that agreement, and it is not responsible for any action of our board of directors in following or declining to follow our investment advisor's advice or recommendations. Under the terms of the Investment Advisory Agreement, our investment advisor and its officers, directors, members, managers, partners, stockholders and employees are not liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the Investment Advisory Agreement, except those resulting from acts constituting gross negligence, willful misconduct, bad faith or reckless disregard of our investment advisor's duties under the Investment Advisory Agreement. In addition, we have agreed to indemnify our investment advisor and its officers, directors, members, managers, partners, stockholders and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Investment Advisory Agreement, except where attributable to gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the Investment Advisory Agreement. These protections may lead our investment advisor to act in a riskier manner when acting on our behalf than it would when acting for its own account.

Risks Relating to Our Common Stock

Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount from net asset value. This characteristic of closed-end investment companies and BDCs is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our common stock will trade at, above or below net asset value. In addition, if our common stock trades below net asset value, we will generally not be able to issue additional common stock at the market price without first obtaining the approval of our stockholders and our Independent Directors. On June 4, 2020 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 20, 2021 or the date of our 2021 Annual Meeting of Stockholders. We expect to present to our stockholders a similar proposal at our 2021 Annual Meeting of Stockholders. Selling or otherwise issuing shares of FIC's common stock below its then current net asset value per share would result in a dilution of FIC's existing common stockholders. The maximum number of shares issuable below net asset value pursuant to the authority granted by our stockholders that could result in such dilution is limited to 25.0% of FIC's then outstanding common stock immediately prior to each such sale. We do not intend to sell or otherwise issue shares of our common stock below net asset value unless our board of directors determines that it would be in our stockholders' best interests to do so. The level of net asset value dilution that could result from such an offering is not limited.

Market conditions may increase the risks associated with our business and an investment in us.

The current worldwide financial market situation may contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets and may cause economic uncertainties or deterioration in the U.S. and worldwide. These conditions raised the level of many of the risks described herein and, if repeated or continued, could have an adverse effect on our portfolio companies and on their results of operations, financial conditions, access to credit and capital. The stress in the credit market and upon banks has led other creditors to tighten credit and the terms of credit. In certain cases, senior lenders to our portfolio companies can block payments by our portfolio companies in respect of our loans to such portfolio companies. In turn, these could have adverse effects on our business, financial condition, results of operations, distributions to our stockholders, access to capital, valuation of our assets and our stock price. Notwithstanding any recent gains across either the equity or debt markets, these conditions may continue for a prolonged period of time or worsen in the future.

If, in the future, we sell common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material.

On June 4, 2020, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a discount from net asset value per share, as long as the cumulative number of shares sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale, for a period of one year ending on the earlier of June 20, 2021 or the date of our 2021 Annual Meeting of Stockholders. Our stockholders will be asked to vote on a similar proposal at our 2021 Annual Meeting of Stockholders. If we sell or otherwise issue shares of our common stock at a discount to net asset value, it will pose a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuances or sale. In addition, such issuances or sales may adversely affect the price at which our common stock trades. For additional information and hypothetical examples of these risks, see “Sales of Common Stock Below Net Asset Value,” and for actual dilution illustrations specific to an offering, see the prospectus supplement pursuant to which such sale is made.

Our net asset value may have changed significantly since our last valuation.

Our board of directors determines the fair value of our portfolio investments on a quarterly basis based on input from our investment advisor, our audit committee and, as to certain of our investments, a third party independent valuation firm. While the board of directors will review our net asset value per share in connection with any offering, it will not always have the benefit of input from the independent valuation firm when it does so. The fair value of various individual investments in our portfolio and/or the aggregate fair value of our investments may change significantly over time. If the fair value of our investment portfolio at December 31, 2020 is less than the fair value was at the time of an offering during 2020, then we may record an unrealized loss on our investment portfolio and may report a lower net asset value per share than was reflected in the Selected Consolidated Financial Data and the financial statements included in the prospectus supplement of that offering. If the fair value of our investment portfolio at December 31, 2020 is greater than the fair value at the time of an offering during 2020, we may record an unrealized gain on our investment portfolio and may report a greater net asset value per share than so reflected in the prospectus supplement of that offering. Upon publication of this information in connection with our announcement of operating results for our fiscal year ended December 31, 2020, the market price of our common stock may fluctuate materially, and may be substantially less than the price per share you pay for our common stock in an offering.

The market price of our securities may fluctuate significantly.

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- exclusion of our common stock from certain market indices, such as the Russell 2000 Financial Services Index, could reduce the ability of certain institutional investors to own our common stock and could put short term pressure on our common stock;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs, BDCs or SBICs;
- loss of RIC or BDC status;
- loss of status as an SBIC for the Funds, or any other SBIC subsidiary we may form;
- changes or perceived changes in earnings or variations in operating results;
- changes or perceived changes in the value of our portfolio of investments;
- changes in accounting guidelines governing valuation of our investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of our investment advisor’s key personnel;
- operating performance of companies comparable to us;
- general economic trends and other external factors; and
- loss of a major funding source.

Investing in our securities may involve an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and a higher risk of volatility or loss of principal. Our investments in portfolio companies may be highly speculative; therefore, an investment in our securities may not be suitable for someone with lower risk tolerance.

Sales of substantial amounts of our common stock may have an adverse effect on the market price of our common stock.

As of February 23, 2021, we had 24,437,400 shares of common stock outstanding. Sales of substantial amounts of our common stock, or the availability of shares for sale, could adversely affect the prevailing market price of our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so.

If we issue preferred stock and/or debt securities, the net asset value and market value of our common stock may become more volatile.

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock and/or debt securities would likely cause the net asset value and market value of our common stock to become more volatile. If the distribution rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the distribution rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock and/or debt securities. Any decline in the net asset value of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of our common stock than if we were not leveraged through the issuance of preferred stock and/or debt securities. This decline in net asset value would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios which may be required by the preferred stock and/or debt securities or of a downgrade in the ratings of the preferred stock and/or debt securities or our current investment income might not be sufficient to meet the distribution requirements on the preferred stock or the interest payments on the debt securities. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock and/or debt securities. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock and/or debt securities. Holders of preferred stock and/or debt securities may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

Provisions of the Maryland General Corporation Law and our charter and bylaws could deter takeover attempts and have an adverse effect on the price of our common stock.

The Maryland General Corporation Law contains provisions that may discourage, delay or make more difficult a change in control of us or the removal of our directors. In addition, our board of directors may, without stockholder action, authorize the issuance of shares of stock in one or more classes or series, including preferred stock. Our charter and bylaws contain provisions that limit liability and provide for indemnification of our directors and officers. These provisions and others also may have the effect of deterring hostile takeovers or delaying changes in control or management. We are generally prohibited from engaging in mergers and other business combinations with stockholders that beneficially own 10.0% or more of the voting power of our outstanding voting stock, or with their affiliates, for five years after the most recent date on which such stockholders became the beneficial owners of 10.0% or more of the voting power of our outstanding voting stock and thereafter unless our directors and stockholders approve the business combination in the prescribed manner. See “Description of Our Capital Stock - Business Combinations.” Maryland law may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer.

We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our charter authorizing our board of directors to classify or reclassify shares of our stock in one or more classes or series and to cause the issuance of additional shares of our stock, including preferred stock. In addition, we have adopted a classified board of directors. A classified board may render a change in control of us or removal of our incumbent management more difficult. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

Our business and operation could be negatively affected if we become subject to any securities litigation or shareholder activism, which could cause us to incur significant expense, hinder execution of investment strategy and impact our stock price.

In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been brought against that company. Shareholder activism, which could take many forms or arise in a variety of situations, has been increasing in the BDC space recently. While we are currently not subject to any securities litigation or shareholder activism, due to the potential volatility of our stock price and for a variety of other reasons, we may in the future become the target of securities litigation or shareholder activism. Securities litigation and shareholder activism, including potential proxy contests, could result in substantial costs and divert management’s and our board of directors’ attention and resources from our business. Additionally, such securities litigation and shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with service providers and make it more difficult to attract and retain qualified personnel. Also, we may be required to incur significant legal fees and other expenses related to any securities litigation and activist shareholder matters. Further, our stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any securities litigation and shareholder activism.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are located at 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201, and are provided by our investment advisor pursuant to the Administration Agreement. Our investment advisor also maintains additional office space at 227 West Trade Street, Suite 1910, Charlotte, North Carolina 28202, and 1140 Avenue of the Americas, 21st Floor, New York, New York 10036. We believe that our office facilities are suitable and adequate to our business as we contemplate conducting it.

Item 3. Legal Proceedings.

We are not, and our investment advisor is not, currently subject to any material legal proceedings.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock began trading on June 21, 2011 on the NASDAQ Global Market under the symbol "FDUS." Effective January 3, 2012, our common stock was included in the NASDAQ Global Select Market. The last reported price for our common stock on February 23, 2021 was $14.40 per share. As of February 23, 2021, we had 20 stockholders of record.

We intend to continue to pay quarterly distributions to our stockholders. Our distributions may include returns of paid-in capital, as well as declared dividends from earnings and profits. Our quarterly distributions, if any, are determined by our board of directors. We have elected to be taxed as a RIC under Subchapter M of the Code. As long as we qualify for tax treatment as a RIC, we will not be taxed on our investment company taxable income or net capital gain, to the extent that such income or gain is distributed, or deemed to be distributed, to stockholders on a timely basis.

On February 9, 2021, our board of directors declared a regular quarterly dividend of $0.31 per share and a supplemental dividend of $0.07 per share payable on March 26, 2021 to holders of record as of March 12, 2021.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our status as a RIC. We cannot assure stockholders that they will receive any distributions at a particular level.

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash distribution, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distribution. Under the terms of our dividend reinvestment plan, dividends will primarily be paid in newly issued shares of common stock. However, we reserve the right to purchase shares in the open market in connection with the implementation of the plan. This feature of the plan means that, under certain circumstances, we may issue shares of our common stock at a price below net asset value per share, which could cause our stockholders to experience dilution.

To maintain our tax treatment as a RIC, we must, among other things, distribute at least 90.0% of our net ordinary income and our net short-term capital gains in excess of our net long-term capital losses, if any. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of (1) 98.0% of our net ordinary income for the calendar year, (2) 98.2% of our capital gain net income for the calendar year and (3) any net ordinary income and capital gain net income that we recognized for preceding years, but were not distributed during such years, and on which we paid no U.S. federal income tax. We may retain for investment some or all of our net capital gain (i.e., net long-term capital gains in excess of net short-term capital losses) and treat such amounts as deemed distributions to our stockholders. If we do this, you will be treated as if you received an actual distribution of the capital gain we retain and then reinvested the net after-tax proceeds in our common stock. You also may be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gain deemed distributed to you. Please refer to "Material U.S. Federal Income Tax Considerations" for further information regarding the consequences of our retention of net capital gain. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See "Regulation" and "Material U.S. Federal Income Tax Considerations."

We may make distributions that are payable in cash or shares of our common stock at the election of each stockholder. In accordance with Treasury regulations and published guidance issued by the Internal Revenue Service, a publicly offered RIC may treat distributions of its own stock as counting towards its RIC distribution requirements if each stockholder may elect to receive his, her, or its entire distribution in either cash or stock of the RIC. The IRS has issued a revenue procedure indicating that this rule will apply if the total amount of cash to be distributed is not less than 20% of the total distribution. Under the revenue procedure, if too many stockholders elect to receive their distributions in cash, the cash available for distribution must be allocated among the shareholders electing to receive cash (with the balance of the distribution paid in stock). If we decide to make any distributions that are payable in part in shares of our stock, U.S. stockholders receiving such distributions generally will be required to include the full amount of the distribution (whether received in cash, shares of our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits. As a result, a U.S. stockholder may be required to pay tax with respect to such distributions in excess of any cash received. If a U.S. stockholder sells the stock it receives in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. federal tax with respect to such distributions, including in respect of all or a portion of such distributions that are payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on such distributions, it may put downward pressure on the trading price of shares of our stock.

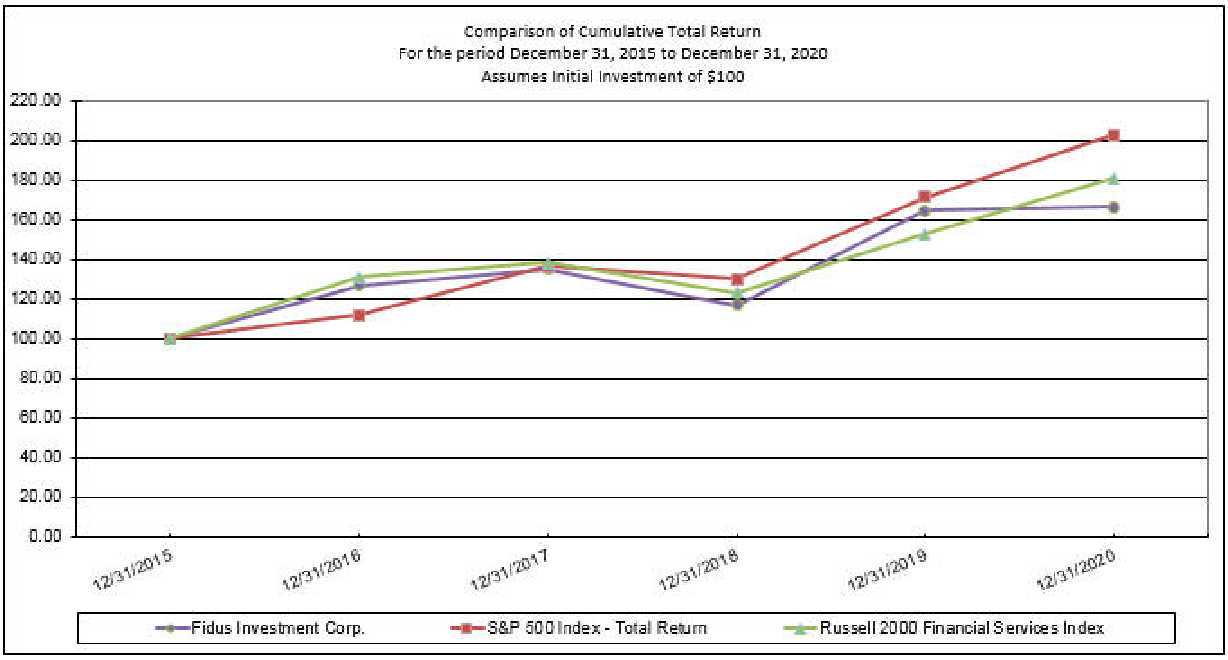
[Table of Contents](#)

Distributions in excess of our current and accumulated profits and earnings would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions will be made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. Each year, a statement on Form 1099-DIV identifying the source of the distribution will be sent to our U.S. stockholders of record. Our board of directors presently intends to declare and pay quarterly dividends. Our ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

The tax character of distributions declared and paid in 2020 is described in Note 12 to our consolidated financial statements.

Stock Performance Graph

This graph compares the stockholder return on our common stock from December 31, 2015 to December 31, 2020 with that of the Russell 2000 Financial Services Index and the Standard & Poor's 500 Total Return Stock Index. This graph assumes that on December 31, 2015, $100 was invested in our common stock, the Russell 2000 Financial Services Index, and the Standard & Poor's 500 Total Return Stock Index. The graph also assumes the reinvestment of all cash dividends prior to any tax effect. The graph and other information furnished under this Part II Item 5 of this Annual Report shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under, or to the liabilities of Section 18 of, the Exchange Act. The stock price performance included in the below graph is not necessarily indicative of future stock performance.



Outstanding Securities

The following table shows our outstanding classes of securities as of December 31, 2020:

(a) Title of Class	(b) Amount Authorized	(c) Amount Held by us or for Our Account	d) Amount Outstanding Exclusive of Amounts Shown Under (c)
Common Stock	100,000,000	—	24,437,400
SBA Debentures	$325.0 million (1)	—	$ 147.0 million
Credit Facility	$100.0 million	—	$ —
Notes	$307.3 million	—	$ 307.3 million

(1) For more information regarding our limitations as to SBA debenture issuances, see "Regulation — Small Business Administration Regulations."

Fees and Expenses

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever there is a reference to fees or expenses paid by "you," "us," "the Company" or "Fidus," or that "we" will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in us.

Stockholder transaction expenses:		
Sales load (as a percentage of offering price)	—	(1)
Offering Expenses born by us (as a percentage of offering price)	—	(2)
Dividend reinvestment plan expenses	—	(3)
Total stockholder transaction expenses paid by us (as a percentage of offering price)	—	(4)
Annual expenses (as a percentage of net assets attributable to common stock) (5) :		
Base Management Fee	3.29%	(6)
Incentive fees, net of income incentive fee waiver, payable under Investment Advisory Agreement	2.17%	(7)
Interest payments on borrowed funds	5.76%	(8)
Other expenses	1.31%	(9)
Total annual expenses	12.53%	(10)

(1) In the event that securities are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.

(2) In the event that we conduct an offering of any of our securities, a corresponding prospectus supplement will disclose the estimated offering expenses because they will be ultimately borne by the Company (and indirectly by our stockholders).

(3) The expenses of administering our dividend reinvestment plan are included in other expenses.

(4) Total stockholder transaction expenses may include a sales load and will be disclosed in a future prospectus supplement, if any.

(5) Net assets attributable to common stock equals average net assets, which is calculated as the average of the net assets balances as of each quarter end during the year ended December 31, 2020 and the prior year end.

(6) Our base management fee is 1.75% of the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts). This item represents actual base management fees incurred for the year ended December 31, 2020. We may from time to time decide it is appropriate to change the terms of the Investment Advisory Agreement. Under the 1940 Act, any material change to our Investment Advisory Agreement must be submitted to stockholders for approval. The 3.29% reflected in the table is calculated on our net assets (rather than our total assets). See "Management and Other Agreements—Investment Advisory Agreement."

(7) This item represents actual fees incurred on pre-incentive fee net investment income (income incentive fee) for the year ended December 31, 2020. As of December 31, 2020, there was no capital gains incentive fee payable (in cash), and accordingly no capital gains incentive fee amount has been included in the estimated expenses figure reflected in the table above. For the year ended December 31, 2020, we accrued capital gains incentive fees (reversal) of ($1.7) million in accordance with U.S. GAAP, which equals (0.43)% of net assets attributable to common stock; such amount has not been included in the estimated expenses figure reflected in the table above. For the year ended December 31, 2020, the Investment Advisor, in consultation with the Board, agreed to voluntarily waive $0.4 million of the income incentive fee.

The incentive fee consists of two parts:

The first, payable quarterly in arrears, equals 20.0% of our pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets, (including interest that is accrued but not yet received in cash), subject to a 2.0% quarterly (8.0% annualized) hurdle rate and a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our investment advisor receives no incentive fee until our pre-incentive fee net investment income equals the hurdle rate of 2.0% but then receives, as a "catch-up," 100.0% of our 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%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, our investment advisor will receive 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply.

The second part, payable annually in arrears, equals 20.0% of our realized capital gains net of realized capital losses and unrealized capital depreciation, if any, on a cumulative basis from inception through the end of the fiscal year (or upon the termination of the Investment Advisory Agreement, as of the termination date), less the aggregate amount of any previously paid capital gain incentive fees. In accordance with U.S. GAAP, we accrue the capital gains incentive fee in our consolidated financial statements considering the fair value of investments on that date (i.e., the amount of fee which would be payable under a hypothetical liquidation based on the fair value of investments as of that date), which differs from the calculation of the amount payable in cash by the inclusion of unrealized capital appreciation.

See "Management and Other Agreements—Investment Advisory Agreement."

(8) As of December 31, 2020, we had outstanding SBA debentures of $147.0 million; we had $307.3 million outstanding of our Notes; we had no outstanding borrowings under our senior secured revolving credit agreement with certain lenders party thereto and ING Capital, LLC, as administrative agent (the "Credit Facility"), which has total commitment of $100.0 million. Interest payments on borrowed funds is based on estimated annual interest and fee expenses on outstanding SBA debentures, Notes and borrowings under the Credit Facility as of December 31, 2020 with a weighted average stated interest rate of 4.680% as of that date. We also pay a commitment fee between 0.5% and 3.0% per annum based the unutilized commitment under our Credit Facility. We have estimated the annual interest expense on borrowed funds and caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing, which may be substantially higher than the estimate provided in this table.

(9) Other expenses represent our estimated annual operating expenses, as a percentage of net assets attributable to common shares estimated for the current year, including professional fees, directors' fees, insurance costs, expenses of our dividend reinvestment plan and payments under the Administration Agreement based on our allocable portion of overhead and other expenses incurred by our administrator. See "Management and Other Agreements—Administration Agreement." Other expenses exclude interest payments on borrowed funds, and if we issue debt securities or preferred stock, interest payments on debt securities and distributions with respect to preferred stock. "Other expenses" are based on actual other expenses for the year ended December 31, 2020.

(10) "Total annual expenses" as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. The SEC requires that the "total annual expenses" percentage be calculated as a percentage of net assets (defined as total assets less total liabilities), rather than the total assets, including assets that have been purchased with borrowed amounts. If the "total annual expenses" percentage were calculated instead as a percentage of average consolidated total assets, our "total annual expenses" would be 6.27% of average consolidated total assets.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in us. In calculating the following expense amounts, we have assumed we would have no additional leverage, that none of our assets are cash or cash equivalents and that our annual operating expenses would remain at the levels set forth in the table above. Transaction expenses are not included in the following example.

	1 year	3 years	5 years	10 years
You would pay the following expenses on a $1,000 investment, assuming a 5.0% annual return	$ 128	$ 356	$ 549	$ 914
You would pay the following expenses on a $1,000 investment, assuming a 5.0% annual return resulting entirely from net realized capital gains (all of which is subject to our incentive fee on capital gains)	$ 135	$ 372	$ 571	$ 936

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. Assuming a 5.0% annual return, the incentive fee under the Investment

Advisory Agreement would either not be payable or have an insignificant impact on the expense amounts shown above. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all distributions at net asset value, if our board of directors authorizes and we declare a cash dividend, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See “Part II, Item 5” for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

Recent Sales of Unregistered Securities

We did not engage in any sales of unregistered securities during the fiscal year ended December 31, 2020.

Issuer Purchases of Equity Securities

We have an open market stock repurchase program (the “Stock Repurchase Program”) under which we may acquire up to $5.0 million of our outstanding common stock. Under the Stock Repurchase Program, we may, but are not obligated to, repurchase outstanding common stock in the open market from time to time provided that we comply with the prohibitions under our insider trading policies and the requirements of Rule 10b-18 of the Securities Exchange Act of 1934, as amended, including certain price, market value and timing constraints. The timing, manner, price and amount of any share repurchases will be determined by our management, in its discretion, based upon the evaluation of economic and market conditions, stock price, capital availability, applicable legal and regulatory requirements and other corporate considerations. On October 26, 2020, the Board extended the Stock Repurchase Program through December 31, 2021, or until the approved dollar amount has been used to repurchase shares. The Stock Repurchase Program does not require us to repurchase any specific number of shares and the Company cannot assure that any shares will be repurchased under the Stock Repurchase Program. The Stock Repurchase Program may be suspended, extended, modified, or discontinued at any time. During the years ended December 31, 2020 and 2018, we repurchased 25,719 and 44,821 shares of common stock on the open market for $0.3 and $0.6 million, respectively. We did not make any repurchases of common stock during the year ended December 31, 2019. Refer to Note 9 to our consolidated financial statements for additional information concerning stock repurchases.

Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data of FIC and its subsidiaries, including the Funds, as of and for the years ended December 31, 2020, 2019, 2018, 2017, and 2016, is derived from the consolidated financial statements that have been audited by RSM US LLP, an independent registered public accounting firm. This financial data should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this Annual Report and with Management's Discussion and Analysis of Financial Condition and Results of Operations which follows.

	Years Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in Thousands, Except Per Share Data)				
Statement of operations data:					
Total investment income	$85,123	$77,106	$ 76,425	$68,615	$ 60,229
Interest and financing expenses	19,678	17,072	12,659	9,803	10,594
Base management fee	12,932	12,399	11,365	9,788	8,254
Incentive fee - income	8,952	7,445	9,413	8,913	7,375
Incentive fee - capital gains	(1,684)	3,299	2,938	2,055	2,294
All other expenses	5,158	4,422	4,272	4,069	3,986
Total expenses before income incentive fee waiver	45,036	44,637	40,647	34,628	32,503
Incentive fee waiver - income	(423)	—	—	—	—
Total expenses, net of income incentive fee waiver	44,613	44,637	40,647	34,628	32,503
Net investment income before income taxes	40,510	32,469	35,778	33,987	27,726
Income tax provision (benefit)	862	500	720	220	425
Net investment income	39,648	31,969	35,058	33,767	27,301
Net realized gains (losses)	(968)	(1,171)	(10,269)	17,904	(13,835)
Net change in unrealized appreciation (depreciation)	(6,578)	18,188	25,718	(5,426)	29,009
Income tax (provision) benefit from realized gains on investments	(577)	(121)	(758)	(2,204)	(205)
Realized losses on extinguishment of debt	(299)	(399)	(297)	(90)	—
Net increase in net assets resulting from operations	$31,226	$48,466	$ 49,452	$43,951	$ 42,270
Per share data:					
Net asset value (at end of period)	$ 16.81	$ 16.85	$ 16.47	$ 16.05	$ 15.76
Net investment income	$ 1.62	$ 1.31	$ 1.43	$ 1.44	$ 1.45
Net gain (loss) on investments	$ (0.33)	$ 0.69	$ 0.60	$ 0.44	$ 0.82
Realized losses on extinguishment of debt	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.01)	$ —
Net increase in net assets resulting from operations	$ 1.28	$ 1.98	$ 2.02	$ 1.87	$ 2.27
Dividends	$ 1.33	$ 1.60	$ 1.60	$ 1.60	$ 1.60
Other data:					
Weighted average annual yield on debt investments (1)	12.2%	12.0%	12.6%	13.0%	13.1%
Number of portfolio companies at year end	69	64	63	63	57
Expense ratios (as percentage of average net assets (2)):					
Operating expenses	6.4%	6.8%	7.0%	6.6%	7.8%
Interest expense	5.0%	4.2%	3.2%	2.6%	3.7%
Total return based on market value (3)	1.0%	37.6%	(15.8%)	3.2%	23.8%
Total return based on net asset value (4)	7.6%	12.0%	12.6%	11.9%	15.0%

(1) Weighted average yields are computed using the effective interest rates for debt investments at cost as of the period end date, including accretion of original issue discount and loan origination fees, but excluding investments on non-accrual status, if any. The weighted average yield of our debt investments is not the same as a return on investment for our stockholders but, rather, relates to a portion of our investment portfolio and is calculated before the payment of all of our and our subsidiaries' fees and expenses.
(2) Average net assets is calculated as the average of the net asset balances as of each quarter end during the fiscal year and the prior year end.
(3) Total return based on market value equals the change in the market value of our common stock per share during the period divided by the market value per share at the beginning of the period, and assumes reinvestment of dividends at prices obtained by our dividend reinvestment plan during the period. The return does not reflect any sales load that may be paid by an investor.
(4) Total return based on net asset value per share equals the change in net asset value per share during the period, plus dividends paid per share during the period, less other non-operating changes during the period, and divided by beginning net asset value per share for the period. Non-operating changes include any items that affect net asset value per share other than increase from investment operations, such as the effects of share issuances and repurchases and other miscellaneous items.

	As of December 31,				
	2020	2019	2018	2017	2016
	(Dollars in Thousands)				
Statement of assets and liabilities data:					
Total investments, fair value	$742,869	$766,919	$642,982	$596,308	$524,454
Total assets	875,740	789,439	693,876	646,263	586,742
Borrowings (5)	454,250	364,750	277,500	242,800	224,000
Total net assets	410,760	412,310	402,985	393,273	353,785

(5) Represents principal balance outstanding.

Item 7. 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 "Selected Consolidated Financial Data," FIC's consolidated financial statements and related notes appearing elsewhere in this annual report on Form 10-K ("Annual Report"). The information contained in this section contains forward-looking statements that involve risk and uncertainties. Please see "Risk Factors" and "Special Note Regarding Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these statements.

Overview

General and Corporate Structure

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. We completed our initial public offering, or IPO, in June 2011.

On June 20, 2011, FIC acquired all of the limited partnership interests of Fund I and membership interests of Fidus Mezzanine Capital GP, LLC, its general partner, resulting in Fund I becoming our wholly-owned SBIC subsidiary. Immediately following the acquisition, we and Fund I elected to be treated as business development companies, or 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. On March 29, 2013, we commenced operations of a second wholly-owned subsidiary, Fund II. On April 18, 2018, we commenced operations of a third wholly-owned subsidiary, Fund III.

Fund II and Fund III received their SBIC licenses on May 28, 2013, and March 21, 2019, respectively. We plan to continue to operate the Funds as SBICs, subject to SBA approval, and to utilize the proceeds of the sale of SBA-guaranteed debentures to enhance returns to our stockholders. As of September 9, 2019, Fund I completed a wind-down plan, relinquished its SBIC license, and can no longer issue additional SBA debentures. 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.

We have certain wholly-owned taxable subsidiaries (the "Taxable Subsidiaries"), each of which generally holds one or more of our portfolio investments listed on the consolidated schedules of investments. The Taxable Subsidiaries are consolidated for financial reporting purposes, such that our consolidated financial statements reflect our investment in the portfolio company investments owned by the Taxable Subsidiaries. The purpose of the Taxable Subsidiaries is to permit us 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 us 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.

COVID-19 Update

On March 11, 2020, the World Health Organization declared the novel coronavirus, or COVID-19, as a pandemic, and on March 13, 2020 the United States declared a national emergency with respect to COVID-19. The outbreak of COVID-19 has severely impacted global economic activity and caused significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including the United States, have reacted by instituting quarantines, restricting travel and hospitality, and temporarily closing or limiting operations at many corporate offices, retail stores, restaurants, fitness clubs and manufacturing facilities and factories in affected jurisdictions. Such actions are creating disruption in global supply chains and adversely impacting a number of industries. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact of COVID-19. Nevertheless, COVID-19 presents material uncertainty and risks with respect to the underlying value of the Company's portfolio companies, the Company's business, financial condition, results of operations and cash flows, such as the potential negative impact to financing arrangements, company decisions to delay, defer and/or modify the character of dividends in order to preserve liquidity, increased costs of operations, changes in law and/or regulation, and uncertainty regarding government and regulatory policy.

We have evaluated subsequent events from January 2, 2021 to February 25, 2021. However, as the discussion in this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations relates to the Company's financial statements for the year ended December 31, 2020, the analysis contained herein may not fully account for impacts relating to the COVID-19 pandemic. In that regard, for example, as of December 31, 2020, the Company valued its portfolio investments in conformity with GAAP based on the facts and circumstances known by the Company at that time, or reasonably expected to be known at that time. Due to the overall volatility that the COVID-19 pandemic has caused during the months that followed our December 31, 2020 valuation, any valuations conducted now or in the future in conformity with GAAP could result in a lower fair value of our portfolio. The potential impact to our results going forward will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by authorities and other entities to contain the coronavirus or treat its impact, all of which are beyond our control. Accordingly, the Company cannot predict the extent to which its financial condition and results of operations will be affected at this time.

Revenues: We generate revenue in the form of interest and fee income on debt investments and dividends, if any, on equity investments. Our debt investments, whether in the form of second lien, subordinated or first lien loans, typically have terms of five to seven years and most bear interest at a fixed rate, but some 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 may receive repayments of some of our debt investments prior to their scheduled maturity dates, which may include prepayment penalties. 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 debt investments 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. Debt investment origination fees, OID and market discount or premium, if any, are capitalized, and we accrete or amortize such amounts into interest income. We record prepayment penalties on debt investments as fee income when earned. Interest and dividend income is recorded on the accrual basis to the extent that we expect to collect such amounts. Interest is accrued daily based on the outstanding principal amount and the contractual terms of the debt investment. Dividend income is recorded as dividends are declared or at the point an obligation exists for the portfolio company to make a distribution, and is generally recognized when received. Distributions of earnings from portfolio companies are evaluated to determine if the distribution is a distribution of earnings or a return of capital. Distributions of earnings are included in dividend income while a return of capital is recorded as a reduction in the cost basis of the investment. Estimates are adjusted as necessary after the relevant tax forms are received from the portfolio company. Debt investments or preferred equity investments (for which we are accruing PIK dividends) 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. 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. See "Critical Accounting Policies and Use of Estimates – Revenue Recognition."

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.

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, including "dead deal" costs;
- 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 years ended December 31, 2020 and 2019, we invested $190.0 million and $219.2 million in debt and equity investments, respectively, including 12 and 12 new portfolio companies, respectively. During the years ended December 31, 2020 and 2019, we received proceeds from sales or repayments, including principal, return of capital dividends and net realized gains (losses), of $210.8 million and $120.6 million, respectively, including exits of 7 and 11 portfolio companies, respectively. The following table summarizes investment purchases and sales and repayments of investments by type for the years ended December 31, 2020 and 2019 (dollars in millions).

	Purchases of Investments				Sales and Repayments of Investments			
	2020		2019		2020		2019	
Second Lien Debt	$ 54.9	29.0%	$ 54.3	24.7%	$ 74.5	35.4%	$ 50.4	41.9%
Subordinated Debt	14.5	7.6	70.0	32.0	48.3	22.9	36.1	29.9
First Lien Debt	109.9	57.8	84.0	38.3	32.3	15.3	13.8	11.4
Equity	10.7	5.6	10.9	5.0	51.2	24.3	16.2	13.4
Warrants	—	—	—	—	4.5	2.1	4.1	3.4
Royalty Rights	—	—	—	—	—	—	—	—
Total	$190.0	100.0%	$219.2	100.0%	$210.8	100.0%	$120.6	100.0%

As of December 31, 2020, the fair value of our investment portfolio totaled $742.9 million and consisted of 66 active portfolio companies and three portfolio companies that have sold their underlying operations. As of December 31, 2020, 22 portfolio companies' debt investments bore interest at a variable rate, which represented $230.9 million, or 36.8%, of our debt investment portfolio on a fair value basis, and the remainder of our debt investment portfolio was comprised of fixed rate investments. Overall, the portfolio had net unrealized appreciation of $55.8 million as of December 31, 2020. As of December 31, 2020, our average active portfolio company investment at amortized cost was $10.4 million, which excludes investments in the three portfolio companies that have sold their underlying operations.

As of December 31, 2019, the fair value of our investment portfolio totaled $766.9 million and consisted of 61 active portfolio companies and three portfolio companies that have sold their underlying operations. As of December 31, 2019, 17 portfolio companies' debt investments bore interest at a variable rate, which represented $181.3 million, or 28.7%, of our debt investment portfolio on a fair value basis, and the remainder of our debt investment portfolio was comprised of fixed rate investments. Overall, the portfolio had net unrealized appreciation of $62.4 million as of December 31, 2019. As of December 31, 2019, our average active portfolio company investment at amortized cost was $11.5 million, which excludes investments in the three portfolio companies that have sold their underlying operations.

The weighted average yield on debt investments as of December 31, 2020 and 2019 was 12.2% and 12.0%, respectively. The weighted average yield of our debt investments is not the same as a return on investment for our stockholders but, rather, relates to a portion of our investment portfolio and is calculated before the payment of all of our and our subsidiaries' fees and expenses. The weighted average yields were computed using the effective interest rates for debt investments at cost as of December 31, 2020 and 2019, including the accretion of OID and debt investment origination fees, but excluding investments on non-accrual status, if any. The following table shows the portfolio composition by investment type at fair value and cost and as a percentage of total investments (dollars in millions):

	Fair Value				Cost			
	December 31, 2020		December 31, 2019		December 31, 2020		December 31, 2019	
Second Lien Debt	$332.2	44.7%	$383.1	49.9%	$341.9	49.7%	$392.2	55.7%
Subordinated Debt	107.9	14.5	140.8	18.4	107.3	15.6	140.7	20.0
First Lien Debt	187.4	25.2	108.3	14.1	184.6	26.9	107.7	15.3
Equity	112.8	15.2	126.6	16.5	50.0	7.3	58.1	8.2
Warrants	2.6	0.4	8.1	1.1	3.2	0.5	5.8	0.8
Royalty Rights	—	—	—	—	—	—	—	—
Total	$742.9	100.0%	$766.9	100.0%	$687.0	100.0%	$704.5	100.0%

All investments made by us as of December 31, 2020 and 2019 were made in portfolio companies headquartered 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 (dollars in millions). 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			
	December 31, 2020		December 31, 2019		December 31, 2020		December 31, 2019	
Midwest	$225.7	30.4%	$208.2	27.1%	$189.6	27.6%	$181.3	25.7%
Southeast	153.3	20.6	160.0	20.9	130.0	18.9	138.1	19.6
Northeast	123.3	16.6	154.7	20.2	127.8	18.6	142.1	20.2
West	108.7	14.6	76.3	9.9	109.2	15.9	76.6	10.9
Southwest	131.9	17.8	167.7	21.9	130.4	19.0	166.4	23.6
Total	$742.9	100.0%	$766.9	100.0%	$687.0	100.0%	$704.5	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	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Specialty Distribution	15.8%	16.9%	17.0%	18.3%
Information Technology Services	12.8	11.8	13.2	11.9
Business Services	12.3	12.1	13.0	13.0
Healthcare Products	9.0	8.6	4.8	5.7
Component Manufacturing	7.4	5.2	6.9	6.2
Healthcare Services	5.4	5.6	6.0	5.8
Aerospace & Defense Manufacturing	5.2	4.5	5.6	3.8
Consumer Products	5.1	2.8	5.5	3.4
Retail	3.6	3.8	4.4	4.2
Promotional Products	3.3	3.5	3.7	3.6
Building Products Manufacturing	3.2	2.7	3.8	3.3
Transportation Services	3.0	3.4	3.1	3.3
Oil & Gas Services	2.8	4.3	0.4	0.8
Utilities: Services	2.5	2.4	2.7	2.6
Environmental Industries	2.4	2.4	2.7	2.6
Packaging	2.1	2.0	2.1	2.1
Oil & Gas Distribution	1.5	0.8	1.5	0.8
Industrial Cleaning & Coatings	1.4	2.0	1.9	2.2
Utility Equipment Manufacturing	0.9	0.9	1.3	1.2
Vending Equipment Manufacturing	0.3	4.3	0.3	5.1
Restaurants	0.0 (1)	0.0 (1)	0.1	0.1
Specialty Chemicals	0.0 (1)	0.0 (1)	0.0 (1)	0.0 (1)
Total	100.0%	100.0%	100.0%	100.0%

(1) Percentage is less than 0.1% of respective total.

Portfolio Asset Quality

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

- Investment Rating 1 is used for investments that involve the least amount of risk in our portfolio. The portfolio company is performing above expectations, the debt investment is expected to be paid in the near term and the trends and risk factors are favorable, and may include an expected capital gain on the equity investment.
- Investment Rating 2 is used for investments that involve a level of risk similar to the risk at the time of origination. The portfolio company is performing substantially within our expectations and the risk factors are neutral or favorable. Each new portfolio investment enters our portfolio with Investment Rating 2.
- Investment Rating 3 is used for investments performing below expectations and indicates the investment's risk has increased somewhat since origination. The portfolio company requires closer monitoring, but we expect a full return of principal and collection of all interest and/or dividends.
- Investment Rating 4 is used for investments performing materially below expectations and the risk has increased materially since origination. The investment has the potential for some loss of investment return, but we expect no loss of principal.
- Investment Rating 5 is used for investments performing substantially below our expectations and the risks have increased substantially since origination. We expect some loss of principal.

The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value and cost as of December 31, 2020 and 2019 (dollars in millions):

	Fair Value				Cost			
Investment Rating	**December 31, 2020**		**December 31, 2019**		**December 31, 2020**		**December 31, 2019**	
1	$109.3	14.7%	$100.1	13.1%	$ 38.7	5.6%	$ 29.0	4.2%
2	544.4	73.3	580.5	75.7	537.6	78.3	570.1	80.9
3	80.1	10.8	84.6	11.0	87.5	12.7	96.7	13.7
4	9.0	1.2	1.7	0.2	13.7	2.0	5.8	0.8
5	0.1	—	—	—	9.5	1.4	2.9	0.4
Total	$742.9	100.0%	$766.9	100.0%	$687.0	100.0%	$704.5	100.0%

Based on our investment rating system, the weighted average rating of our portfolio as of December 31, 2020 and 2019 was 2.0 and 2.0, respectively, on a fair value basis and 2.2 and 2.1, respectively, on a cost basis.

Non-Accrual

As of December 31, 2020 and December 31, 2019, we had debt investments in one portfolio company on non-accrual status (dollars in millions):

	December 31, 2020		December 31, 2019	
Portfolio Company	**Fair Value**	**Cost**	**Fair Value**	**Cost**
Frontline Food Services, LLC (f/k/a Accent Food Services, LLC)	$— (1)	$— (1)	$33.1	$35.3
EBL, LLC (EbLens)	5.5(2)	9.2(2)	— (3)	— (3)
Total	$ 5.5	$ 9.2	$33.1	$35.3

(1) Portfolio company was no longer held at period end.
(2) Portfolio company was on PIK-only on non-accrual status at period end, meaning the Company has ceased recognizing PIK interest income on the investment.
(3) Portfolio company debt investments were not on non-accrual status at period end.

Discussion and Analysis of Results of Operations

Comparison of fiscal years ended December 31, 2020, 2019, and 2018

Investment Income

Below is a summary of the changes in total investment income for the years ended December 31, 2020, 2019, and 2018, as well as a comparison of those periods year-over-year (dollars in millions, percent change calculated based on underlying dollar amounts in thousands):

	Years Ended December 31,			2020 vs. 2019		2019 vs. 2018	
	2020	**2019**	**2018**	**$ Change**	**% Change (1)**	**$ Change**	**% Change (1)**
Interest income	$ 73.5	$ 62.2	$ 60.9	$ 11.3	18.2%	$ 1.3	2.1%
Payment-in-kind interest income	4.7	9.1	6.6	(4.4)	(48.8%)	2.5	38.4%
Dividend income	2.4	1.4	4.0	1.0	73.2%	(2.6)	(64.5%)
Fee income	4.5	4.3	4.8	0.2	3.9%	(0.5)	(11.0%)
Interest on idle funds	—	0.1	0.1	(0.1)	(89.2%)	—	NM
Total investment income	$ 85.1	$ 77.1	$ 76.4	$ 8.0	10.4%	$ 0.7	0.9%

(1) NM = Not meaningful

For the year ended December 31, 2020, total investment income was $85.1 million, an increase of $8.0 million or 10.4%, from the $77.1 million of total investment income for the year ended December 31, 2019. As reflected in the table above, the increase is primarily attributable to the following:

- $6.9 million increase in total interest income (including payment-in-kind interest income) resulting from higher weighted average debt yield and higher average debt investment balances outstanding, during 2020 as compared to 2019.
- $1.0 million increase in dividend income, during 2020 as compared to 2019, due to increased levels of distributions received from equity investments.
- $0.2 million increase in fee income resulting from an increase in debt amendment fee income partially offset by a decrease in origination and prepayment fees income during 2020 as compared to 2019.

For the year ended December 31, 2019, total investment income was $77.1 million, an increase of $0.7 million or 0.9%, from the $76.4 million of total investment income for the year ended December 31, 2018. As reflected in the table above, the increase is primarily attributable to the following:

- $3.8 million increase in total interest income (including payment-in-kind interest income) resulting from higher average debt investment balances outstanding, partially offset by a decrease in weighted average debt yield, during 2019 as compared to 2018.
- $2.6 million decrease in dividend income, during 2019 as compared to 2018, due to decreased levels of distributions received from equity investments.
- $0.5 million decrease in fee income resulting from a decrease in prepayment fee income, and partially offset by an increase in debt amendment fee income and origination fees, during 2019 as compared to 2018.

Expenses

Below is a summary of the changes in total expenses, including income tax provision, for the years ended December 31, 2020, 2019, and 2018, as well as a comparison of those periods year-over-year (dollars in millions, percent change calculated based on underlying dollar amounts in thousands):

	Years Ended December 31,			2020 vs. 2019		2019 vs. 2018	
	2020	2019	2018	$ Change	% Change (1)	$ Change	% Change (1)
Interest and financing expenses	$ 19.7	$ 17.1	$ 12.7	$ 2.6	15.3%	$ 4.4	34.9%
Base management fee	12.9	12.4	11.4	0.5	4.3%	1.0	9.1%
Incentive fee - income	9.0	7.4	9.4	1.6	20.2%	(2.0)	(20.9%)
Incentive fee - capital gains	(1.7)	3.3	2.9	(5.0)	(151.0%)	0.4	12.3%
Administrative service expenses	1.7	1.6	1.5	0.1	8.7%	0.1	8.3%
Professional fees	2.1	1.5	1.3	0.6	34.6%	0.2	15.6%
Other general and administrative expenses	1.3	1.3	1.4	—	NM	(0.1)	(12.3%)
Total expenses, before incentive fee waiver	45.0	44.6	40.6	0.4	0.9%	4.0	9.8%
Incentive fee waiver - income	(0.4)	—	—	(0.4)	NM	—	NM
Total expenses, net of incentive fee waiver before income tax provision	44.6	44.6	40.6	—	NM	4.0	9.1%
Income tax provision	0.9	0.5	0.8	0.4	72.4%	(0.3)	0.0%
Total expenses, including income tax provision	$ 45.5	$ 45.1	$ 41.4	$ 0.4	0.7%	$ 3.7	9.1%

(1) NM = Not meaningful

For the year ended December 31, 2020, total expenses, including income tax provision, were $45.5 million, an increase of $0.4 million or 0.7%, from the $45.1 million of total expenses, including income tax provision, for the year ended December 31, 2019. As reflected in the table above, the increase is primarily attributable to the following:

- $2.6 million increase in interest and financing expenses due to an increase in average borrowings outstanding and an increase in weighted average interest rate on borrowings during 2020 as compared to 2019.
- $1.2 million net increase in the income incentive fee comprised of a $1.6 million increase in the income incentive fee due to a $3.8 million increase in pre-incentive fee net investment income during 2020 offset by a one-time $0.4 million income incentive fee waiver, as compared to the same period in 2019.
- $0.6 million increase in professional fees during 2020 as compared to 2019.
- $0.5 million increase in base management fee due to higher average total assets during 2020 as compared to 2019.
- $5.0 million decrease in the capital gains incentive fee due to a $25.0 million decrease in net gain on investments (net realized gains (losses) plus net change in unrealized appreciation (depreciation) on investments) during 2020, as compared to the same period in 2019.

For the year ended December 31, 2019, total expenses, including income tax provision, were $45.1 million, an increase of $3.7 million or 9.1%, from the $41.4 million of total expenses, including income tax provision, for the year ended December 31, 2018. As reflected in the table above, the increase is primarily attributable to the following:

- $4.4 million increase in interest and financing expenses due to an increase in average borrowings outstanding and an increase in weighted average interest rate on borrowings during 2019 as compared to 2018.
- $2.0 million decrease in the income incentive fee due to a $4.7 million decrease in pre-incentive fee net investment income during 2019, as compared to the same period in 2018.

- $1.0 million increase in base management fee due to higher average total assets during 2019 as compared to 2018.
- $0.4 million increase in the capital gains incentive fee due to a $2.2 million increase in net gain on investments (net realized gains (losses) plus net change in unrealized appreciation (depreciation) on investments) during 2019, as compared to the same period in 2018.
- $0.1 million decrease in other general and administrative expenses during 2019 resulting from the write-off of deferred equity offering costs related to our previous Form N-2 registration statement in 2018.

Net Investment Income

Net investment income was $39.6 million, $32.0 million, and $35.1 million for the years ended December 31, 2020, 2019, and 2018, respectively.

Net investment income increased by $7.6 million, or 24.0%, during fiscal 2020 as compared to fiscal 2019, as a result of the $8.0 million increase in total investment income compared to a $0.4 million increase in total expenses, including the income incentive fee waiver and income tax provision.

Net investment income decreased by $3.1 million, or 8.8%, during fiscal 2019 as compared to fiscal 2018, as a result of the $0.7 million increase in total investment income compared to a $3.8 million increase in total expenses, including income tax provision.

Net Gain (Loss) on Investments

For the year ended December 31, 2020, the total net realized loss on investments, before income tax provision on realized gains, was $(1.0) million. Income tax (provision) benefit from realized gains on investments was $(0.6) million for the year ended December 31, 2020. Significant realized gains (losses) for the year ended December 31, 2020 are summarized below (dollars in millions):

Portfolio Company	Realization Event (1)	Net Realized Gains (Losses)
Pfanstiehl, Inc.	Sold 50% of equity investment	$ 12.8
Fiber Materials, Inc.	Sale of portfolio company	9.7
Microbiology Research Associates, Inc.	Exit of portfolio company	1.7
Medsurant Holdings, LLC	Sold 50% of equity investment	1.7
Revenue Management Solutions, LLC	Sold 50% of equity investment	1.5
Worldwide Express Operations, LLC	Sold 50% of equity investment	1.1
Gurobi Optimization, LLC	Sold 50% of equity investment	1.0
ControlScan, Inc.	Exit of portfolio company	1.0
Pugh Lubricants, LLC	Exit of portfolio company	0.9
Hub Acquisition Sub, LLC (dba Hub Pen)	Sold 50% of equity investment	0.6
Global Plasma Solutions, Inc.	Sale of equity investment	0.5
Midwest Transit Equipment, Inc.	Sold 50% of equity investment	0.5
Pinnergy, Ltd.	Sale of equity investment	0.3
Alzheimer’s Research and Treatment Center, LLC	Sold 50% of equity investment	0.3
Hoonuit, LLC	Exit of portfolio company	0.2
BCM One Group Holdings, Inc.	Sold 50% of equity investment	0.2
Software Technology, LLC	Sold 50% of equity investment	0.2
LNG Indy, LLC (dba Kinetrex Energy)	Sold 50% of equity investment	0.2
New Era Technology, Inc.	Escrow distribution	0.1
Wheel Pros, Inc.	Sold 50% of equity investment	0.1
Apex Microtechnology, Inc.	Escrow distribution	0.1
Allied 100 Group, Inc.	Sold 50% of equity investment	0.1
Restaurant Finance Co, LLC	Escrow distribution	0.1
Vanguard Dealer Services, L.L.C.	Escrow distribution	0.1
Allredi, LLC (fka Marco Group International OpCo, LLC)	Sold 50% of equity investment	0.1
Other		0.1
Palisade Company, LLC	Sold 50% of equity investment	(0.1)
Frontline Food Services, LLC (f/k/a Accent Food Services, LLC)	Write-off of debt and equity investments	(36.1)
Net realized gain (loss) on investments		(1.0)
Income tax provision from realized gains on investments		(0.6)
Net realized gain (loss), net of income tax provision, on investments		$ (1.6)

(1) As it relates to realization events, we define an ‘exit’ of a portfolio company as situations where we have completely exited our position in all of the portfolio company’s securities and no longer carry the portfolio company on our schedule of investments. We define a ‘sale’ of a portfolio company, distinguished from an exit, as situations where the underlying operations of a portfolio company have been sold, but where we retain a residual ownership interest in the legacy entity (we generally distinguish these residual portfolio company investments from ‘active’ portfolio company investments).

For the year ended December 31, 2019, the total net realized loss on investments, before income tax provision on realized gains, was $(1.2) million. Income tax (provision) benefit from realized gains on investments was $(0.1) million for the year ended December 31, 2019. Significant realized gains (losses) for the year ended December 31, 2019 are summarized below (dollars in millions):

Portfolio Company	Realization Event (1)	Net Realized Gains (Losses)
The Wolf Organization, LLC	Exit of portfolio company	$ 4.0
Vanguard Dealer Services, L.L.C.	Sale of portfolio company	3.7
New Era Technology, Inc.	Exit of portfolio company	3.1
Simplex Manufacturing Co.	Exit of portfolio company	2.9
US Pack Logistics LLC	Exit of portfolio company	0.8
Other		0.2
Malabar International	Escrow distribution	0.1
inthinc Technology Solutions, Inc.	Exit of portfolio company	(0.2)
Trantech Radiator Products, Inc.	Exit of portfolio company	(0.3)
Consolidated Infrastructure Group Holdings, LP	Exit of portfolio company	(0.4)
K2 Industrial Services, Inc.	Exit of portfolio company	(1.3)
Oaktree Medical Centre, P.C. (dba Pain Management Associates)	Exit of portfolio company	(13.8)
Net realized gain (loss) on investments		(1.2)
Income tax provision from realized gains on investments		(0.1)
Net realized gain (loss), net of income tax provision, on investments		$ (1.3)

(1) As it relates to realization events, we define an 'exit' of a portfolio company as situations where we have completely exited our position in all of the portfolio company's securities and no longer carry the portfolio company on our schedule of investments. We define a 'sale' of a portfolio company, distinguished from an exit, as situations where the underlying operations of a portfolio company have been sold, but where we retain a residual ownership interest in the legacy entity (we generally distinguish these residual portfolio company investments from 'active' portfolio company investments).

For the year ended December 31, 2018, the total net realized loss on investments, before income tax provision on realized gains, was $(10.3) million. Income tax (provision) benefit from realized gains on investments was $(0.8) million for the year ended December 31, 2018. Significant realized gains (losses) for the year ended December 31, 2018 are summarized below (dollars in millions):

Portfolio Company	Realization Event (1)	Net Realized Gains (Losses)
World Wide Packaging, LLC	Exit of portfolio company	$ 7.0
Apex Microtechnology, Inc.	Exit of portfolio company	6.7
FAR Research Inc.	Sale of portfolio company	3.3
Caldwell & Gregory, LLC	Exit of portfolio company	1.0
Thermoforming Technology Group LLC (dba Brown Machine Group)	Sale of portfolio company	0.7
Malabar International	Escrow distribution	0.3
Worldwide Express Operations, LLC	Distributions tax character true-up	0.2
Ice House America, LLC	Exit of portfolio company	0.1
Other		0.1
IOS Acquisitions, Inc.	Exit of portfolio company	(0.1)
Inflexxion, Inc.	Exit of portfolio company	(6.5)
Restaurant Finance Co, LLC	Exit of portfolio company	(6.8)
Cavallo Bus Lines Holdings, LLC	Exit of portfolio company	(7.4)
Six Month Smiles Holdings, Inc.	Exit of portfolio company	(8.9)
Net realized gain (loss) on investments		(10.3)
Income tax provision from realized gains on investments		(0.8)
Net realized gain (loss), net of income tax provision, on investments		$ (11.1)

(1) As it relates to realization events, we define an 'exit' of a portfolio company as situations where we have completely exited our position in all of the portfolio company's securities and no longer carry the portfolio company on our schedule of investments. We define a 'sale' of a portfolio company, distinguished from an exit, as situations where the underlying operations of a portfolio company have been sold, but where we retain a residual ownership interest in the legacy entity (we generally distinguish these residual portfolio company investments from 'active' portfolio company investments).

During the years ended December 31, 2020, 2019, and 2018, we recorded a net change in unrealized appreciation (depreciation) on investments attributable to the following (dollars in millions):

	Year Ended December 31,		
Unrealized Appreciation (Depreciation)	**2020**	**2019**	**2018**
Exit, sale or restructuring of investments	$ (0.8)	$ 7.4	$ 11.2
Fair value adjustments to debt investments	(27.8)	(7.1)	(18.0)
Fair value adjustments to equity investments	22.0	17.9	32.5
Net change in unrealized appreciation (depreciation)	$ (6.6)	$18.2	$ 25.7

Net Increase in Net Assets Resulting From Operations

Net increase in net assets resulting from operations was $31.2 million, $48.5 million, and $49.5 million for the years ended December 31, 2020, 2019, and 2018, respectively, as a result of the events described above.

Liquidity and Capital Resources

As of December 31, 2020, we had $124.3 million in cash and cash equivalents and our net assets totaled $410.8 million. We believe that our current cash and cash equivalents on hand, our continued access to SBA-guaranteed debentures, our Credit Facility and our anticipated cash flows from investments will provide adequate capital resources with which to operate and finance our investment business and make distributions to our stockholders for at least the next 12 months. We intend to generate additional cash primarily from the future offerings of securities (including the "at-the-market" program) and 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. During the year ended December 31, 2020, we repaid $16.5 million of SBA debentures which would have matured during the period September 1, 2024 through September 1, 2028 Our remaining outstanding SBA debentures continue to mature in 2025 and subsequent years through 2030, which will require repayment on or before the respective maturity dates.

Cash Flows

For the year ended December 31, 2020, we experienced a net increase in cash and cash equivalents in the amount of $109.3 million. During that period, we were provided $56.0 million of cash from operating activities, which included proceeds received from sales and repayments of investments of $210.8 million, which were partially offset by the funding of $190.0 million of investments. During the same period, we received proceeds from the issuances of SBA debentures of $6.0 million and proceeds from the issuance of our 2026 Notes of $125.0 million; which were partially offset by repayments of SBA debentures of $16.5 million, net repayments of $25.0 million from borrowings under our Credit Facility, cash dividends paid to stockholders of $32.5 million, and the payment of deferred financing costs related to our debt financings of $3.4 million and repurchases of common stock under the Stock Repurchase Program (as defined below) of $0.3 million.

For the year ended December 31, 2019, we experienced a net decrease in cash and cash equivalents in the amount of $27.0 million. During that period, we used $68.7 million of cash for operating activities, which included the funding of $219.2 million of investments, which were partially offset by proceeds received from sales and repayments of investments of $120.6 million. During the same period, we received proceeds from the issuances of SBA debentures of $7.5 million and proceeds from the issuance of our Public Notes of $132.3 million; which were partially offset by repayments of SBA debentures of $41.0 million, net repayments of $11.5 million from borrowings under our Credit Facility, cash dividends paid to stockholders of $39.1 million, and the payment of deferred financing costs related to our debt financings of $6.4 million.

For the year ended December 31, 2018, we experienced a net increase in cash and cash equivalents in the amount of $0.4 million. During that period, we used $8.1 million of cash for operating activities, which included the funding of $212.3 million of investments, which were partially offset by proceeds received from sales and repayments of investments of $188.3 million. During the same period, we received proceeds from the issuances of SBA debentures of $27.0 million, net proceeds of $25.0 million from borrowings under our Credit Facility and proceeds from the issuance of our Public Notes of $50.0 million; which were partially offset by repayments of SBA debentures of $67.3 million, cash dividends paid to stockholders of $39.2 million, the payment of deferred financing costs related to our debt financings of $2.7 million and repurchases of common stock under the Stock Repurchase Program (as defined below) of $0.6 million.

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.

SBA debentures

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 300.0% of an SBIC's regulatory capital or $175.0 million, whichever is less. For two or more SBICs under common control, the maximum amount of outstanding SBA debentures cannot exceed $350.0 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 December 31, 2020, Fund II and Fund III had $133.5 million and $13.5 million of outstanding SBA debentures, respectively. As of September 9, 2019, Fund I completed a wind-down plan, relinquished its SBIC license and can no longer issue additional SBA debentures. Subject to SBA regulatory requirements and approval, Fund III may access up to $161.5 million of additional SBA debentures under the SBIC debenture program. For more information on the SBA debentures, please refer to Note 6 to our consolidated financial statements.

Credit Facility

In June 2014, we entered into the Credit Facility to provide additional funding for our investment and operational activities. On April 24, 2019, we entered into the Amended Credit Agreement, which amends, restates, and replaces the Credit Facility. On June 26, 2020, the Company amended the Amended Credit Agreement, however the material terms were unchanged. Among other revisions, the amendment to the Amended Credit Agreement modifies certain covenants therein, including to amend the minimum consolidated interest coverage ratio to be 2.25 to 1.00 for the four quarter period ending on June 30, 2020, 2.00 to 1.00 for the four quarter periods ending on each of September 30, 2020 and December 31, 2020, and 1.75 to 1.00 for each four quarter period ending at the end of each quarter thereafter. The Credit Facility is secured by substantially all of our assets, excluding the assets of the Funds.

Under the Amended Credit Agreement, (i) revolving commitments by lenders were increased from $90.0 million to $100.0 million, with an accordion feature that allows for an increase in total commitments up to $250.0 million, subject to satisfaction of certain conditions at the time of any such future increase, (ii) the maturity date of the credit facility was extended from June 16, 2019 to April 24, 2023, and (iii) borrowings under the Credit Facility bear interest, at our election, at a rate per annum equal to (a) 3.00% (or 2.75% if certain conditions are satisfied, including if (x) no equity interests are included in the borrowing base, (y) the contribution to the borrowing base of eligible portfolio investments that are performing first lien bank loans is greater than or equal to 35%, and (z) the contribution to the borrowing base of eligible portfolio investments that are performing first lien bank loans, performing last out loans, or performing second lien loans is greater than or equal to 60%) plus the one, two, three or six month LIBOR rate, as applicable, or (b) 2.00% (or 1.75% if the above conditions are satisfied) plus the highest of (A) a prime rate, (B) the Federal Funds rate plus 0.5%, (C) three month LIBOR plus 1.0%, and (D) zero. We pay a commitment fee that varies depending on the size of the unused portion of the Credit Facility: 3.00% per annum on the unused portion of the Credit Facility at or below 35% of the commitments and 0.50% per annum on any remaining unused portion of the Credit Facility between the total commitments and the 35% minimum utilization. The Amended Credit Agreement also modifies certain covenants in the Credit Facility, including to provide for a minimum asset coverage ratio of 2.00 to 1 (on a regulatory basis). The Credit Facility is secured by a first priority security interest in all of our assets, excluding the assets of our SBIC subsidiaries.

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 us, excluding investments held by the Funds. We are 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.

We have made customary representations and warranties and we are 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 December 31, 2020, we were in compliance with all covenants of the Credit Facility and there were no borrowings outstanding under the Credit Facility.

Notes

On February 2, 2018, we closed the public offering of approximately $43.5 million in aggregate principal amount of our 5.875% notes due 2023, or the "2023 Notes." On February 22, 2018, the underwriters exercised their option to purchase an additional $6.5 million in aggregate principal of the 2023 Notes. The total net proceeds to us from the 2023 Notes, including the exercise of the underwriters' option, after deducting underwriting discounts of approximately $1.5 million and estimated offering expenses of $0.4 million, were approximately $48.1 million.

The 2023 Notes will mature on February 1, 2023 and bear interest at a rate of 5.875%. The 2023 Notes may be redeemed in whole or in part at any time or from time to time at our option on or after February 1, 2020. Interest on the 2023 Notes is payable quarterly on February 1, May 1, August 1 and November 1 of each year. The 2023 Notes are listed on the NASDAQ Global Select Market under the trading symbol "FDUSL." As of December 31, 2020, the outstanding principal balance of the 2023 Notes was $50.0 million. Subsequent to December 31, 2020, the Company redeemed, in full, the issued and outstanding 2023 Notes. See "Recent Developments" for more information.

On February 8, 2019, we closed the public offering of approximately $60.0 million in aggregate principal amount of our 6.000% notes due 2024, or the “February 2024 Notes.” On February 19, 2019, the underwriters exercised their option to purchase an additional $9.0 million in aggregate principal of the February 2024 Notes. The total net proceeds to us from the February 2024 Notes, including the exercise of the underwriters’ option, after deducting underwriting discounts of approximately $2.1 million and estimated offering expenses of $0.4 million, were approximately $66.5 million.

The February 2024 Notes will mature on February 15, 2024 and bear interest at a rate of 6.000%. The February 2024 Notes may be redeemed in whole or in part at any time or from time to time at our option on or after February 15, 2021. Interest on the February 2024 Notes is payable quarterly on February 15, May 15, August 15 and November 15 of each year, beginning May 15, 2019. The February 2024 Notes are listed on the NASDAQ Global Select Market under the trading symbol “FDUSZ.” As of December 31, 2020, the outstanding principal balance of the February 2024 Notes was $69.0 million. Subsequent to December 31, 2020, the Company redeemed, in part, the issued and outstanding February 2024 Notes. See “Recent Developments” for more information.

On October 16, 2019, we closed the public offering of approximately $55.0 million in aggregate principal amount of our 5.375% notes due 2024, or the “November 2024 Notes” (and collectively with the 2023 Notes and the February 2024 Notes, the “Public Notes”). On October 23, 2019, the underwriters exercised their option to purchase an additional $8.3 million in aggregate principal of the November 2024 Notes. The total net proceeds to us from the November 2024 Notes, including the exercise of the underwriters’ option, after deducting underwriting discounts of approximately $1.9 million and estimated offering expenses of $0.3 million, were approximately $61.1 million.

The November 2024 Notes will mature on November 1, 2024 and bear interest at a rate of 5.375%. The November 2024 Notes may be redeemed in whole or in part at any time or from time to time at our option on or after November 1, 2021. Interest on the November 2024 Notes is payable quarterly on February 1, May 1, August 1 and November 1 of each year, beginning February 1, 2020. The November 2024 Notes are listed on the NASDAQ Global Select Market under the trading symbol “FDUSG.” As of December 31, 2020, the outstanding principal balance of the November 2024 Notes was approximately $63.3 million.

On December 23, 2020, we closed the offering of approximately $125.0 million in aggregate principal amount of our 4.75% notes due 2026, or the “2026 Notes” (collectively with the Public Notes, the “Notes”). The total net proceeds to us from the 2026 Notes after deducting underwriting discounts of approximately $2.5 million and estimated offering expenses of $0.4 million, were approximately $122.1 million.

The 2026 Notes will mature on January 31, 2026 and bear interest at a rate of 4.75%. The 2026 Notes may be redeemed in whole or in part at any time or from time to time at our option subject to a make whole provision if redeemed more than three months prior to maturity. Interest on the 2026 Notes is payable on January 31 and July 31 of each year, beginning July 31, 2021. We do not intent to list the 2026 Notes on any securities exchange or automated dealer quotation system.

The Notes are unsecured obligations and rank pari passu with our future unsecured indebtedness; effectively subordinated to all of our existing and future secured indebtedness; and structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, financing vehicles, or similar facilities we may form in the future, with respect to claims on the assets of any such subsidiaries, financing vehicles, or similar facilities.

As of December 31, 2020, the weighted average stated interest rates for our SBA debentures and the Notes were 3.297% and 5.342%, respectively. As of December 31, 2020, we had $100.0 million of unutilized commitment under our Credit Facility. As of December 31, 2020, the weighted average stated interest rate on total debt outstanding was 4.680%.

As a BDC, we are generally required to meet an asset coverage ratio of at least 150.0% (defined as the ratio which the value of our consolidated total assets, less all consolidated liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of senior securities representing indebtedness), which includes borrowings and any preferred stock we may issue in the future. This requirement limits the amount that we may borrow. We have received exemptive relief from the U.S. Securities and Exchange Commission (“SEC”) to allow us to exclude any indebtedness guaranteed by the SBA and issued by the Funds from the 150.0% 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 the Board, including the 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, 2020, 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, 2021 or the date of our 2021 Annual Meeting of Stockholders. We expect to present to our stockholders a similar proposal at our 2021 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, 2021 or the date of our 2021 Annual Meeting of Stockholders may not exceed 25.0% of our outstanding common stock immediately prior to each such sale.

Stock Repurchase Program

We have an open market stock repurchase program (the “Stock Repurchase Program”) under which we may acquire up to $5.0 million of our outstanding common stock. Under the Stock Repurchase Program, we may, but are not obligated to, repurchase outstanding common stock in the open market from time to time provided that we comply with the prohibitions under our insider trading policies and the requirements of Rule 10b-18 of the Securities Exchange Act of 1934, as amended, including certain price, market value and timing constraints. The timing, manner, price and amount of any share repurchases will be determined by our management, in its discretion, based upon the evaluation of economic and market conditions, stock price, capital availability, applicable legal and regulatory requirements and other corporate considerations. On October 26, 2020, the Board extended the Stock Repurchase Program through December 31, 2021, or until the approved dollar amount has been used to repurchase shares. The Stock Repurchase Program does not require us to repurchase any specific number of shares and we cannot assure that any shares will be repurchased under the Stock Repurchase Program. The Stock Repurchase Program may be suspended, extended, modified or discontinued at any time. During the years ended December 31, 2020 and 2018, the Company repurchased 25,719 and 44,821 shares, respectively, of common stock on the open market for $0.3 and $0.6 million, respectively. The Company did not make any repurchases of common stock during the year ended December 31, 2019. Refer to Note 8 to our consolidated financial statements for additional information concerning stock repurchases.

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

As a BDC, we report our assets and liabilities at fair value at all times consistent with GAAP and the 1940 Act. Accordingly, we are required to periodically determine the fair value of all of our portfolio investments.

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 engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of our portfolio investments for which market quotations are not readily available. Each portfolio company investment is generally appraised by the valuation firm(s) at least once every calendar year and each new portfolio company investment is appraised at least once in the twelve-month period following the initial investment. In certain instances, we may determine that it is not cost-effective, and as a result it is not in our stockholders’ best interest, to request the independent appraisal of certain portfolio company investments. Such instances include, but are not limited to, situations where we determine that the fair value of the portfolio company investment is relatively insignificant to the fair value of the total portfolio. Our board of directors consulted with the independent valuation firm(s) in arriving at our determination of fair value for 12 and 13 of our portfolio company investments representing 25.8% and 30.9% of the total portfolio investments at fair value (exclusive of new portfolio company investments made during the three months ended December 31, 2020 and 2019, respectively) as of December 31, 2020 and 2019, respectively;
- 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
- our 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.

Consistent with the policies and methodologies adopted by our board of directors, we perform detailed valuations of our debt and equity investments, including an analysis on the Company's unfunded debt investment commitments, 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 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 debt investment 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 and other fees; 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. 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 debt investments to maturity. However, if we have information available to us that the debt investment 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 securities 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, 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.

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. 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 our board of directors through the application of our 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 and dividend income. Interest and dividend income are recorded on the accrual basis to the extent that we expect to collect such amounts. Interest is accrued daily based on the outstanding principal amount and the contractual terms of the debt. Dividend income is recorded as dividends are declared or at the point an obligation exists for the portfolio company to make a distribution, and is generally recognized when received. Distributions from portfolio companies are evaluated to determine if the distribution is a distribution of earnings or a return of capital. Distributions of earnings are included in dividend income while a return of capital is recorded as a reduction in the cost basis of the investment. Estimates are adjusted as necessary after the relevant tax forms are received from the portfolio company.

PIK income. Certain of our investments 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, as applicable, on the consolidated statements of operations. Generally, PIK can be paid-in-kind or all in cash. We stop accruing PIK income when there is reasonable doubt that PIK income will be collected. PIK income that has been contractually capitalized to the principal balance of the investment prior to the non-accrual designation date is not reserved against interest or dividend income, but rather is assessed through the valuation of the investment (with corresponding adjustments to unrealized depreciation, as applicable). PIK income is included in our taxable income and, therefore, affects the amount we are required to pay to our stockholders in the form of dividends in order to maintain our tax treatment as a RIC and to avoid paying corporate-level U.S. federal income tax, even though we have not yet collected the cash.

Non-accrual. Debt investments or preferred equity investments (for which we are accruing PIK dividends) 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. Interest and dividend payments received on non-accrual investments may be recognized as interest or dividend 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.

Warrants. In connection with our debt investments, we will sometimes receive warrants or other equity-related securities (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 is treated as OID and accreted into interest income using the effective interest method over the term of the debt investment. Upon the prepayment of a debt investment, any unaccreted OID is accelerated into interest income.

Fee income. All transaction fees earned in connection with our investments are recognized as fee income and are generally non-recurring. 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 debt investment, any prepayment penalties are recorded as fee income when earned. In 2020, the Company elected to change the manner in which it presents the recognition of management services fees income. Previously, the Company classified management services fees as a component of interest on idle funds and other income on the Consolidated Statement of Operations. Comparative prior periods presented have been reclassified retrospectively to conform to the revised presentation. There is no change in historical net increase in net assets resulting from operations due to this change in presentation.

We also typically receive debt investment origination or closing fees in connection with investments. Such debt investment origination and closing fees are capitalized as unearned income and offset against investment cost basis on our consolidated statements of assets and liabilities and accreted into interest income over the term of the investment. Upon the prepayment of a debt investment, any unaccreted debt investment origination and closing fees are accelerated into interest income.

Recently Issued Accounting Standards

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) – Changes to the Disclosure Requirements for Fair Value Measurement*, which is intended to improve fair value disclosure requirements by removing disclosures that are not cost-beneficial, clarifying disclosures’ specific requirements, and adding relevant disclosure requirements. The guidance is effective for annual and interim reporting periods beginning after December 15, 2019. We adopted the ASU effective January 1, 2020. No significant changes to the fair value disclosures were necessary in the notes to the consolidated financial statements in order to comply with ASU 2018-13.

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-04, “*Reference Rate Reform (Topic 848)*,” which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. The expedients and exceptions provided by the amendments do not apply to contract modifications and hedging relationships entered into or evaluated after December 31, 2022, except for hedging transactions as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The Company is evaluating the potential impact that the adoption of ASU 2020-04 will have on the Company’s consolidated financial statements.

SEC Rule 12b-2 Update

In March 2020, the SEC adopted a final rule under SEC Release No. 34-88365 (the “Final Rule”), amending the accelerated filer and large accelerated filer definitions in Exchange Act Rule 12b-2. The amendments include a provision under which a BDC will be excluded from the “accelerated filer” and “large accelerated filer” definitions if the BDC has (1) a public float of $75 million or more, but less than $700 million, and (2) has annual investment income of less than $100 million. In addition, BDCs are subject to the same transition provisions for accelerated filer and large accelerated filer status as other issuers, but instead substituting investment income for revenue. The amendments will reduce the number of issuers required to comply with the auditor attestation on the internal control over financial reporting requirement provided under Section 404(b) of the Sarbanes-Oxley Act of 2002. The Final Rule applies to annual report filings due on or after April 27, 2020. As a result, the Company is no longer an accelerated filer.

SEC Rule 1-02(w)(2) Update

In May 2020, the SEC adopted rule amendments that will impact the requirement of investment companies, including BDCs, to disclose the financial statements of certain of their portfolio companies or certain acquired funds (the “Final Rules”). The Final Rules adopted a new definition of “significant subsidiary” set forth in Rule 1-02(w)(2) of Regulation S-X under the Securities Act. Rules 3-09 and 4-08(g) of Regulation S-X require investment companies to include separate financial statements or summary financial information, respectively, in such investment company’s periodic reports for any portfolio company that meets the definition of “significant subsidiary.” The Final Rules adopt a new definition of “significant subsidiary” applicable only to investment companies that (i) modifies the investment test and the income test, and (ii) eliminates the asset test currently in the definition of “significant subsidiary” in Rule 1-02(w) of Regulation S-X. The new Rule 1-02(w)(2) of Regulation S-X is intended to more accurately capture those portfolio companies that are more likely to materially impact the financial condition of an investment company. The Final Rules became effective on January 1, 2021, but voluntary compliance is permitted in advance of the effective date. The Company has elected to early adopt this rule change as of December 31, 2020.

SEC Regulation S-K Update

In November 2020, the SEC issued a final rule that modernized and simplifies Management’s Discussion and Analysis of Financial Condition and Results of Operations and certain financial disclosure requirements in Regulation S-K (the “Amendments”). Specifically, the Amendments: (i) eliminate Item 301 of Regulation S-K (Selected Financial Data); (ii) simplify Item 302 of Regulation S-K (Supplementary Financial Information); and (iii) amend certain aspects of Item 303 of Regulation S-K (Managements Discussion and Analysis of Financial Condition and Results of Operations). The Amendments became effective on February 10, 2021 and compliance will be required for the registrant’s fiscal year ending on or after August 9, 2021. Early adoption of the Amendments is permitted on an item-by-item basis after the effective date; however, a registrant must fully comply with each adopted item in its entirety. The Company is currently evaluating the impact of the Amendments on its consolidated financial statements.

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. We had off-balance sheet arrangements consisting of outstanding commitments to fund various undrawn revolving loans, other debt investments and capital commitments totaling $5.6 million and $4.8 million as of December 31, 2020 and 2019, respectively. Such outstanding commitments are summarized in the following table (dollars in millions):

	December 31, 2020		December 31, 2019	
Portfolio Company - Investment	**Total Commitment**	**Unfunded Commitment**	**Total Commitment**	**Unfunded Commitment**
Combined Systems, Inc. - Revolving Loan	$ 4.0	$ 1.0	$ —	$ —
Elements Brands, LLC - Revolving Loan	3.0	0.8	—	—
FDS Avionics Corp. (dba Flight Display Systems) - Revolving Loan	0.2	—	0.2	—
French Transit, LLC - Revolving Loan	—	—	1.0	1.0
Rhino Assembly Company, LLC - Delayed Draw Commitment	0.9	0.9	0.9	0.9
Safety Products Group, LLC - Common Equity (Units)	2.9 (1)	2.9 (1)	2.9 (1)	2.9 (1)
Total	$ 11.0	$ 5.6	$ 5.0	$ 4.8

(1) Portfolio company was no longer held at period end. The commitment represents our maximum potential liability related to certain guaranteed obligations stemming from the prior sale of the portfolio company’s underlying operations .

Additional detail for each of the commitments above is provided in our consolidated schedules of investments.

Table of Contents

Contractual Obligations

As of December 31, 2020, our future fixed commitments (1) for cash payments are as follows:

	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
		(Dollars in millions)			
SBA debentures	$147.0	$ —	$ —	$ 39.2	$ 107.8
Credit Facility borrowings	—	—	—	—	—
Notes	307.3	—	50.0	132.3	125.0
Total	$454.3	$ —	$50.0	$171.5	$ 232.8

(1) Fixed commitments in the table above include the principal balance of the obligations as of December 31, 2020. While these obligations are outstanding, we will also incur related interest expense. The amount of interest expense that we ultimately incur will depend on the timing of repayments (which may occur on or before the stated maturity dates), and, as it relates to our Credit Facility, changes in the underlying variable reference interest rates. As of December 31, 2020, the weighted average stated interest rates for our SBA debentures and the Notes were 3.297% and 5.342%, respectively. As of December 31, 2020, we had $100.0 million of unutilized commitment under our Credit Facility.

We have certain contracts under which we have material future commitments. We entered into the Investment Advisory Agreement with our investment advisor in accordance with the 1940 Act. Under the Investment Advisory Agreement, our investment advisor provides us with investment advisory and management services. We pay the following amounts for these services (a) a management fee equal to a percentage of the average of our total assets (excluding cash and cash equivalents) and (b) an incentive fee based on our performance. See “Business — Management and Other Agreements — Investment Advisory Agreement — Management Fee.”

Under the Administration Agreement, our investment advisor furnishes us with office facilities and equipment, provides us clerical, bookkeeping and record keeping services at such facilities and provides us with other administrative services necessary to conduct our day-to-day operations. See “Business — Management and Other Agreements — Administration Agreement.”

If any of our contractual obligations discussed above are terminated, our costs under any new agreements that we enter into may increase. In addition, we would likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Advisory Agreement and our Administration Agreement. Any new investment advisory agreement would also be subject to approval by our Independent Directors and our stockholders.

Related Party Transactions

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

- We have entered into the Investment Advisory Agreement with Fidus Investment Advisors, LLC, as our investment advisor. Pursuant to the agreement our investment advisor manages 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, and Thomas C. Lauer, our President, are managers of Fidus Investment Advisors, LLC. In May 2015, Fidus Investment Advisors, LLC entered into a combination with Fidus Partners, LLC (the “Combination”), by which members of Fidus Investment Advisors LLC and Fidus Partners, LLC (“Partners”) contributed all of their respective membership interest in Fidus Investment Advisors LLC and Partners to a newly formed limited liability company, Fidus Group Holdings, LLC (“Holdings”). As a result, Fidus Investment Advisors LLC is a wholly-owned subsidiary of Holdings, which is a limited liability company organized under the laws of Delaware.
- 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.”
- On February 25, 2020, the Company entered into a Limited Partnership Agreement (the “Agreement”) with Fidus Equity Fund I, L.P. (“FEF I”). Pursuant to the Agreement, we will serve as the General Partner of FEF I. Owned by third-party investors, FEF I was formed to purchase 50% of select equity investments from us. On February 25, 2020, we sold 50% of our equity investments in 20 portfolio companies to FEF I and received net proceeds of $35.9 million, resulting in a realized gain, net of estimated taxes, of approximately $20.4 million. We will not receive any fees from FEF I for any services provided in our capacity as the General Partner of FEF I.

- The Investment Advisor, in consultation with the Board, agreed to voluntarily waive $0.4 of the income incentive fee for the year ended December 31, 2020. There was no income incentive fee waiver for the year ended December 31, 2019.

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. Effective June 30, 2014, pursuant to separate exemptive relief from the SEC, any SBA debentures issued by Fund II and Fund III are not considered senior securities for purposes of the asset coverage requirements.

While we may co-invest with investment entities managed by our investment advisor or its affiliates, to the extent permitted by the 1940 Act and the rules and regulations thereunder, the 1940 Act imposes significant limits on co-investment. The SEC staff has granted us relief sought in an exemptive application that expands our ability to co-invest in portfolio companies with other funds managed by our investment advisor or its affiliates ("Affiliated Funds") in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, subject to compliance with certain conditions (the "Order"). Pursuant to the Order, we are permitted to co-invest with our affiliates if a "required majority" (as defined in Section 57(o) of the 1940 Act) or our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching by us or our stockholders on the part of any person concerned, and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies.

In addition, we 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 the Investment Advisor's officers, directors and employees. Additionally, the Investment Advisor has adopted a code of ethics pursuant to rule 204A-1 under the Advisers Act and in accordance with Rule 17j-1(c) under the 1940 Act. We 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 January 11, 2021, we exited our debt investment in Bandon Fitness (Texas), Inc. We received payment in full of $15.6 million on our first lien debt, which includes a prepayment fee.

On January 14, 2021, we exited our debt investment in Alzheimer's Research and Treatment Center, LLC. We received payment in full of $6.6 million on our first lien debt, which includes a prepayment fee.

On January 19, 2021, we redeemed $50.0 million of the aggregate principal amount on the 2023 Notes, resulting in a realized loss on extinguishment of debt of approximately $0.8 million.

On January 22, 2021, we invested $11.0 million in first lien debt and $0.5 million in common equity of GP&C Operations, LLC (dba Garlock Printing and Converting), a converter of plastic film into flexible packaging solutions.

On January 26, 2021, we exited our debt investment in Ohio Medical, LLC. We received payment in full of $10.0 million on our second lien debt. We subsequently invested $5.0 million in a new second lien debt investment in Ohio Medical, LLC.

On February 9, 2021, the Board declared a regular quarterly dividend of $0.31 per share and supplemental dividend of $0.07 per share payable March 26, 2021 to stockholders of record as of March 12, 2021.

On February 10, 2021, we invested $6.5 million in first lien debt and made a commitment up to $2.0 million of additional first lien debt of Wonderware Holdings, LLC (dba CORE Business Technologies), a provider of revenue management and payments solutions for government, healthcare and education.

On February 11, 2021, we invested $8.9 million in first lien debt and made a commitment up to $0.4 million of additional first lien debt of Xeeva, Inc., a global provider of intelligent, cloud-based indirect spend management software solutions.

On February 12, 2021, we exited our debt and equity investments in FDS Avionics Corp. (dba Flight Display Systems). Flight Display Systems was acquired and combined with Calculex Inc. and Argon Corporation under a new holding company, Spectra A&D Holdings ("Spectra"). We received payment in full of $5.1 million on our second lien and revolving debt. We sold our preferred and a portion of our common equity investments for a realized gain of approximately $1.0 million. In conjunction with the transaction, we invested $8.0 million in first lien debt and $4.1 million in preferred equity, of which $2.0 million was rolled over from our original common equity investment in Flight Display Systems.

On February 16, 2021, we redeemed $50.0 million of the $69.0 million aggregate principal amount on the February 2024 Notes, resulting in a realized loss on extinguishment of debt of approximately $1.1 million.

On February 19, 2021, we exited our debt investment in Wheel Pros, Inc. We received payment in full of $20.4 million on our second lien debt, which includes a prepayment fee.

Subsequent to December 31, 2020, the global outbreak of the COVID-19 pandemic has adversely affected some of the Company's investments and continues to have adverse consequences on the U.S. and global economies. The ultimate economic fallout from the pandemic, and the long-term impact on economies, markets, industries and individual portfolio companies, remains uncertain. At the time of this filing, there is no indication of a reportable subsequent event impacting the Company's financial statements for the year ended December 31, 2020. The Company cannot predict the extent to which its financial condition and results of operations will be adversely affected at this time. The potential impact to our results will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of COVID-19. The Company continues to observe and respond to the evolving COVID-19 environment and its potential impact on areas across its business.

Item 7A. 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 addition, U.S. and global capital markets and credit markets have experienced a higher level of stress due to the global COVID-19 pandemic, which has resulted in an increase in the level of volatility across such markets and a general decline in value of the securities held by us.

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. In connection with the COVID-19 pandemic, the U.S. Federal Reserve and other central banks have reduced certain interest rates and LIBOR has decreased. A prolonged reduction in interest rates will reduce our gross investment income and could result in a decrease in our net investment income if such decreases in LIBOR are not offset by a corresponding increase in the spread over LIBOR that we earn on any portfolio investments, a decrease in in our operating expenses, including with respect to our income incentive fee, or a decrease in the interest rate of our floating interest rate liabilities tied to LIBOR. As of December 31, 2020 and 2019, 22 and 17 portfolio companies' debt investments, respectively, bore interest at a variable rate, which represented $230.9 million and $181.3 million of our portfolio on a fair value basis, respectively, and the remainder of our debt portfolio was comprised entirely of fixed rate investments. Our pooled SBA debentures and our Public Notes bear interest at fixed rates. Our Credit Facility bears interest, at our election, at a rate per annum equal to (a) 3.00% (or 2.75% if certain conditions are satisfied, including if (x) no equity interests are included in the borrowing base, (y) the contribution to the borrowing base of eligible portfolio investments that are performing first lien bank loans is greater than or equal to 35%, and (z) the contribution to the borrowing base of eligible portfolio investments that are performing first lien bank loans, performing last out loans, or performing second lien loans is greater than or equal to 60%) plus the one, two, three or six month LIBOR rate, as applicable, or (b) 2.00% (or 1.75% if the above conditions are satisfied) plus the highest of (A) a prime rate, (B) the Federal Funds rate plus 0.5%, (C) three month LIBOR plus 1.0%, and (D) zero.

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.

The following table shows the approximate annualized increase or decrease in the components of net investment income due to hypothetical base rate changes in interest rates, assuming no changes in our investments and borrowings as of December 31, 2020 (dollars in millions):

Basis Point Increase (Decrease)	Interest Income Increase (Decrease) (1) (2)	Interest Expense Increase (Decrease)(4)	Net Increase (Decrease)	Net Investment Income (3)
(200)	$ —	$ —	$ —	$ —
(150)	—	—	—	—
(100)	—	—	—	—
(50)	—	—	—	—
50	—	—	—	—
100	0.2	—	0.2	0.2
150	0.7	—	0.7	0.6
200	1.5	—	1.5	1.2
250	2.7	—	2.7	2.2
300	3.8	—	3.8	3.0

(1) Certain of our variable rate debt investments have a LIBOR interest rate floor, which lessens the impact of decreases in interest rates .
(2) Interest income calculated assuming three-month LIBOR rate as of December 31, 2020.
(3) Includes the impact of income incentive fee at 20.0% on net increase (decrease) in net interest.
(4) As of December 31, 2020, we did not have any borrowings outstanding under our Credit Facility, and our remaining debt obligations all carry fixed interest rates.

Item 8. Consolidated Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Fidus Investment Corporation and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of assets and liabilities of Fidus Investment Corporation and subsidiaries (collectively, the Company), including the consolidated schedules of investments, as of December 31, 2020 and 2019, the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes, which include the senior securities table, to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations, changes in net assets, and cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated February 25, 2021, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2020 and 2019, by correspondence with the custodians, portfolio companies or agents or by other appropriate procedures where replies from custodians, portfolio companies or agents were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of level 3 investments

As discussed in Notes 2 and 4 to the consolidated financial statements, the Company measures substantially all of its investments at fair value using unobservable inputs and assumptions as there is no readily available market value. Due to the use of unobservable inputs in determining fair value, these investments are classified as level 3 within the fair value hierarchy and total $742,869 thousand as of December 31, 2020.

We identified the valuation of certain level 3 investments as a critical audit matter because of certain significant assumptions management makes in determining the estimate, including the selected valuation techniques, revenue or EBITDA multiples, and discount rates. Auditing management's valuation techniques and assumptions of revenue and EBITDA multiples and the discount rate involved a high degree of auditor judgment and increased audit effort, including the use of valuation specialists, as changes in these assumptions could have a significant impact on the fair value of the level 3 investments.

Our audit procedures related to the Company's valuation of level 3 investments included the following, among others:

- We obtained an understanding of the relevant controls related to the Company's process to determine fair value of its level 3 investments, including controls over the Company's methods and selection of significant unobservable inputs, and tested such controls for operating effectiveness.
- We evaluated the appropriateness of management's valuation techniques, such as the discounted cash flow or enterprise value, and management's asset coverage analysis. We also evaluated whether assumptions used by management, including revenue or EBITDA multiples and discount rates, were reasonable by comparing these inputs to market information obtained from external sources. For a selection of investments, we utilized valuation specialists to perform this evaluation.
- For a select number of investments, we utilized the valuation specialists to develop an independent fair value estimate which was compared to management's estimate.
- We evaluated the Company's historical ability to estimate fair value by comparing the fair value as estimated by management against sale transactions, where applicable.

Transfers of Financial Assets

As discussed in Note 2 to the consolidated financial statements, the Company follows the appropriate accounting principles when determining if there has been a sale or disposition of a portfolio investment. The fair value of the Company's level 3 investments was $742,869 thousand as of December 31, 2020 and net loss on investments was $8,123 thousand for the year ended December 31, 2020.

We identified the transfer of financial assets as a critical audit matter as management's assessment of the accounting principles that determine if a financial transfer occurred is complex and requires that management make significant judgments, including determining (1) if assets are legally isolated from the Company, (2) if there is continuing involvement of the Company and (3) if third party constraints provide a more than trivial benefit to the Company. Auditing management's determination of whether the transfer should be accounted for as a sale or secured borrowing involved a high degree of auditor judgment and increased audit effort, including the use of subject matter experts, as changes in management's judgments could change the conclusion reached.

Our audit procedures related to the Company's transfer of financial assets analysis included the following, among others:

- We obtained an understanding of the relevant controls related to the Company's process to determine if a transfer of financial assets occurred and tested such controls for operating effectiveness.
- We evaluated the Company's determination of sale or secured borrowing by evaluating the following factors: (1) if the transferred assets were isolated from the Company, (2) if there is continuing involvement of the Company, and (3) if third party constraints provide a more than trivial benefit to the Company.
- We inspected legal documents and correspondence with custodians, portfolio companies or agents in order to evaluate whether the criteria for sale treatment under the accounting principles was met. For selected transactions, we involved a subject matter expert to assist with this evaluation.

/s/ RSM US LLP

We have served as the Company's auditor since 2007.

Chicago, Illinois
February 25, 2021

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Fidus Investment Corporation and Subsidiaries

Opinion on the Internal Control Over Financial Reporting

We have audited Fidus Investment Corporation and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of assets and liabilities of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements and our report dated February 25, 2021 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Chicago, Illinois
February 25, 2021

Table of Contents

FIDUS INVESTMENT CORPORATION
Consolidated Statements of Assets and Liabilities
(in thousands, except shares and per share data)

	December 31, 2020	December 31, 2019
ASSETS		
Investments, at fair value:		
Control investments (cost: $32,969 and $27,718, respectively)	$ 28,253	$ 21,820
Affiliate investments (cost: $31,836 and $56,328, respectively)	81,394	121,555
Non-control/non-affiliate investments (cost: $622,222 and $620,453, respectively)	633,222	623,544
Total investments, at fair value (cost: $687,027 and $704,499, respectively)	742,869	766,919
Cash and cash equivalents	124,308	15,012
Interest receivable	7,548	6,331
Prepaid expenses and other assets	1,015	1,177
Total assets	$ 875,740	$ 789,439
LIABILITIES		
SBA debentures, net of deferred financing costs (Note 6)	$ 144,004	$ 153,802
Notes, net of deferred financing costs (Note 6)	300,294	176,901
Borrowings under Credit Facility, net of deferred financing costs (Note 6)	(1,048)	23,899
Accrued interest and fees payable	3,500	3,505
Base management fee payable – due to affiliate	3,244	3,334
Income incentive fee payable – due to affiliate	2,610	1,497
Capital gains incentive fee payable – due to affiliate	11,031	12,715
Administration fee payable and other – due to affiliate	576	487
Taxes payable	275	547
Accounts payable and other liabilities	494	442
Total liabilities	464,980	377,129
Commitments and contingencies (Note 7)		
NET ASSETS		
Common stock, $0.001 par value (100,000,000 shares authorized, 24,437,400 and 24,463,119 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively)	24	24
Additional paid-in capital	365,793	366,061
Total distributable earnings	44,943	46,225
Total net assets	410,760	412,310
Total liabilities and net assets	$ 875,740	$ 789,439
Net asset value per common share	$ 16.81	$ 16.85

See Notes to Consolidated Financial Statements.

Table of Contents

FIDUS INVESTMENT CORPORATION
Consolidated Statements of Operations
(in thousands, except shares and per share data)

	Years Ended December 31, 2020	2019	2018
Investment Income:			
Interest income			
Control investments	$ 1,889	$ 848	$ 246
Affiliate investments	3,511	5,257	6,868
Non-control/non-affiliate investments	68,095	56,070	53,769
Total interest income	73,495	62,175	60,883
Payment-in-kind interest income			
Control investments	1,748	2,122	661
Affiliate investments	287	388	698
Non-control/non-affiliate investments	2,625	6,590	5,216
Total payment-in-kind interest income	4,660	9,100	6,575
Dividend income			
Control investments	—	—	—
Affiliate investments	837	1,454	3,454
Non-control/non-affiliate investments	1,630	(30)	556
Total dividend income	2,467	1,424	4,010
Fee income			
Control investments	—	349	—
Affiliate investments	120	49	125
Non-control/non-affiliate investments	4,372	3,926	4,735
Total fee income	4,492	4,324	4,860
Interest on idle funds and other income	9	83	97
Total investment income	85,123	77,106	76,425
Expenses:			
Interest and financing expenses	19,678	17,072	12,659
Base management fee	12,932	12,399	11,365
Incentive fee - income	8,952	7,445	9,413
Incentive fee (reversal) - capital gains	(1,684)	3,299	2,938
Administrative service expenses	1,720	1,583	1,462
Professional fees	2,090	1,553	1,343
Other general and administrative expenses	1,348	1,286	1,467
Total expenses before income incentive fee waiver	45,036	44,637	40,647
Incentive fee waiver - income	(423)	—	—
Total expenses, net of income incentive fee waiver	44,613	44,637	40,647
Net investment income before income taxes	40,510	32,469	35,778
Income tax provision (benefit)	862	500	720
Net investment income	39,648	31,969	35,058
Net realized and unrealized gains (losses) on investments:			
Net realized gains (losses):			
Control investments	—	(1,268)	—
Affiliate investments	24,655	(64)	10,786
Non-control/non-affiliate investments	(25,623)	161	(21,055)
Total net realized gain (loss) on investments	(968)	(1,171)	(10,269)
Income tax (provision) benefit from realized gains on investments	(577)	(121)	(758)
Net change in unrealized appreciation (depreciation):			
Control investments	1,182	(2,021)	(2,306)
Affiliate investments	(15,669)	13,100	20,477
Non-control/non-affiliate investments	7,909	7,109	7,547
Total net change in unrealized appreciation (depreciation) on investments	(6,578)	18,188	25,718
Net gain (loss) on investments	(8,123)	16,896	14,691
Realized losses on extinguishment of debt	(299)	(399)	(297)
Net increase in net assets resulting from operations	$ 31,226	$ 48,466	$ 49,452
Per common share data:			
Net investment income per share-basic and diluted	$ 1.62	$ 1.31	$ 1.43
Net increase in net assets resulting from operations per share — basic and diluted	$ 1.28	$ 1.98	$ 2.02
Dividends declared per share	$ 1.33	$ 1.60	$ 1.60
Weighted average number of shares outstanding — basic and diluted	24,442,431	24,463,119	24,471,730

See Notes to Consolidated Financial Statements.

FIDUS INVESTMENT CORPORATION
Consolidated Statements of Changes in Net Assets
(in thousands, except shares)

	Common Stock		Additional paid-in capital	Total distributable earnings	Total net assets
	Number of shares	Par value			
Balances at December 31, 2017	24,507,940	$ 24	$370,796	$ 22,453	$393,273
Repurchases of common stock under Stock Repurchase Program (Note 8)	(44,821)	(0) *	(582)	—	(582)
Net investment income	—	—	—	35,058	35,058
Net realized gain (loss) on investments, net of taxes	—	—	—	(11,027)	(11,027)
Net unrealized appreciation (depreciation) on investments	—	—	—	25,718	25,718
Realized losses on extinguishment of debt	—	—	—	(297)	(297)
Dividends declared	—	—	—	(39,158)	(39,158)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles	—	—	(3,526)	3,526	—
Balances at December 31, 2018	24,463,119	$ 24	$366,688	$ 36,273	$402,985
Net investment income	—	—	—	31,969	31,969
Net realized gain (loss) on investments, net of taxes	—	—	—	(788)	(788)
Net unrealized appreciation (depreciation) on investments	—	—	—	17,684	17,684
Realized losses on extinguishment of debt	—	—	—	(399)	(399)
Dividends declared	—	—	—	(39,141)	(39,141)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles	—	—	(627)	627	—
Balances at December 31, 2019	24,463,119	$ 24	$366,061	$ 46,225	$412,310
Repurchases of common stock under Stock Repurchase Program (Note 8)	(25,719)	(0) *	(268)	—	(268)
Net investment income	—	—	—	39,648	39,648
Net realized gain (loss) on investments, net of taxes	—	—	—	(1,545)	(1,545)
Net unrealized appreciation (depreciation) on investments	—	—	—	(6,578)	(6,578)
Realized losses on extinguishment of debt				(299)	(299)
Dividends declared	—	—	—	(32,508)	(32,508)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles	—	—	(2,042)	2,042	—
Balances at December 31, 2020	24,437,400	$ 24	$363,751	$ 46,985	$410,760

* amount is greater than zero but less than one

See Notes to Consolidated Financial Statements.

FIDUS INVESTMENT CORPORATION
Consolidated Statements of Cash Flows
(in thousands)

	Years Ended December 31, 2020	2019	2018
Cash Flows from Operating Activities:			
Net increase in net assets resulting from operations	$ 31,226	$ 48,466	$ 49,452
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used for) operating activities:			
Net change in unrealized (appreciation) depreciation on investments	6,578	(18,188)	(25,718)
Net realized (gain) loss on investments	968	1,171	10,269
Interest and dividend income paid-in-kind	(4,660)	(9,100)	(6,662)
Accretion of original issue discount	(297)	(72)	(775)
Accretion of loan origination fees	(1,344)	(1,023)	(984)
Purchase of investments	(189,996)	(219,173)	(212,264)
Proceeds from sales and repayments of investments	210,774	120,600	188,255
Proceeds from loan origination fees	2,027	1,848	1,205
Realized losses on extinguishment of debt	299	399	297
Amortization of deferred financing costs	2,271	1,852	1,370
Changes in operating assets and liabilities:			
Interest receivable	(1,217)	1,197	(117)
Prepaid expenses and other assets	130	156	(412)
Accrued interest and fees payable	(5)	692	100
Base management fee payable – due to affiliate	(90)	407	341
Income incentive fee payable – due to affiliate	1,113	(1,288)	631
Capital gains incentive fee (reversal) – due to (from) affiliate	(1,684)	3,300	2,938
Administration fee payable and other – due to affiliate	89	13	(88)
Taxes payable	(272)	(256)	303
Accounts payable and other liabilities	52	271	7
Net cash provided by (used for) operating activities	55,962	(68,728)	8,148
Cash Flows from Financing Activities:			
Proceeds received from SBA debentures	6,000	7,500	27,000
Repayments of SBA debentures	(16,500)	(41,000)	(67,300)
Proceeds received from issuance of Notes	125,000	132,250	50,000
Proceeds received from (repayments of) borrowings under Credit Facility, net	(25,000)	(11,500)	25,000
Payment of deferred financing costs	(3,390)	(6,384)	(2,665)
Dividends paid to stockholders, including expenses	(32,508)	(39,141)	(39,158)
Repurchases of common stock under Stock Repurchase Program	(268)	—	(582)
Net cash provided by (used for) financing activities	53,334	41,725	(7,705)
Net increase (decrease) in cash and cash equivalents	109,296	(27,003)	443
Cash and cash equivalents:			
Beginning of period	15,012	42,015	41,572
End of period	$ 124,308	$ 15,012	$ 42,015
Supplemental disclosure of cash flow information:			
Cash payments for interest	$ 17,412	$ 14,527	$ 11,189
Cash payments for taxes, net of tax refunds received	$ 1,711	$ 877	$ 1,175

See Notes to Consolidated Financial Statements.

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
December 31, 2020
(in thousands, except shares)

Portfolio Company (a)(b) Investment Type (c)	Industry	Variable Index Spread /Floor (d)	Rate (e) Cash/PIK	Investment Date (f)	Maturity	Principal Amount	Cost	Fair Value (g)	Percent of Net Assets
Control Investments (t)									
FDS Avionics Corp. (dba Flight Display Systems)	Aerospace & Defense Manufacturing								
Second Lien Debt			6.00%/9.00%	11/5/2014	12/31/2021	$ 4,836	$ 4,836	$ 4,836	
Revolving Loan ($30 unfunded commitment)			6.00%/9.00%	4/12/2018	12/31/2021	286	286	286	
Common Equity (7,478 shares) (j)				11/10/2017			748	—	
Preferred Equity (2,550 shares)				12/26/2019			2,550	2,269	
							8,420	7,391	2%
US GreenFiber, LLC	Building Products Manufacturing								
Second Lien Debt (j)			8.00%/5.00%	7/3/2014	8/30/2024	15,382	15,378	13,078	
Second Lien Debt (j)			8.50%/6.50%	11/9/2018	8/30/2024	5,028	5,028	5,183	
Second Lien Debt (j)			8.50%/6.50%	8/10/2020	8/30/2024	2,533	2,533	2,601	
Common Equity (2,522 units) (h)(j)				7/3/2014			586	—	
Common Equity (425,508 units) (j)				8/30/2019			1	—	
Common Equity (1,022,813 units) (h)(j)				7/1/2020			1,023	—	
							24,549	20,862	5%
Total Control Investments							$32,969	$ 28,253	7%
Affiliate Investments (l)									
FAR Research Inc. (n)	Specialty Chemicals								
Common Equity (1,396 units)				3/31/2014			$ —	$ 28	0%
Fiber Materials, Inc. (n)	Aerospace & Defense Manufacturing								
Common Equity (10 units)				11/30/2016			—	41	0%
Medsurant Holdings, LLC	Healthcare Services								
Second Lien Debt (j)			14.00%/0.00%	12/18/2015	3/10/2022	8,031	8,028	8,091	
Preferred Equity (63,331 units) (h)(j)				4/12/2011			673	620	
Warrant (252,588 units) (h)(j)(m)				4/12/2011			2,258	2,249	
							10,959	10,960	3%
Mirage Trailers LLC	Utility Equipment Manufacturing								
Second Lien Debt (k)		(L + 10.00%) / (1.00%)	11.00%/5.00%	11/25/2015	11/25/2021	6,410	6,483	6,410	
Common Equity (2,500,000 shares) (o)				11/25/2015			2,188	84	
							8,671	6,494	2%
Pfanstiehl, Inc.	Healthcare Products								
Common Equity (4,250 units) (j)				3/29/2013			425	33,505	8%
Pinnergy, Ltd.	Oil & Gas Services								
Common Equity—Class A-2 (42,500 units) (j)				10/13/2016			3,000	20,589	5%
Steward Holding LLC (dba Steward Advanced Materials)	Aerospace & Defense Manufacturing								
Second Lien Debt			12.00%/1.50%	11/12/2015	10/31/2021	7,783	7,781	7,783	
Common Equity (1,000,000 units)				11/12/2015			1,000	1,994	
							8,781	9,777	2%
Total Affiliate Investments							$31,836	$ 81,394	20%

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
December 31, 2020
(in thousands, except shares)

Portfolio Company (a)(b) Investment Type (c)	Industry	Variable Index Spread / Floor (d)	Rate (e) Cash/PIK	Investment Date (f)	Maturity	Principal Amount	Cost	Fair Value (g)	Percent of Net Assets
Non-control/Non-affiliate Investments									
Frontline Food Services, LLC (f/k/a Accent Food Services, LLC)	Vending Equipment Manufacturing								
Preferred Equity (Class A Units) (46 units) (j)				12/31/2020			$ 2,000	$ 2,000	
Common Equity (Class B Units) (124 units) (j)				12/31/2020			—	—	
Preferred Equity (Class C Units) (100 units) (j)				12/31/2020			—	—	
							2,000	2,000	0%
Allied 100 Group, Inc.	Healthcare Products								
Subordinated Debt (k)			11.25%/0.00%	7/31/2019	5/26/2023	21,500	21,432	21,500	
Common Equity (625,000 units) (j)				11/26/2014			625	1,087	
							22,057	22,587	5%
Allredi, LLC (fka Marco Group International OpCo, LLC)	Industrial Cleaning & Coatings								
Second Lien Debt			10.50%/1.75%	3/2/2020	9/2/2026	10,080	9,993	7,761	
Common Equity (570,636 units) (h)(j)				7/21/2017			637	275	
							10,630	8,036	2%
Alzheimer's Research and Treatment Center, LLC	Healthcare Services								
First Lien Debt (j)(w)		(L + 5.75%) / (2.00%)	7.75%/0.00%	10/23/2018	10/23/2023	6,500	6,471	6,584	
Common Equity (500 units) (h)(j)				10/23/2018			500	766	
							6,971	7,350	2%
American AllWaste LLC (dba WasteWater Transport Services)	Environmental Industries								
Second Lien Debt (j)		(L + 11.00%) / (2.00%)	13.00%/0.00%	5/31/2018	11/30/2023	17,503	17,434	17,503	
Preferred Equity (500 units) (h)(j)				5/31/2018			500	241	
Preferred Equity (207 units) (h)(j)				8/6/2019			250	226	
Preferred Equity (141 units) (h)(j)				11/2/2020			171	171	
							18,355	18,141	4%
Applied Data Corporation	Information Technology Services								
First Lien Debt (v)		(L + 6.25%) / (1.50%)	7.75%/0.00%	11/6/2020	11/6/2025	8,000	7,949	7,949	
Common Equity (22 units)				11/6/2020			—	—	
Preferred Equity (1,070,614 units)				11/6/2020			1,071	1,071	
							9,020	9,020	2%
Argo Turboserve Corporation	Business Services								
Second Lien Debt (j)		(L + 10.75%) / (2.00%)	12.75%/0.00%	12/26/2018	6/28/2023	13,031	12,990	13,031	3%
AVC Investors, LLC (dba Auveco)	Specialty Distribution								
Second Lien Debt (k)			11.50%/0.00%	1/3/2018	7/3/2023	22,500	22,448	22,500	
Common Equity (5,000 units) (j)				1/3/2018			487	464	
							22,935	22,964	6%
B&B Roadway and Security Solutions, LLC	Component Manufacturing								
Second Lien Debt			11.25%/4.00%	2/27/2018	1/1/2022	10,910	10,890	10,782	
Common Equity (50,000 units) (h)(j)				2/27/2018			497	—	
							11,387	10,782	3%
Bandon Fitness (Texas), Inc.	Retail								
First Lien Debt (j)(z)		(L + 6.50%) / (2.25%)	8.75%/0.25%	8/9/2019	8/9/2024	14,680	14,289	15,591	
Common Equity (545,810 units) (j)				8/9/2019			931	554	
							15,220	16,145	4%
BCM One Group Holdings, Inc.	Information Technology Services								
Subordinated Debt (k)			11.00%/0.00%	1/3/2019	7/3/2024	30,000	29,887	30,000	
Common Equity (1,281 shares)				1/3/2019			48	458	
Preferred Equity (74 shares)				1/3/2019			736	737	
							30,671	31,195	8%
Bedford Precision Parts LLC	Specialty Distribution								
First Lien Debt (j)(s)		(L + 6.25%) / (2.00%)	8.25%/0.00%	3/12/2019	3/12/2024	4,531	4,507	4,531	
Common Equity (500,000 units) (h)(j)				3/12/2019			500	263	
							5,007	4,794	1%
Cardboard Box LLC (dba Anthony's Coal Fired Pizza)	Restaurants								
Common Equity (521,021 units) (j)				12/15/2015			521	—	
Preferred Equity (1,043,133 units) (j)				12/6/2019			96	34	
							617	34	0%
Combined Systems, Inc.	Aerospace & Defense Manufacturing								
First Lien Debt		(L + 10.00%) / (2.00%)	12.00%/0.00%	1/31/2020	1/31/2025	7,600	7,553	7,600	
Revolving Loan ($1,050 unfunded commitment) (j)(ac)		(L + 9.00%) / (2.00%)	11.00%/0.00%	1/31/2020	1/31/2025	2,950	2,930	2,950	
							10,483	10,550	3%
Comply365, LLC	Aerospace & Defense Manufacturing								
First Lien Debt (ad)		(L + 8.00%) / (1.00%)	9.00%/0.00%	12/11/2020	12/11/2025	10,000	9,855	9,855	
Common Equity (1,000,000 units)				12/11/2020			1,000	1,000	
							10,855	10,855	3%
CRS Solutions Holdings, LLC (dba CRS Texas)	Business Services								
Second Lien Debt			10.50%/1.50%	3/14/2018	4/30/2024	11,305	11,270	11,305	
Common Equity (450,382 units) (h)(j)				3/14/2018			488	321	
							11,758	11,626	3%
Dataguise, Inc.	Information Technology Services								
First Lien Debt (j)			11.00%/0.00%	12/31/2020	12/31/2023	20,000	19,900	19,900	
Common Equity (909 shares) (j)				12/31/2020			1,500	1,500	
							21,400	21,400	5%
Diversified Search LLC	Business Services								
First Lien Debt (k)(r)		(L + 8.00%) / (1.75%)	9.75%/0.00%	2/7/2019	2/7/2024	17,355	17,159	17,355	
Common Equity (573 units) (h)(j)				2/7/2019			593	494	
							17,752	17,849	4%
EBL, LLC (EbLens)	Retail								
Second Lien Debt (j)(p)			12.00%/1.00%	7/13/2017	1/13/2023	9,253	9,214	5,454	
Common Equity (75,000 units) (j)				7/13/2017			750	—	
							9,964	5,454	1%

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
December 31, 2020
(in thousands, except shares)

Portfolio Company (a)(b) Investment Type (c)	Industry	Variable Index Spread / Floor (d)	Rate (e) Cash/PIK	Investment Date (f)	Maturity	Principal Amount	Cost	Fair Value (g)	Percent of Net Assets
ECM Industries, LLC	Component Manufacturing								
Subordinated Debt (j)			11.50%/0.00%	4/30/2020	5/23/2026	11,500	11,295	11,500	
Common Equity (1,000,000 units) (h)(j)				4/30/2020			1,000	1,562	
							12,295	13,062	3%
Elements Brands, LLC	Consumer Products								
First Lien Debt			12.25%/0.00%	12/31/2020	12/31/2025	6,000	5,967	5,967	
Revolving Loan ($838 unfunded commitment) (i)(j)			12.25%/0.00%	12/31/2020	12/31/2025	2,162	2,146	2,146	
							8,113	8,113	2%
French Transit, LLC	Consumer Products								
First Lien Debt (j)		(L + 10.00%) / (2.25%)	12.25%/0.00%	6/21/2019	6/21/2024	4,116	4,088	4,116	1%
Global Plasma Solutions, Inc.	Component Manufacturing								
Common Equity (947 shares) (j)				9/21/2018			—	9,995	2%
Gurobi Optimization, LLC	Information Technology Services								
Common Equity (3 shares)				12/19/2017			592	1,660	0%
Haematologic Technologies, Inc.	Healthcare Services								
First Lien Debt (x)		(L + 8.25%) / (2.00%)	10.25%/0.00%	10/11/2019	10/11/2024	5,500	5,469	5,500	
Common Equity (549 units) (h)(j)				10/11/2019			549	255	
							6,018	5,755	1%
Hallmark Health Care Solutions, Inc.	Healthcare Services								
First Lien Debt (j)(ae)		(L + 7.25%) / (1.50%)	8.75%/0.00%	12/4/2020	12/4/2025	8,500	8,437	8,437	
Common Equity (750,000 units) (j)				12/4/2020			750	750	
							9,187	9,187	2%
Healthfuse, LLC	Healthcare Services								
First Lien Debt (af)		(L + 7.25%) / (1.00%)	8.25%/0.00%	11/13/2020	11/13/2025	6,000	5,960	5,960	
Preferred Equity (197,980 units)				11/13/2020			750	750	
							6,710	6,710	2%
Hilco Plastics Holdings, LLC (dba Hilco Technologies)	Component Manufacturing								
Second Lien Debt (j)			11.50%/1.50%	9/23/2016	12/31/2019	10,301	10,301	8,878	
Revolving Loan (j)		(L + 6.50%) / (0.00%)	6.65%/0.00%	12/20/2019	12/15/2019	5,962	5,962	5,962	
First Lien Debt (j)		(L + 6.95%) / (0.00%)	7.10%/0.00%	12/20/2019	12/15/2019	5,092	5,092	5,092	
Preferred Equity (1,000,000 units) (h)(j)				4/18/2018			1,000	—	
Common Equity (72,507 units) (h)(j)				9/23/2016			473	—	
							22,828	19,932	5%
Hub Acquisition Sub, LLC (dba Hub Pen)	Promotional products								
Second Lien Debt (k)			13.00%/0.00%	3/23/2016	3/31/2023	25,000	24,976	24,106	
Common Equity (3,750 units)				3/23/2016			131	283	
Preferred Equity (868 units) (j)				10/16/2020			154	158	
							25,261	24,547	6%
IBH Holdings, LLC (fka Inflexxion, Inc.)	Business Services								
Common Equity (150,000 units)				6/20/2018			—	235	0%
Ipro Tech, LLC	Information Technology Services								
First Lien Debt (j)(u)		(L + 8.50%) / (2.00%)	10.50%/0.00%	6/30/2020	6/30/2025	2,469	1,923	2,469	1%
K2 Merger Agreement Agent, LLC (fka K2 Industrial Services, Inc.) (n)	Industrial Cleaning & Coatings								
Second Lien Debt (j)			0.00%/10.00%	1/28/2019	1/28/2021	2,140	2,140	2,140	1%
The Kyjen Company, LLC (dba Outward Hound)	Consumer Products								
Second Lien Debt (k)			12.00%/0.00%	12/8/2017	6/8/2024	15,000	14,960	15,000	
Common Equity (765 shares) (j)				12/8/2017			765	841	
							15,725	15,841	4%
LNG Indy, LLC (dba Kinetrex Energy)	Oil & Gas Distribution								
Second Lien Debt (k)			11.50%/1.50%	12/28/2016	11/12/2021	10,127	10,108	10,127	
Common Equity (500 units)				12/28/2016			500	959	
							10,608	11,086	3%
Mesa Line Services, LLC	Utilities: Services								
Second Lien Debt (j)			10.50%/0.50%	11/30/2017	8/1/2024	17,511	17,442	17,511	
Common Equity (981 shares) (j)				11/30/2017			1,148	1,076	
							18,590	18,587	5%
Midwest Transit Equipment, Inc.	Transportation services								
Warrant (7,192 shares) (j)(m)				6/23/2017			180	118	
Warrant (4.79% of Junior Subordinated Notes) (j)(q)				6/23/2017			190	248	
							370	366	0%
NGT Acquisition Holdings, LLC (dba Techniks Industries)	Component Manufacturing								
Common Equity (378 units) (j)				5/24/2017			500	227	0%
OMC Investors, LLC (dba Ohio Medical Corporation)	Healthcare Products								
Second Lien Debt			12.00%/0.00%	1/15/2016	6/30/2022	10,000	9,985	10,000	
Common Equity (5,000 units)				1/15/2016			462	869	
							10,447	10,869	3%

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
December 31, 2020
(in thousands, except shares)

Portfolio Company (a)(b) Investment Type (c)	Industry	Variable Index Spread / Floor (d)	Rate (e) Cash/PIK	Investment Date (f)	Maturity	Principal Amount	Cost	Fair Value (g)	Percent of Net Assets
Palisade Company, LLC	Information Technology Services								
Common Equity (50 shares) (j)				11/15/2018			500	630	0%
Palmetto Moon, LLC	Retail								
First Lien Debt (j)			11.50%/2.50%	11/3/2016	10/31/2021	4,779	4,773	4,779	
Common Equity (499 units) (j)				11/3/2016			494	159	
							5,267	4,938	1%
Pool & Electrical Products, LLC	Specialty Distribution								
Second Lien Debt (j)			11.75%/0.00%	10/28/2020	4/28/2027	12,000	11,883	11,883	
Common Equity (15,000 units) (h)(j)				10/28/2020			1,500	1,500	
							13,383	13,383	3%
Power Grid Components, Inc.	Specialty Distribution								
Second Lien Debt (k)			11.00%/1.00%	4/12/2018	12/2/2025	22,433	22,357	22,433	
Preferred Equity (392 shares) (j)				4/12/2018			392	509	
Preferred Equity (48 shares) (j)				12/2/2019			48	63	
Common Equity (10,622 shares) (j)				4/12/2018			462	740	
							23,259	23,745	6%
Prime AE Group, Inc.	Business Services								
First Lien Debt (j)		(L + 6.25%) / (2.00%)	8.25%/0.00%	11/25/2019	11/25/2024	6,833	6,683	6,833	
Preferred Equity (500,000 shares) (j)				11/25/2019			500	566	
							7,183	7,399	2%
Revenue Management Solutions, LLC	Information Technology Services								
Common Equity (113 shares)				1/4/2017			1,125	3,081	1%
Rhino Assembly Company, LLC	Specialty Distribution								
Second Lien Debt (k)			12.00%/1.50%	8/11/2017	2/11/2023	10,682	10,655	10,682	
Delayed Draw Commitment ($875 unfunded commitment) (i)(j)			12.00%/1.00%	8/11/2017	5/17/2022	—	—	—	
Common Equity (Class A Units) (8,864 units) (h)(j)				8/11/2017			944	629	
Preferred Equity (Units N/A) (h)(j)				12/10/2020			136	137	
Common Equity (Class F Units) (355 units) (h)(j)				12/10/2020			—	—	
							11,735	11,448	3%
Road Safety Services, Inc.	Business Services								
Second Lien Debt			11.25%/1.50%	9/18/2018	3/18/2024	10,379	10,351	10,379	
Common Equity (655 units)				9/18/2018			621	882	
							10,972	11,261	3%
Rohrer Corporation	Packaging								
Subordinated Debt (j)			10.50%/1.00%	10/1/2018	4/1/2024	14,017	13,976	14,017	
Common Equity (400 shares) (j)				7/18/2016			780	1,591	
							14,756	15,608	4%
Routeware, Inc.	Information Technology Services								
First Lien Debt (k)(aa)		(L + 7.00%) / (1.75%)	8.75%/0.00%	2/7/2020	2/7/2025	14,888	14,814	14,888	4%
SES Investors, LLC (dba SES Foam)	Building Products Manufacturing								
Second Lien Debt			13.00%/0.00%	9/8/2016	12/29/2022	1,000	997	1,000	
Common Equity (6,000 units) (h)(j)				9/8/2016			537	1,869	
							1,534	2,869	1%
Software Technology, LLC	Information Technology Services								
Subordinated Debt (k)			11.00%/0.00%	12/23/2016	6/23/2023	10,000	9,980	10,000	
Common Equity (6 shares)				12/23/2016			646	942	
							10,626	10,942	3%
Specialized Elevator Services Holdings, LLC	Business Services								
First Lien Debt (j)(y)		(L + 5.25%) / (2.00%)	7.25%/0.00%	5/7/2019	5/3/2024	12,889	12,782	12,889	
Common Equity (596 units) (j)				5/8/2019			596	647	
							13,378	13,536	3%
SpendMend LLC	Business Services								
Common Equity (1,000,000 units)				1/8/2018			972	1,915	0%
TransGo, LLC	Component Manufacturing								
Common Equity (500 units) (j)				2/28/2017			474	996	0%
The Tranzonic Companies	Specialty Distribution								
Subordinated Debt (j)			10.00%/1.00%	3/27/2018	3/27/2025	7,001	6,959	7,001	
Preferred Equity (5,653 units) (j)				3/27/2018			565	730	
Common Equity (1 units) (j)				3/27/2018			—	683	
							7,524	8,414	2%
UBEO, LLC	Business Services								
Subordinated Debt (j)			11.00%/0.00%	4/3/2018	10/3/2024	13,893	13,814	13,893	
Common Equity (705,000 units) (h)(j)				4/3/2018			668	661	
							14,482	14,554	3%
United Biologics, LLC	Healthcare Services								
Preferred Equity (98,377 units) (h)(j)				4/1/2012			1,008	—	
Warrant (57,469 units) (j)(m)				3/5/2012			566	—	
							1,574	—	0%
Virginia Tile Company, LLC	Specialty Distribution								
Second Lien Debt (j)			12.25%/0.00%	12/19/2014	4/7/2022	12,000	11,998	12,000	
Common Equity (17 units) (j)				12/19/2014			342	521	
							12,340	12,521	3%
Western's Smokehouse, LLC	Consumer Products								
First Lien Debt (j)(ab)		(L + 6.50%) / (1.25%)	7.75%/0.00%	2/28/2020	12/23/2024	10,000	9,876	10,000	2%

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
December 31, 2020
(in thousands, except shares)

Portfolio Company (a)(b) Investment Type (c)	Industry	Variable Index Spread / Floor (d)	Rate (e) Cash/PIK	Investment Date (f)	Maturity	Principal Amount	Cost	Fair Value (g)	Percent of Net Assets
Wheel Pros, Inc.	Specialty Distribution								
Second Lien Debt (j)		(L + 9.00%) / (1.00%)	10.00%/0.00%	11/10/2020	11/10/2028	20,000	19,411	19,411	
Preferred Equity (347,222 units) (j)				5/15/2019			301	1,031	
							19,712	20,442	5%
Worldwide Express Operations, LLC	Transportation services								
Second Lien Debt (j)		(L + 8.00%) / (1.00%)	9.00%/0.00%	2/27/2017	2/3/2025	20,000	19,791	20,000	
Common Equity (2,000 units) (h)(j)				2/27/2017			1,478	1,942	
							21,269	21,942	5%
Total Non-control/Non-affiliate Investments							$622,222	$ 633,222	154%
Total Investments							$687,027	$ 742,869	181%

(a) See Note 3 to the consolidated financial statements for portfolio composition by geographic location.
(b) Equity ownership may be held in shares or units of companies related to the portfolio companies.
(c) All debt investments are income producing, unless otherwise indicated. Equity investments are non-income producing unless otherwise noted.
(d) Variable rate investments bear interest at a rate indexed to LIBOR (L), which is reset monthly, bimonthly, quarterly, or semi-annually. Certain variable rate investments also include a LIBOR interest rate floor. For each investment, the Company has provided the spread over the reference rate and the LIBOR floor, if any, as of December 31, 2020.
(e) Rate includes the cash interest or dividend rate and paid-in-kind interest or dividend rate, if any, as of December 31, 2020. Generally, payment-in-kind interest can be paid-in-kind or all in cash.
(f) Investment date represents the date of the initial investment in the security.
(g) 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 of directors, using significant unobservable Level 3 inputs.
(h) Investment is held by a taxable subsidiary of the Company.
(i) The disclosed commitment represents the unfunded amount as of December 31, 2020. The Company is earning 0.50% interest on the unfunded balance of the commitment. The interest rate disclosed represents the rate which will be earned if the commitment is funded.
(j) 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).
(k) 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).
(l) As defined in the 1940 Act, the Company is deemed to be an "Affiliated Person" of this portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company. Transactions in which the issuer was an Affiliated Person are detailed in Note 3 to the consolidated financial statements.
(m) Warrants entitle the Company to purchase a predetermined number of shares or units of common equity, and are non-income producing. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date, if any.
(n) Investment in portfolio company that has sold its operations and is in the process of winding down.
(o) Income producing. Maturity date, if any, represents mandatory redemption date.
(p) Investment was on PIK-only non-accrual status as of December 31, 2020, meaning the Company has ceased recognizing PIK interest income on the investment.
(q) Warrant entitles the Company to purchase 4.79% of the outstanding principal of Junior Subordinated Notes prior to exercise, and is non-income producing.
(r) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 5.92% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
(s) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.34% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
(t) As defined in the 1940 Act, the Company is deemed to be both an "Affiliated Person" of and "Control" this portfolio company because it owns 25% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company. Transactions in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control are detailed in Note 3 to the consolidated financial statements.
(u) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 4.50% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
(v) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 4.25% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
(w) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.27% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(x) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.13% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(y) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.93% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(z) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 4.21% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(aa) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.84% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(ab) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.95% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(ac) The disclosed commitment represents the unfunded amount as of December 31, 2020. The Company is earning 1.00% interest on the unfunded balance of the commitment. The interest rate disclosed represents the rate earned on the outstanding, funded balance of the commitment.

(ad) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.33% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(ae) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.31% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(af) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 4.03% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

See Notes to Consolidated Financial Statements.

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
December 31, 2019
(in thousands, except shares)

Portfolio Company (a)(b) Investment Type (c)	Industry	Variable Index Spread / Floor (d)	Rate (e) Cash/PIK	Investment Date (f)	Maturity	Principal Amount	Cost	Fair Value (g)	Percent of Net Assets
Control Investments (t)									
FDS Avionics Corp. (dba Flight Display Systems)	Aerospace & Defense Manufacturing								
Second Lien Debt			6.00%/9.00%	11/5/2014	12/31/2021	$ 4,420	$ 4,418	$ 4,227	
Revolving Loan ($30 unfunded commitment)			6.00%/9.00%	4/12/2018	12/31/2021	261	261	261	
Common Equity (7,478 shares) (j)				11/10/2017			748	—	
Preferred Equity (2,550 shares)				12/26/2019			2,550	915	
							7,977	5,403	1%
US Green Fiber, LLC	Building Products Manufacturing								
Second Lien Debt (k)			7.00%/6.00%	7/3/2014	8/30/2024	14,498	14,494	11,757	
Second Lien Debt (k)			7.50%/7.50%	11/9/2018	8/30/2024	4,660	4,660	4,660	
Common Equity (2,522 units) (h)(j)				7/3/2014			586	—	
Common Equity (425,508 units) (j)				8/30/2019			1	—	
							19,741	16,417	4%
Total Control Investments							$27,718	$ 21,820	5%
Affiliate Investments (l)									
FAR Research Inc. (n)	Specialty Chemicals								
Common Equity (1,396 units)				3/31/2014			$ —	$ 28	0%
Fiber Materials, Inc.	Aerospace & Defense Manufacturing								
Common Equity (10 units)				11/30/2016			645	10,449	3%
Medsurant Holdings, LLC	Healthcare Services								
Second Lien Debt			13.00%/0.00%	12/18/2015	6/30/2020	8,823	8,814	8,823	
Preferred Equity (126,662 units) (h)				4/12/2011			1,346	1,780	
Warrant (505,176 units) (h)(m)				4/12/2011			4,516	6,377	
							14,676	16,980	4%
Microbiology Research Associates, Inc.	Healthcare Services								
Subordinated Debt			11.00%/1.50%	5/13/2015	3/13/2022	8,930	8,921	8,930	
Common Equity (1,625,731 units) (j)				5/13/2015			1,939	2,681	
							10,860	11,611	3%
Mirage Trailers LLC	Utility Equipment Manufacturing								
Second Lien Debt (k)		(L + 8.50%) / (1.00%)	10.20%/4.50%	11/25/2015	11/25/2020	6,250	6,253	6,250	
Common Equity (2,500,000 shares) (o)				11/25/2015			2,184	968	
							8,437	7,218	2%
Pfanstiehl, Inc.	Healthcare Products								
Subordinated Debt			10.50%/0.00%	3/29/2013	9/29/2022	6,208	6,201	6,208	
Common Equity (8,500 units) (j)				3/29/2013			850	26,614	
							7,051	32,822	8%
Pinnergy, Ltd.	Oil & Gas Services								
Common Equity - Class A-2 (42,500 units) (k)				10/13/2016			3,000	29,831	
Common Equity - Class B (1,000 units) (k)				10/13/2016			3,000	3,147	
							6,000	32,978	8%
Steward Holding LLC (dba Steward Advanced Materials)	Aerospace & Defense Manufacturing								
Second Lien Debt			12.00%/1.50%	11/12/2015	5/12/2021	7,667	7,659	7,667	
Common Equity (1,000,000 units)				11/12/2015			1,000	1,802	
							8,659	9,469	2%
Total Affiliate Investments							$56,328	$ 121,555	30%

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
December 31, 2019
(in thousands, except shares)

Portfolio Company (a)(b) Investment Type (c)	Industry	Variable Index Spread / Floor (d)	Rate (e) Cash/PIK	Investment Date (f)	Maturity	Principal Amount	Cost	Fair Value (g)	Percent of Net Assets
Non-control/Non-affiliate Investments									
Accent Food Services, LLC	Vending Equipment Manufacturing								
Second Lien Debt (k)(p)			10.00%/5.00%	11/30/2016	5/30/2022	$ 33,842	$ 33,760	$ 31,626	
Subordinated Debt (j)(p)			0.00%/17.00%	6/28/2019	5/30/2022	1,567	1,567	1,441	
Common Equity (7,885 units) (h)(j)				11/30/2016			800	227	
							36,127	33,294	8%
Allied 100 Group, Inc.	Healthcare Products								
Subordinated Debt (k)			11.25%/0.00%	7/31/2019	5/26/2023	21,500	21,405	21,405	
Common Equity (1,250,000 units) (j)				11/26/2014			1,250	1,465	
							22,655	22,870	6%
Alzheimer's Research and Treatment Center, LLC	Healthcare Services								
First Lien Debt (j)(w)		(L + 5.75%) / (2.00%)	7.75%/0.00%	10/23/2018	10/23/2023	6,500	6,461	6,500	
Common Equity (1,000 units) (h)(j)				10/23/2018			1,000	1,406	
							7,461	7,906	2%
American AllWaste LLC (dba WasteWater Transport Services)	Environmental Industries								
Second Lien Debt (j)		(L + 11.00%) / (2.00%)	13.00%/0.00%	5/31/2018	11/30/2023	17,503	17,411	17,503	
Preferred Equity (500 units) (h)(j)				5/31/2018			500	540	
Preferred Equity (207 units) (h)(j)				8/6/2019			250	250	
							18,161	18,293	4%
Argo Turboserve Corporation	Business Services								
Second Lien Debt (j)		(L + 9.75%) / (2.00%)	11.84%/0.00%	12/26/2018	6/28/2023	14,156	14,098	14,156	3%
AVC Investors, LLC (dba Auveco)	Specialty Distribution								
Second Lien Debt (k)			11.50%/0.00%	1/3/2018	7/3/2023	22,500	22,427	22,500	
Common Equity (5,000 units) (j)				1/3/2018			490	776	
							22,917	23,276	6%
B&B Roadway and Security Solutions, LLC	Component Manufacturing								
Second Lien Debt			10.50%/3.50%	2/27/2018	8/27/2023	10,493	10,456	9,569	
Common Equity (50,000 units) (h)(j)				2/27/2018			500	200	
							10,956	9,769	2%
Bandon Fitness (Texas), Inc.	Retail								
First Lien Debt (j)(z)		(L + 6.00%) / (2.25%)	8.25%/0.00%	8/9/2019	8/9/2024	13,250	12,785	12,785	
Common Equity (497,549 units) (j)				8/9/2019			849	849	
							13,634	13,634	3%
BCC Group Holdings, Inc.	Information Technology Services								
Subordinated Debt			11.00%/1.00%	1/28/2019	4/11/2023	18,167	18,027	18,167	
Common Equity (451 shares)				1/28/2019			232	167	
Preferred Equity (14 shares)				1/28/2019			143	143	
							18,402	18,477	4%
BCM One Group Holdings, Inc.	Information Technology Services								
Subordinated Debt (k)			11.00%/0.00%	1/3/2019	7/3/2024	27,000	26,888	27,000	
Common Equity (2,286 shares)				1/3/2019			2	332	
Preferred Equity (133 shares)				1/3/2019			1,330	1,330	
							28,220	28,662	7%
Bedford Precision Parts LLC	Specialty Distribution								
First Lien Debt (j)(s)		(L + 6.25%) / (2.00%)	8.25%/0.00%	3/12/2019	3/12/2024	5,000	4,969	5,000	
Common Equity (500,000 units) (h)(j)				3/12/2019			500	445	
							5,469	5,445	1%
Cardboard Box LLC (dba Anthony's Coal Fired Pizza)	Restaurants								
Common Equity (521,021 units) (j)				12/15/2015			521	113	
Preferred Equity (99,889 units) (j)				12/6/2019			49	146	
							570	259	0%
ControlScan, Inc.	Information Technology Services								
Subordinated Debt (j)			11.00%/0.00%	7/28/2017	1/28/2023	6,750	6,731	6,750	
Common Equity (3,704 shares) (j)				7/28/2017			4	624	
Preferred Equity (100 shares) (j)				7/28/2017			996	996	
							7,731	8,370	2%
CRS Solutions Holdings, LLC (dba CRS Texas)	Business Services								
Second Lien Debt			10.50%/1.00%	3/14/2018	9/14/2023	9,166	9,136	9,166	
Common Equity (750,000 units) (h)(j)				3/14/2018			750	822	
							9,886	9,988	2%
Diversified Search LLC	Business Services								
First Lien Debt (k)(r)		(L + 5.75%) / (1.75%)	7.69%/0.00%	2/7/2019	2/7/2024	15,155	14,939	15,155	
Common Equity (573 units) (h)(j)				2/7/2019			593	724	
							15,532	15,879	4%
EBL, LLC (EbLens)	Retail								
Second Lien Debt (j)			12.00%/1.00%	7/13/2017	1/13/2023	9,484	9,433	9,484	
Common Equity (75,000 units) (j)				7/13/2017			750	669	
							10,183	10,153	3%

Table of Contents

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
December 31, 2019
(in thousands, except shares)

Portfolio Company (a)(b) Investment Type (c)	Industry	Variable Index Spread / Floor (d)	Rate (e) Cash/PIK	Investment Date (f)	Maturity	Principal Amount	Cost	Fair Value (g)	Percent of Net Assets
French Transit, LLC	Consumer Products								
First Lien Debt (j)		(L + 9.00%) / (2.25%)	11.25%/0.00%	6/21/2019	6/21/2024	$ 8,000	$ 7,964	$ 8,000	
Revolving Loan ($1,000 unfunded commitment) (j)(u)		(L + 9.00%) / (2.25%)	11.25%/0.00%	6/21/2019	6/21/2024	—	(4)	—	
							7,960	8,000	2%
Global Plasma Solutions, Inc.	Component Manufacturing								
First Lien Debt (j)(v)		(L + 5.00%) / (2.00%)	7.10%/0.00%	9/21/2018	9/21/2023	7,071	7,013	7,071	
Preferred Equity (947 shares) (j)				9/21/2018			360	399	
Common Equity (947 shares) (j)				9/21/2018			15	161	
							7,388	7,631	2%
Gurobi Optimization, LLC	Information Technology Services								
Common Equity (5 shares)				12/19/2017			1,500	3,382	1%
Haematologic Technologies, Inc.	Healthcare Services								
First Lien Debt (x)		(L + 7.25%) / (2.00%)	9.25%/0.00%	10/11/2019	10/11/2024	5,500	5,461	5,461	
Common Equity (500 units) (j)				10/11/2019			500	500	
							5,961	5,961	1%
Hilco Plastics Holdings, LLC (dba Hilco Technologies)	Component Manufacturing								
Second Lien Debt			11.50%/1.50%	9/23/2016	12/31/2019	10,116	10,116	9,057	
Revolving Loan (j)		(L + 6.50%) / (0.00%)	8.26%/0.00%	12/20/2019	12/15/2019	5,962	5,962	5,962	
First Lien Debt (j)		(L + 6.95%) / (0.00%)	8.66%/0.00%	12/20/2019	12/15/2019	4,812	4,812	4,812	
First Lien Debt (j)		(L + 6.95%) / (0.00%)	8.64%/0.00%	12/20/2019	12/15/2019	1,815	1,815	1,815	
Preferred Equity (1,000,000 units) (h)(j)				4/18/2018			1,000	—	
Common Equity (72,507 units) (h)(j)				9/23/2016			473	—	
							24,178	21,646	5%
Hoonuit, LLC	Information Technology Services								
First Lien Debt		(L + 9.25%) / (2.25%)	11.50%/0.00%	6/7/2019	6/7/2024	7,165	7,121	7,165	
Preferred Equity (610 units) (h)(j)				6/20/2019	1/1/2022		250	279	
							7,371	7,444	2%
Hub Acquisition Sub, LLC (dba Hub Pen)	Promotional products								
Second Lien Debt (k)			12.25%/0.00%	3/23/2016	9/23/2021	25,000	24,947	25,000	
Common Equity (7,500 units)				3/23/2016			263	1,488	
							25,210	26,488	6%
Hunter Defense Technologies, Inc.	Aerospace & Defense Manufacturing								
First Lien Debt (j)		(L + 7.00%) / (1.00%)	8.94%/0.00%	9/27/2018	3/29/2023	9,246	9,174	9,246	2%
IBH Holdings, LLC (fka Inflexxion, Inc.)	Business Services								
Common Equity (150,000 units)				6/20/2018			—	—	0%
K2 Merger Agreement Agent, LLC (fka K2 Industrial Services, Inc.) (n)	Industrial Cleaning & Coatings								
Second Lien Debt			0.00%/10.00%	1/28/2019	1/28/2021	2,309	2,309	2,309	1%
The Kyjen Company, LLC (dba Outward Hound)	Consumer Products								
Second Lien Debt (k)			12.00%/0.00%	12/8/2017	6/8/2024	15,000	14,948	13,024	
Common Equity (765 shares) (j)				12/8/2017			765	609	
							15,713	13,633	3%
LNG Indy, LLC (dba Kinetrex Energy)	Oil & Gas Distribution								
Second Lien Debt (k)			11.50%/0.00%	12/28/2016	11/12/2021	5,000	4,991	5,000	
Common Equity (1,000 units)				12/28/2016			1,000	1,264	
							5,991	6,264	2%
Marco Group International OpCo, LLC	Industrial Cleaning & Coatings								
Second Lien Debt			10.50%/0.75%	7/21/2017	1/21/2023	12,225	12,192	12,120	
Common Equity (960,482 units) (h)(j)				7/21/2017			960	1,063	
							13,152	13,183	3%
Mesa Line Services, LLC	Utilities: Services								
Second Lien Debt (j)			10.50%/1.75%	11/30/2017	8/1/2024	17,221	17,133	17,221	
Common Equity (981 shares) (j)				11/30/2017			1,148	961	
							18,281	18,182	4%
Midwest Transit Equipment, Inc.	Transportation services								
Warrant (14,384 shares) (j)(m)				6/23/2017			361	1,244	
Warrant (9.59% of Junior Subordinated Notes) (j)(q)				6/23/2017			381	467	
							742	1,711	0%
NGT Acquisition Holdings, LLC (dba Techniks Industries)	Component Manufacturing								
Common Equity (378 units) (j)				5/24/2017			500	155	0%
OMC Investors, LLC (dba Ohio Medical Corporation)	Healthcare Products								
Second Lien Debt			12.00%/0.00%	1/15/2016	7/15/2021	10,000	9,972	10,000	
Common Equity (5,000 units)				1/15/2016			500	475	
							10,472	10,475	3%

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
December 31, 2019
(in thousands, except shares)

Portfolio Company (a)(b) Investment Type (c)	Industry	Variable Index Spread / Floor (d)	Rate (e) Cash/PIK	Investment Date (f)	Maturity	Principal Amount	Cost	Fair Value (g)	Percent of Net Assets
Palisade Company, LLC	Information Technology Services								
Subordinated Debt (j)			11.75%/0.00%	11/15/2018	5/15/2024	$ 6,500	$ 6,474	$ 6,500	
Common Equity (100 shares) (j)				11/15/2018			1,000	901	
							7,474	7,401	2%
Palmetto Moon, LLC	Retail								
First Lien Debt			11.50%/2.50%	11/3/2016	10/31/2021	4,963	4,949	4,963	
Common Equity (499 units) (j)				11/3/2016			494	67	
							5,443	5,030	1%
Power Grid Components, Inc.	Specialty Distribution								
Second Lien Debt (k)			11.00%/1.00%	4/12/2018	12/2/2025	22,207	22,115	22,207	
Preferred Equity (392 shares) (j)				4/12/2018			392	459	
Preferred Equity (48 shares) (j)				12/2/2019			48	57	
Common Equity (10,622 shares) (j)				4/12/2018			462	610	
							23,017	23,333	6%
Prime AE Group, Inc.	Business Services								
First Lien Debt (j)		(L + 6.25%) / (2.00%)	8.25%/0.00%	11/25/2019	11/25/2024	7,500	7,312	7,312	
Preferred Equity (500,000 shares) (j)				11/25/2019			500	500	
							7,812	7,812	2%
Pugh Lubricants, LLC	Specialty Distribution								
Second Lien Debt (k)			12.25%/0.00%	11/10/2016	5/10/2022	23,581	23,521	23,581	
Common Equity (6,125 units) (h)(j)				11/10/2016			576	1,199	
							24,097	24,780	6%
Revenue Management Solutions, LLC	Information Technology Services								
Common Equity (2,250,000 shares)				1/4/2017			2,250	5,120	1%
Rhino Assembly Company, LLC	Specialty Distribution								
Second Lien Debt (k)			12.00%/1.00%	8/11/2017	2/11/2023	11,440	11,402	10,101	
Delayed Draw Commitment ($875 unfunded commitment) (i)(j)			12.00%/1.00%	8/11/2017	5/17/2022	—	—	—	
Preferred Equity (8,864 units) (h)(j)				8/11/2017			944	499	
							12,346	10,600	3%
Road Safety Services, Inc.	Business Services								
Second Lien Debt			11.25%/1.50%	9/18/2018	3/18/2024	10,222	10,185	10,222	
Common Equity (655 units)				9/18/2018			621	680	
							10,806	10,902	3%
Rohrer Corporation	Packaging								
Subordinated Debt (j)			10.50%/1.00%	10/1/2018	4/1/2024	13,875	13,822	13,875	
Common Equity (400 shares)				7/18/2016			780	1,256	
							14,602	15,131	4%
SES Investors, LLC (dba SES Foam)	Building Products Manufacturing								
Second Lien Debt			13.00%/0.00%	9/8/2016	12/29/2020	3,095	3,082	3,095	
Common Equity (6,000 units) (h)(j)				9/8/2016			567	856	
							3,649	3,951	1%
Software Technology, LLC	Information Technology Services								
Subordinated Debt (k)			11.00%/0.00%	12/23/2016	6/23/2023	10,000	9,972	10,000	
Common Equity (12 shares)				12/23/2016			1,291	1,578	
							11,263	11,578	3%
Specialized Elevator Services Holdings, LLC	Business Services								
First Lien Debt (j)(y)		(L + 5.25%) / (2.00%)	7.25%/0.00%	5/7/2019	5/3/2024	7,080	6,985	7,080	
Common Equity (500 units) (j)				5/8/2019			500	554	
							7,485	7,634	2%
SpendMend LLC	Business Services								
Second Lien Debt (k)			11.00%/1.00%	1/8/2018	7/8/2023	10,491	10,456	10,491	
Common Equity (1,000,000 units)				1/8/2018			1,000	1,400	
							11,456	11,891	3%
TransGo, LLC	Component Manufacturing								
Common Equity (1,000 units)				2/28/2017			998	1,005	0%
The Tranzonic Companies	Specialty Distribution								
Subordinated Debt (j)			10.00%/1.50%	3/27/2018	3/27/2025	6,922	6,870	6,922	
Preferred Equity (5,653 units) (j)				3/27/2018			565	663	
Common Equity (1 units) (j)				3/27/2018			—	26	
							7,435	7,611	2%
UBEO, LLC	Business Services								
Subordinated Debt (j)			11.00%/0.00%	4/3/2018	10/3/2024	13,893	13,792	13,645	
Common Equity (705,000 units) (h)(j)				4/3/2018			705	811	
							14,497	14,456	4%
United Biologics, LLC	Healthcare Services								
Preferred Equity (98,377 units) (h)(j)				4/1/2012			1,008	24	
Warrant (57,469 units) (m)				3/5/2012			566	20	
							1,574	44	0%
Vanguard Dealer Services, L.L.C. (n)	Business Services								
Common Equity (6,000 units)				7/30/2015			—	22	
Common Equity (2,380 units) (j)				2/2/2018			—	9	
							—	31	0%

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
December 31, 2019
(in thousands, except shares)

Portfolio Company (a)(b) Investment Type (c)	Industry	Variable Index Spread/Floor (d)	Rate (e) Cash/PIK	Investment Date (f)	Maturity	Principal Amount	Cost	Fair Value (g)	Percent of Net Assets
Virginia Tile Company, LLC	Specialty Distribution								
Second Lien Debt (k)			12.25%/0.00%	12/19/2014	4/7/2022	$ 12,000	$ 11,989	$ 12,000	
Common Equity (17 units)				12/19/2014			342	860	
							12,331	12,860	3%
Wheel Pros, Inc.	Specialty Distribution								
Second Lien Debt (j)		(L + 8.50%) / (0.00%)	10.30%/0.00%	5/17/2019	4/4/2026	20,000	19,818	20,000	
Preferred Equity (694,444 units) (j)				5/15/2019			1,500	1,781	
							21,318	21,781	5%
Worldwide Express Operations, LLC	Transportation services								
Second Lien Debt (j)		(L + 8.00%) / (1.00%)	9.90%/0.00%	2/27/2017	2/3/2025	20,000	19,740	20,000	
Common Equity (4,000 units) (h)(j)				2/27/2017			2,956	4,452	
							22,696	24,452	6%
Total Non-control/Non-affiliate Investments							$620,453	$623,544	151%
Total Investments							$704,499	$766,919	186%

(a) See Note 3 to the consolidated financial statements for portfolio composition by geographic location.
(b) Equity ownership may be held in shares or units of companies related to the portfolio companies.
(c) All debt investments are income producing, unless otherwise indicated. Equity investments are non-income producing unless otherwise noted.
(d) Variable rate investments bear interest at a rate indexed to LIBOR (L), which is reset monthly, bimonthly, quarterly, or semi-annually. Certain variable rate investments also include a LIBOR interest rate floor. For each investment, the Company has provided the spread over the reference rate and the LIBOR floor, if any, as of December 31, 2019
(e) Rate includes the cash interest or dividend rate and paid-in-kind interest or dividend rate, if any, as of December 31, 2019. Generally, payment-in-kind interest can be paid-in-kind or all in cash.
(f) Investment date represents the date of the initial investment in the security.
(g) 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 of directors, using significant unobservable Level 3 inputs.
(h) Investment is held by a Taxable Subsidiary of the Company.
(i) The disclosed commitment represents the unfunded amount as of December 31, 2019. The Company is earning 0.50% interest on the unfunded balance of the commitment. The interest rate disclosed represents the rate which will be earned if the commitment is funded.
(j) 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).
(k) 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).
(l) As defined in the 1940 Act, the Company is deemed to be an "Affiliated Person" of this portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company. Transactions in which the issuer was an Affiliated Person are detailed in Note 3 to the consolidated financial statements.
(m) Warrants entitle the Company to purchase a predetermined number of shares or units of common equity, and are non-income producing. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date, if any.
(n) Investment in portfolio company that has sold its operations and is in the process of winding down.
(o) Income producing. Maturity date, if any, represents mandatory redemption date.
(p) Investment was on non-accrual status as of December 31, 2019, meaning the Company has ceased recognizing interest income on the investment.
(q) Warrant entitles the Company to purchase 9.59% of the outstanding principal of Junior Subordinated Notes prior to exercise, and is non-income producing.
(r) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 4.70% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
(s) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.95% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
(t) As defined in the 1940 Act, the Company is deemed to be both an "Affiliated Person" of and "Control" this portfolio company because it owns 25% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company. Transactions in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control are detailed in Note 3 to the consolidated financial statements.
(u) The disclosed commitment represents the unfunded amount as of December 31, 2019. The Company is earning 0.75% interest on the unfunded balance of the commitment. The interest rate disclosed represents the rate earned on the outstanding, funded balance of the commitment.
(v) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.32% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
(w) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.95% on its "last out" tranche of the portfolio company's senior term debt, which was previously syndicated into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(x) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.73% on its “last out” tranche of the portfolio company’s senior term debt, which was previously syndicated into “first out” and “last out” tranches, whereby the “first out” tranche will have priority as to the “last out” tranche with respect to payments of principal, interest and any other amounts due thereunder.

(y) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.68% on its “last out” tranche of the portfolio company’s senior term debt, which was previously syndicated into “first out” and “last out” tranches, whereby the “first out” tranche will have priority as to the “last out” tranche with respect to payments of principal, interest and any other amounts due thereunder.

(z) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 4.41% on its “last out” tranche of the portfolio company’s senior term debt, which was previously syndicated into “first out” and “last out” tranches, whereby the “first out” tranche will have priority as to the “last out” tranche with respect to payments of principal, interest and any other amounts due thereunder.

See Notes to Consolidated Financial Statements.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

Note 1. Organization and Nature of Business

Fidus Investment Corporation (“FIC,” and together with its subsidiaries, the “Company”), a Maryland corporation, operates as an externally managed, closed-end, non-diversified business development company (“BDC”) under the Investment Company Act of 1940, as amended (“1940 Act”). FIC completed its initial public offering, or IPO, in June 2011. 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”).

The Company provides customized debt and equity financing solutions to lower middle-market companies, and may make investments directly or through its two wholly-owned investment company subsidiaries, Fidus Mezzanine Capital II, L.P. (“Fund II”) and Fidus Mezzanine Capital III, L.P. (“Fund III”). The Funds are licensed by the U.S. Small Business Administration (the “SBA”) as small business investment companies (“SBIC”). 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.

We believe that utilizing both 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 we will continue to make investments through the Funds until the Funds reach their borrowing limit under the program. For two or more SBICs under common control, the maximum amount of outstanding SBA debentures cannot exceed $350,000.

Fund II and Fund III are not registered under the 1940 Act and rely on the exclusion from the definition of investment company contained in Section 3(c)(7) of the 1940 Act.

The Company pays a quarterly base management fee and an incentive fee to Fidus Investment Advisors, LLC, our investment advisor (the “Investment Advisor” or “Fidus Investment Advisors”) under an investment advisory agreement (the “Investment Advisory Agreement”).

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”) pursuant to the requirements for reporting on Form 10-K, Accounting Standards Codification (“ASC”) 946, *Financial Services – Investment Companies* (“ASC 946”), and Articles 6 or 10 of Regulation S-X. 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.

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.

Consolidation: Pursuant to Article 6 of Regulation S-X and ASC 946, 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.

Investment risks: The Company’s investments are subject to a variety of risks. These risks may include, but are not limited to the following:

- *Market risk* - In contrast to investment-grade bonds (the market prices of which change primarily as a reaction to changes in interest rates), the market prices of high-yield bonds (which are also affected by changes in interest rates) are influenced much more by credit factors and financial results of the issuer as well as general economic factors that influence the financial markets as a whole. The portfolio companies in which the Company invests may be unseasoned, unprofitable and/or have little established operating history or earnings. These companies may also lack technical, marketing, financial, and other resources or may be dependent upon the success of one product or service, a unique distribution channel, or the effectiveness of a manager or management team, as compared to larger, more established entities. The failure of a single product, service or distribution channel, or the loss or the ineffectiveness of a key executive or executives within the management team may have a materially adverse impact on such companies. Furthermore, these companies may be more vulnerable to competition and to overall economic conditions than larger, more established entities.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

- *Credit risk* - Credit risk represents the risk that the Company would incur if the counterparties failed to perform pursuant to the terms of their agreements with the Company. Issues of high-yield debt securities in which the Company invests are more likely to default on interest or principal than are issues of investment-grade securities.
- *Liquidity risk* - Liquidity risk represents the possibility that the Company may not be able to sell its investments quickly or at a reasonable price (given the lack of an established market).
- *Interest rate risk* - Interest rate risk represents the likelihood that a change in interest rates could have an adverse impact on the fair value of an interest-bearing financial instrument.
- *Prepayment risk* - Certain of the Company's debt investments allow for prepayment of principal without penalty. Downward changes in market interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the debt investments and making the instrument less likely to be an income producing instrument through the stated maturity date.
- *Off-Balance sheet risk* - Some of the Company's financial instruments contain off-balance sheet risk. Generally, these financial instruments represent future commitments to purchase other financial instruments at defined terms at defined future dates. See Note 7 for further details.

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), Notes (as defined in Note 6), and SBA debentures. Deferred financing costs are capitalized and amortized to interest and financing expenses over the term of the debt agreement using the effective interest method. Unamortized deferred financing costs are presented as an offset to the corresponding debt liabilities on the consolidated statements of assets and liabilities.

Realized losses on extinguishment of debt: Upon the repayment of debt obligations which are deemed to be extinguishments, the difference between the principal amount due at maturity adjusted for any unamortized deferred financing costs is recognized as a loss (i.e., the unamortized deferred financing costs are recognized as a loss upon extinguishment of the underlying debt obligation). In 2019, the Company elected to change the manner in which it presents the derecognition of unamortized deferred financing costs upon extinguishment of the related debt obligation. Previously, the Company classified the extinguishment as a component of interest and financing expenses on the consolidated statements of operations. Comparative prior periods presented have been reclassified retrospectively to conform to the revised presentation. There is no change in historical net increase in net assets resulting from operations due to this change in presentation.

Deferred offering costs: Deferred offering costs include registration expenses related to shelf filings. These expenses primarily consist of U.S. Securities and Exchange Commission ("SEC") registration fees, legal fees and accounting fees incurred. These expenses are included in prepaid expenses and other assets on the consolidated statements of assets and liabilities. Upon the completion of an equity offering or a debt offering, the deferred expenses are charged to additional paid-in capital or deferred financing costs, respectively. If no offering is completed prior to the expiration of the registration statement, the deferred costs are charged to expense.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

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 in good faith 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 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 is accrued daily based on the outstanding principal amount and the contractual terms of the debt. Dividend income is recorded as dividends are declared or at the point an obligation exists for the portfolio company to make a distribution, and is generally recognized when received. Distributions from portfolio companies are evaluated to determine if the distribution is a distribution of earnings or a return of capital. Distributions of earnings are included in dividend income while a return of capital is recorded as a reduction in the cost basis of the investment. Estimates are adjusted as necessary after the relevant tax forms are received from the portfolio company.

PIK income: 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. Generally, PIK can be paid-in-kind or all in cash. The Company stops accruing PIK income when there is reasonable doubt that PIK income will be collected. PIK income that has been contractually capitalized to the principal balance of the investment prior to the non-accrual designation date is not reserved against interest or dividend income, but rather is assessed through the valuation of the investment (with corresponding adjustments to unrealized depreciation, as applicable). 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 tax treatment as a RIC and to avoid corporate federal income tax, even though the Company has not yet collected the cash.

Non-accrual: Debt investments or preferred equity investments (for which the Company is accruing PIK dividends) 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. Any original issue discount and market discount are no longer accreted to interest income as of the date the loan is placed on full non-accrual status. 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.

Origination and closing fees: The Company also typically receives debt investment origination or closing fees in connection with such investments. Such debt investment 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 interest income over the life of the investment. Upon the prepayment of a debt investment, any unaccreted debt investment origination and closing fees are accelerated into interest income.

Warrants: 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. Upon the prepayment of a debt investment, any unaccreted OID is accelerated into interest income.

Fee income: Transaction fees earned in connection with the Company's investments are recognized as fee income and are generally non-recurring. 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 debt investment, any prepayment penalties are recorded as fee income when earned. In 2020, the Company elected to change the manner in which it presents the recognition of management services fees income. Previously, the Company classified management services fees as a component of interest on idle funds and other income on the Consolidated Statement of Operations. Comparative prior periods presented have been reclassified retrospectively to conform to the revised presentation. There is no change in historical net increase in net assets resulting from operations due to this change in presentation.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

Partial loan and equity sales: The Company follows the guidance in ASC 860, *Transfers and Servicing*, when accounting for loan (debt investment) participations, equity assignments and other partial loan sales. Such guidance requires a participation, assignment or other partial loan or equity sale to meet the definition of a "participating interest," as defined in the guidance, in order for sale treatment to be allowed. Participations, assignments or other partial loan or equity sales which do not meet the definition of a participating interest should remain on the Company's consolidated statements of assets and liabilities and the proceeds recorded as a secured borrowing until the definition is met. Management has determined that all participations, assignments and other partial loan or equity sale transactions entered into 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, which will generally relieve the Company from U.S. federal income taxes with respect to all income distributed to stockholders. To maintain the tax treatment of 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 date on which the final tax return related to the year in which the Company generated such taxable income is filed or the 15th day of the 10th 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 its 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 maintain the tax treatment of a RIC.

The Company has certain 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 company investments 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 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 included in the income tax provision, if any. There were no material uncertain income tax positions at December 31, 2020 and 2019. The Company's tax returns are generally subject to examination by U.S. federal and most state tax authorities for a period of three years from the date the respective returns are filed, and, accordingly, the Company's 2017 through 2019 tax years remain subject to examination.

Dividends to stockholders: Dividends 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.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

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 two 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 years ended December 31, 2020, 2019 and 2018, 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.

Stock Repurchase Program: The Company has an open market stock repurchase program (the "Stock Repurchase Program") under which the Company may acquire up to $5,000 of its outstanding common stock. Under the Stock Repurchase Program, the Company may, but is not obligated to, repurchase outstanding common stock in the open market from time to time provided that the Company complies with the prohibitions under its insider trading policies and the requirements of Rule 10b-18 of the Securities Exchange Act of 1934, as amended, including certain price, market value and timing constraints. The timing, manner, price and amount of any share repurchases will be determined by the Company's management, in its discretion, based upon the evaluation of economic and market conditions, stock price, capital availability, applicable legal and regulatory requirements and other corporate considerations. On October 26, 2020, the Board extended the Stock Repurchase Program through December 31, 2021, or until the approved dollar amount has been used to repurchase shares. The Stock Repurchase Program does not require the Company to repurchase any specific number of shares and the Company cannot assure that any shares will be repurchased under the Stock Repurchase Program. The Stock Repurchase Program may be suspended, extended, modified or discontinued at any time. During the years ended December 31, 2020 and 2018, the Company repurchased 25,719 and 44,821 shares, respectively, of common stock on the open market for $268 and $582, respectively. The Company did not make any repurchases of common stock during the year ended December 31, 2019. Refer to Note 8 for additional information concerning stock repurchases.

Recent accounting pronouncements:

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) – Changes to the Disclosure Requirements for Fair Value Measurement*, which is intended to improve fair value disclosure requirements by removing disclosures that are not cost-beneficial, clarifying disclosures' specific requirements, and adding relevant disclosure requirements. The guidance is effective for annual and interim reporting periods beginning after December 15, 2019. The Company adopted the ASU effective January 1, 2020. No significant changes to the fair value disclosures were necessary in the notes to the consolidated financial statements in order to comply with ASU 2018-13.

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-04, "*Reference Rate Reform (Topic 848)*," which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. The expedients and exceptions provided by the amendments do not apply to contract modifications and hedging relationships entered into or evaluated after December 31, 2022, except for hedging transactions as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The Company is evaluating the potential impact that the adoption of ASU 2020-04 will have on the Company's consolidated financial statements.

SEC Rule 12b-2 Update:

In March 2020, the SEC adopted a final rule under SEC Release No. 34-88365 (the "Final Rule"), amending the accelerated filer and large accelerated filer definitions in Exchange Act Rule 12b-2. The amendments include a provision under which a BDC will be excluded from the "accelerated filer" and "large accelerated filer" definitions if the BDC has (1) a public float of $75 million or more, but less than $700 million, and (2) has annual investment income of less than $100 million. In addition, BDCs are subject to the same transition provisions for accelerated filer and large accelerated filer status as other issuers, but instead substituting investment income for revenue. The amendments will reduce the number of issuers required to comply with the auditor attestation on the internal control over financial reporting requirement provided under Section 404(b) of the Sarbanes-Oxley Act of 2002. The Final Rule applies to annual report filings due on or after April 27, 2020. As a result, the Company is no longer an accelerated filer.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

SEC Rule 1-02(w)(2) Update:

In May 2020, the SEC adopted rule amendments that will impact the requirement of investment companies, including BDCs, to disclose the financial statements of certain of their portfolio companies or certain acquired funds (the “Final Rules”). The Final Rules adopted a new definition of “significant subsidiary” set forth in Rule 1-02(w)(2) of Regulation S-X under the Securities Act. Rules 3-09 and 4-08(g) of Regulation S-X require investment companies to include separate financial statements or summary financial information, respectively, in such investment company’s periodic reports for any portfolio company that meets the definition of “significant subsidiary.” The Final Rules adopt a new definition of “significant subsidiary” applicable only to investment companies that (i) modifies the investment test and the income test, and (ii) eliminates the asset test currently in the definition of “significant subsidiary” in Rule 1-02(w) of Regulation S-X. The new Rule 1-02(w)(2) of Regulation S-X is intended to more accurately capture those portfolio companies that are more likely to materially impact the financial condition of an investment company. The Final Rules became effective on January 1, 2021, but voluntary compliance is permitted in advance of the effective date. The Company has elected to early adopt this rule change as of December 31, 2020.

SEC Regulation S-K Update:

In November 2020, the SEC issued a final rule that modernized and simplifies Management’s Discussion and Analysis of Financial Condition and Results of Operations and certain financial disclosure requirements in Regulation S-K (the “Amendments”). Specifically, the Amendments: (i) eliminate Item 301 of Regulation S-K (Selected Financial Data); (ii) simplify Item 302 of Regulation S-K (Supplementary Financial Information); and (iii) amend certain aspects of Item 303 of Regulation S-K (Managements Discussion and Analysis of Financial Condition and Results of Operations). The Amendments became effective on February 10, 2021 and compliance will be required for the registrant’s fiscal year ending on or after August 9, 2021. Early adoption of the Amendments is permitted on an item-by-item basis after the effective date; however, a registrant must fully comply with each adopted item in its entirety. The Company is currently evaluating the impact of the Amendments on its consolidated financial statements.

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 may receive nominally priced equity warrants and/or make 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 generally reported under the name of the operating company on the consolidated schedules of investments.

As of December 31, 2020, the Company had active investments in 66 portfolio companies and residual investments in three portfolio companies that have sold their underlying operations. The aggregate fair value of the total portfolio was $742,869 and the weighted average effective yield on the Company’s debt investments was 12.2% as of such date. As of December 31, 2020, the Company held equity investments in 88.4% of its portfolio companies and the weighted average fully diluted equity ownership in those portfolio companies was 5.8%. The weighted average fully diluted equity ownership was computed using the fully diluted equity ownership for equity investments (including warrants) at cost as of December 31, 2020.

As of December 31, 2019, the Company had active investments in 61 portfolio companies and residual investments in three portfolio companies that have sold their underlying operations. The aggregate fair value of the total portfolio was $766,919 and the weighted average effective yield on the Company’s debt investments was 12.0% as of such date. As of December 31, 2019, the Company held equity investments in 93.7% of its portfolio companies and the weighted average fully diluted equity ownership in those portfolio companies was 5.3%. The weighted average fully diluted equity ownership was computed using the fully diluted equity ownership for equity investments (including warrants) at cost as of December 31, 2019.

The weighted average yield of the Company’s debt investments is not the same as a return on investment for its stockholders but, rather, relates to a portion of the Company’s investment portfolio and is calculated before the payment of all of the Company’s and its subsidiaries’ fees and expenses. The weighted average yields were computed using the effective interest rates for debt investments at cost as of December 31, 2020 and 2019, including accretion of OID and debt investment origination fees, but excluding investments on non-accrual status, if any.

Purchases of debt and equity investments for the years ended December 31, 2020, 2019 and 2018 totaled $189,996, $219,173, and $212,264, respectively. Proceeds from sales and repayments, including principal, return of capital distributions and realized gains, of portfolio investments for the years ended December 31, 2020, 2019 and 2018 totaled $210,774, $120,600, and $188,255 respectively.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

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

	Fair Value				Cost			
	December 31, 2020		December 31, 2019		December 31, 2020		December 31, 2019	
Second Lien Debt	$332,154	44.7%	$383,077	49.9%	$341,947	49.7%	$392,196	55.7%
Subordinated Debt	107,911	14.5	140,843	18.4	107,343	15.6	140,670	20.0
First Lien Debt	187,353	25.2	108,327	14.1	184,585	26.9	107,718	15.3
Equity	112,836	15.2	126,564	16.5	49,958	7.3	58,091	8.2
Warrants	2,615	0.4	8,108	1.1	3,194	0.5	5,824	0.8
Royalty Rights	—	—	—	—	—	—	—	—
Total	$742,869	100.0%	$766,919	100.0%	$687,027	100.0%	$704,499	100.0%

All investments made by the Company as of December 31, 2020 and 2019, were made in portfolio companies headquartered 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			
	December 31, 2020		December 31, 2019		December 31, 2020		December 31, 2019	
Midwest	$225,745	30.4%	$208,248	27.1%	$189,560	27.6%	$181,353	25.7%
Southeast	153,291	20.6	159,959	20.9	129,974	18.9	138,142	19.6
Northeast	123,268	16.6	154,713	20.2	127,833	18.6	142,054	20.2
West	108,673	14.6	76,251	9.9	109,221	15.9	76,587	10.9
Southwest	131,892	17.8	167,748	21.9	130,439	19.0	166,363	23.6
Total	$742,869	100.0%	$766,919	100.0%	$687,027	100.0%	$704,499	100.0%

The following table shows portfolio composition by type and by geographic region at fair value as a percentage of net assets.

By Type			By Geographic Region		
	December 31, 2020	December 31, 2019		December 31, 2020	December 31, 2019
Second Lien Debt	80.9%	92.8%	Midwest	55.0%	50.5%
Subordinated Debt	26.3	34.2	Southeast	37.3	38.8
First Lien Debt	45.6	26.3	Northeast	30.0	37.5
Equity	27.5	30.7	West	26.5	18.5
Warrants	0.6	2.0	Southwest	32.1	40.7
Royalty Rights	—	—			
Total	180.9%	186.0%	Total	180.9%	186.0%

As of December 31, 2020 and 2019, the Company had no portfolio company investments that represented more than 10% of the total investment portfolio on a fair value or cost basis. As of December 31, 2020 and 2019, the Company had no portfolio company investments that represented more than 5% of our total assets.

Table of Contents

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

As of December 31, 2020 and 2019, the Company had debt investments in one portfolio company on non-accrual status:

Portfolio Company	December 31, 2020 Fair Value	December 31, 2020 Cost	December 31, 2019 Fair Value	December 31, 2019 Cost
Frontline Food Services, LLC (f/k/a Accent Food Services, LLC)	$ — (1)	$ — (1)	$33,067	$35,327
EBL, LLC (EbLens)	5,454(2)	9,214(2)	— (3)	— (3)
Total	$ 5,454	$ 9,214	$33,067	$35,327

(1) Portfolio company was no longer held at period end.
(2) Portfolio company was on PIK-only on non-accrual status at period end, meaning the Company has ceased recognizing PIK interest income on the investment.
(3) Portfolio company debt investments were not on non-accrual status at period end.

Consolidated Schedule of Investments In and Advances To Affiliates

The table below represents the fair value of control and affiliate investments as of December 31, 2019 and any additions and reductions made to such investments during the year ended December 31, 2020, including the total investment income earned on such investments during the period.

					Year Ended December 31, 2020						
Portfolio Company (1)	**December 31, 2020 Principal Amount - Debt Investments**	**December 31, 2019 Fair Value**	**Gross Additions(2)**	**Gross Reductions(3)**	**December 31, 2020 Fair Value**	**Net Realized Gains (Losses)(4)**	**Net Change in Unrealized Appreciation (Depreciation)**	**Interest Income**	**Payment-in-kind Interest Income**	**Dividend Income**	**Fee Income**
Control Investments											
FDS Avionics Corp. (dba Flight Display Systems)	$ 5,122	$ 5,403	$ 1,988	$ —	$ 7,391	$ —	$ 1,545	$ 298	$ 442	$ —	$ —
US GreenFiber, LLC	22,943	16,417	5,830	(1,385)	20,862	—	(363)	1,591	1,306	—	—
Total Contrrol Investments	$ 28,065	$ 21,820	$ 7,818	$ (1,385)	$ 28,253	$ —	$ 1,182	$ 1,889	$ 1,748	$ —	$ —
Affiliate Investments											
FAR Research Inc.	$ —	$ 28	$ —	$ —	$ 28	$ —	$ —	$ —	$ —	$ —	$ —
Fiber Materials, Inc.	—	10,449	9,681	(20,089)	41	9,681	(9,762)	—	—	354	—
Medsurant Holdings, LLC	8,031	16,980	1,721	(7,741)	10,960	1,714	(2,304)	1,145	—	—	79
Microbiology Research Associates, Inc.(5)	—	11,611	21	(11,632)	—	—	(751)	84	11	—	—
Mirage Trailers LLC	6,410	7,218	235	(959)	6,494	—	(959)	718	159	5	16
Pfanstiehl, Inc.	—	32,822	20,128	(19,445)	33,505	12,812	7,309	630	—	478	—
Pinnergy, Ltd.	—	32,978	301	(12,690)	20,589	301	(9,388)	—	—	—	—
Steward Holding LLC (dba Steward Advanced Materials)	7,783	9,469	308	—	9,777	—	186	934	117	—	25
Total Affiliate Investments	$ 22,224	$ 121,555	$ 32,395	$ (72,556)	$ 81,394	$ 24,508	$ (15,669)	$ 3,511	$ 287	$ 837	$ 120

(1) The investment type, industry, ownership detail for equity investments, and if the investment is income producing is disclosed in the consolidated schedule of investments.
(2) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, follow-on investments, accrued PIK interest and PIK dividend income, accretion of OID and origination fees, and net unrealized appreciation recognized during the period. Gross additions also include transfers of portfolio companies into the control or affiliate classification during the period, as applicable.
(3) Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales and net unrealized (depreciation) recognized during the period. Gross reductions also include include transfers of portfolio companies out of the control or affiliate classification during the period, as applicable.
(4) The schedule does not reflect realized gains or losses on escrow receivables for investments which were previously exited and were not held during the period presented. Gains and losses on escrow receivables are classified in the consolidated statements of operations according to the control classification at the time the investment was exited. Escrow receivables are presented in prepaid expenses and other assets on the consolidated statements of assets and liabilities.
(5) Portfolio company was transferred to Non-control/Non-affiliate investments from Affiliate investments during the twelve months ended December 31, 2020.

Note 4. Fair Value Measurements

Investments

The Board 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 and consistent with the requirements of the 1940 Act. 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 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.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

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 engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of our portfolio investments for which market quotations are not readily available. Each portfolio company investment is generally appraised by the valuation firm(s) at least once every calendar year and each new portfolio company investment is appraised at least once in the twelve-month period following the initial investment. In certain instances, the Company may determine that it is not cost-effective, and as a result it is not in the Company's stockholders' best interest, to request the independent appraisal of certain portfolio company investments. Such instances include, but are not limited to, situations where the Company determines that the fair value of the portfolio company investment is relatively insignificant to the fair value of the total portfolio. The Board consulted with the independent valuation firm(s) in arriving at the Company's determination of fair value for 12 and 13 of its portfolio company investments, representing 25.8% and 30.9% of the total portfolio investments at fair value (exclusive of new portfolio company investments made during the three months ended December 31, 2020 and 2019, respectively) as of December 31, 2020 and 2019, 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 Board 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.

Consistent with the policies and methodologies adopted by the Board, the Company performs detailed valuations of its debt and equity investments, including an analysis on the Company's unfunded debt investment commitments, 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, 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 debt investment 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 and other fees; 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 debt investments to maturity. However, if the Company has information available to it that the debt investment is expected to be repaid in the near term, it would use an estimated remaining life based on the expected repayment date.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(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, 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.

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.

Changes in valuation techniques may occur on a quarterly or annual basis due to changes in market conditions, new information becoming available or development of new markets. The Company assesses changes in valuation techniques on an individual portfolio company basis if it results in a measurement that is equally or more representative of fair value given the circumstances.

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 years ended December 31, 2020 and 2019.

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 years ended December 31, 2020 and 2019:

	Second Lien Debt	Subordinated Debt	First Lien Debt	Equity	Warrants	Royalty Rights	Total
Balance, December 31, 2018	$ 366,517	$ 104,225	$ 51,790	$106,707	$13,743	$ —	$ 642,982
Net realized gains (losses) on investments	—	(38)	(13,804)	9,923	2,933	(185)	(1,171)
Net change in unrealized appreciation (depreciation) on investments	4,337	1,848	1,050	15,248	(4,480)	185	18,188
Purchase of investments	54,245	70,036	83,990	10,902	—	—	219,173
Proceeds from sales and repayments of investments	(50,358)	(36,095)	(13,838)	(16,221)	(4,088)	—	(120,600)
Interest and dividend income paid-in-kind	7,944	1,025	131	—	—	—	9,100
Proceeds from loan origination fees	(189)	(435)	(1,224)	—	—	—	(1,848)
Accretion of loan origination fees	531	277	210	5	—	—	1,023
Accretion of original issue discount	50	—	22	—	—	—	72
Transfers between classifications	—	—	—	—	—	—	—
Balance, December 31, 2019	$ 383,077	$ 140,843	$108,327	$126,564	$ 8,108	$ —	$ 766,919
Net realized gains (losses) on investments	(35,227)	—	(3)	32,392	1,870	—	(968)
Net change in unrealized appreciation (depreciation) on investments	(674)	395	2,159	(5,595)	(2,863)	—	(6,578)
Purchase of investments	54,900	14,500	109,901	10,695	—	—	189,996
Proceeds from sales and repayments of investments	(74,465)	(48,326)	(32,260)	(51,223)	(4,500)	—	(210,774)
Interest and dividend income paid-in-kind	4,088	424	148	—	—	—	4,660
Proceeds from loan origination fees	(278)	(260)	(1,489)	—	—	—	(2,027)
Accretion of loan origination fees	508	335	498	3	—	—	1,344
Accretion of original issue discount	225	—	72	—	—	—	297
Transfers between classifications	—	—	—	—	—	—	—
Balance, December 31, 2020	$ 332,154	$ 107,911	$187,353	$112,836	$ 2,615	$ —	$ 742,869

Net change in unrealized appreciation/(depreciation) of ($6,559) and $10,995 for the years ended December 31, 2020 and 2019, respectively, was attributable to Level 3 investments held at December 31, 2020 and 2019, respectively.

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 December 31, 2020 and 2019. 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.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

	Fair Value at December 31, 2020	Valuation Techniques	Unobservable Inputs	Range (weighted average)(1)
Debt investments:				
Second Lien Debt	$ 306,405	Discounted cash flow	Weighted average cost of capital	9.3% - 27.0% (14.0%)
	5,454	Enterprise value	EBITDA multiples	3.9x - 3.9x (3.9x)
	5,123	Enterprise value	Revenue multiples	2.1x - 2.1x (2.1x)
	15,172	Enterprise value	Asset Coverage	1.2x - 1.2x (1.2x)
Subordinated Debt	107,911	Discounted cash flow	Weighted average cost of capital	11.5% - 12.0% (11.7%)
First Lien Debt	183,238	Discounted cash flow	Weighted average cost of capital	6.8% - 16.3% (10.3%)
	4,115	Enterprise value	Asset Coverage	1.8x - 1.8x (1.8x)
Equity investments:				
Equity	110,568	Enterprise value	EBITDA multiples	3.9x - 15.3x (8.1x)
	2,268	Enterprise value	Revenue multiples	2.1x - 2.1x (2.1x)
Warrants	2,615	Enterprise value	EBITDA multiples	4.5x - 6.5x (6.2x)

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

	Fair Value at December 31, 2019	Valuation Techniques	Unobservable Inputs	Range (weighted average)(1)
Debt investments:				
Second Lien Debt	$ 364,351	Discounted cash flow	Weighted average cost of capital	10.3% - 18.2% (13.2%)
	16,417	Enterprise value	EBITDA multiples	5.3x - 5.3x (5.3x)
	2,309	Enterprise value	Asset Coverage	1.2x - 1.2x (1.2x)
Subordinated Debt	140,843	Discounted cash flow	Weighted average cost of capital	10.9% - 21.6% (12.0%)
First Lien Debt	101,162	Discounted cash flow	Weighted average cost of capital	8.4% - 14.8% (11.8%)
	7,165	Enterprise value	Revenue multiples	4.4x - 4.4x (4.4x)
Equity investments:				
Equity	125,370	Enterprise value	EBITDA multiples	3.5x - 20.7x (8.5x)
	1,194	Enterprise value	Revenue multiples	1.2x - 4.4x (2.0x)
Warrants	8,108	Enterprise value	EBITDA multiples	4.0x - 7.0x (6.6x)

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

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 significantly lower (or higher) fair value estimates.

The significant unobservable inputs used in determining fair value under the enterprise value technique are revenue and EBITDA multiples, as well as asset coverage. Significant increases (or decreases) in these inputs could result in significantly higher (or lower) fair value estimates.

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, interest receivable and accounts payable and other liabilities approximate the fair value of such items due to the short maturity of such instruments. The Company's borrowings under the Credit Facility (as defined in Note 6), SBA debentures, and Public Notes (as defined in Note 6) are recorded at their respective carrying values.

(in thousands, except shares and per share data)

The following tables summarize the carrying value and fair value of the Company's debt obligations as of December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Carrying Value (1)	Fair Value	Carrying Value (1)	Fair Value
SBA debentures (2)	$ 147,000	$147,000	$ 157,500	$157,500
Credit Facility borrowings (3)	—	—	25,000	25,000
2023 Notes (4)	50,000	50,620	50,000	51,900
February 2024 Notes (4)	69,000	69,745	69,000	72,422
November 2024 Notes (4)	63,250	64,389	63,250	65,148
2026 Notes (5)	125,000	125,000	—	—
Total	$ 454,250	$456,754	$ 364,750	$371,970

(1) Carrying value represents the outstanding principal balance of the debt obligation.
(2) The fair value of SBA debentures and 2026 Notes is estimated by discounting the 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, which are Level 3 inputs under ASC Topic 820.
(3) The fair value of borrowings under the Credit Facility, if valued under ASC Topic 820, are based on a market yield approach and current interest rates, which are Level 3 inputs to the market yield model.
(4) The Public Notes, if valued under ASC Topic 820, are valued using available market quotes, which is a Level 1 input.
(5) The 2026 Notes fair value is equal to the offering price entered into on December 16, 2020.

The following table summarizes the inputs used to value the Company's debt obligations if measured at fair value as of December 31, 2020 and 2019.

	Fair Value	
Valuation Inputs	December 31, 2020	December 31, 2019
Level 1	$ 184,754	$ 189,470
Level 2	—	—
Level 3	272,000	182,500
Total	$ 456,754	$ 371,970

Note 5. Related Party Transactions

Investment Advisory Agreement: The Company has entered into an Investment Advisory Agreement with the Investment Advisor. On June 4, 2020, the Board approved the renewal of the Investment Advisory Agreement through June 20, 2021. 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.

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 years ended December 31, 2020, 2019 and 2018 totaled $12,932, $12,399 and $11,365, respectively. As of December 31, 2020 and 2019, the base management fee payable was $3,244 and $3,334, 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 excise taxes on realized gains). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as market discount, original issue discount, debt instruments with PIK 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.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

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 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 years ended December 31, 2020, 2019 and 2018 totaled $8,952, $7,445, and $9,413, respectively. The Investment Advisor, in consultation with the Board, agreed to voluntarily waive $423 of the income incentive fee for the year ended December 31, 2020. There was no income incentive fee waiver for the year ended December 31, 2019 or 2018. As of December 31, 2020 and 2019, the income incentive fee payable was $2,610 and $1,497, 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 in cash to the Investment Advisor, the Company calculates the cumulative aggregate realized capital gains and losses since the Formation Transactions (realized capital gains and losses include realized gains and losses on investments, net of income tax provision from realized gains on investments, and realized losses on extinguishment of debt), and the aggregate unrealized capital depreciation on investments as of the date of the calculation. 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 on investments, less cumulative aggregate realized capital losses on investments, less aggregate unrealized capital depreciation on investments, and less cumulative aggregate realized losses on extinguishment of debt. If this number is positive at the end of such year, then the capital gains incentive fee to be paid in cash for such year equals 20.0% of such amount, less the aggregate amount of any capital gains incentive fees paid in all prior years. As of December 31, 2020 and 2019, the capital gains incentive fee payable in cash was $0 (as cumulative aggregate realized capital gains and losses on investments plus aggregate unrealized capital depreciation on investments plus realized losses on extinguishment of debt was negative as of each period). The aggregate amount of capital gains incentive fees paid from the IPO through December 31, 2020 was $348.

In addition, the Company accrues, but does not pay in cash, a capital gains incentive fee in connection with any unrealized capital appreciation on investments, as applicable. If, on a cumulative basis, the sum of (i) net realized gains/(losses) on investments plus (ii) net unrealized appreciation/(depreciation) on investments plus (iii) realized losses on extinguishment of debt 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 (i) net realized gains/(losses) on investments plus (ii) net unrealized appreciation/(depreciation) on investments plus (iii) realized losses on extinguishment of debt. The capital gains incentive fee accrued (reversed) during the years ended December 31, 2020, 2019 and 2018 was ($1,684), $3,299 and $2,938, respectively. As of December 31, 2020 and 2019, the accrued capital gains incentive fee payable was $11,031 and $12,715, respectively.

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 directors who are not "interested persons" of the Company, as such term is defined under Section 2(a)(19) of the 1940 Act (the "Independent Directors"). Independent Directors. 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: The Company also entered into an administration agreement (the "Administration Agreement") with the Investment Advisor. On June 4, 2020, the Board approved the renewal of the Administration Agreement through June 20, 2021. Under the Administration Agreement, the Investment Advisor furnishes the Company with office facilities and equipment, provides 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 and the Company reimburses the Investment Advisor for fees and expenses incurred with providing such services. In addition, the Company reimburses the Investment Advisor for fees and expenses incurred while performing due diligence on the Company's prospective portfolio companies, including "dead deal" expenses. Under the Administration Agreement, administrative service expenses for the years ended December 31, 2020, 2019 and 2018 were $1,720, $1,583 and $1,462, respectively. As of December 31, 2020 and 2019, the accrued administrative service expense was $593 and $528, respectively.

Fidus Equity Fund I, L.P.: On February 25, 2020, the Company entered into a Limited Partnership Agreement (the "Agreement") with Fidus Equity Fund I, L.P. ("FEF I"). Pursuant to the Agreement, the Company will serve as the General Partner of FEF I. Owned by third-party investors, FEF I was formed to purchase 50% of select equity investments from the Company. On February 25, 2020, the Company sold 50% of its equity investments in 20 portfolio companies to FEF I and received net proceeds of $35,903, resulting in a realized gain, net of estimated taxes, of $20,404. The Company will not receive any fees from FEF I for any services provided in its capacity as the General Partner of FEF I.

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 is secured by certain portfolio investments held by the Company, but portfolio investments held by the Funds are not collateral for the Credit Facility. On April 24, 2019, the Company entered into an Amended & Restated Senior Secured Revolving Credit Agreement (the "Amended Credit Agreement") among the Company, as borrower, the lenders party thereto, and ING Capital LLC, as administrative agent. The Amended Credit Agreement amends, restates, and replaces the Credit Facility. On June 26, 2020, the Company amended the Amended Credit Agreement, however the material terms were unchanged. Among other revisions, the amendment to the Amended Credit Agreement modifies certain covenants therein, including to amend the minimum consolidated interest coverage ratio to be 2.25 to 1.00 for the four quarter period ending on June 30, 2020, 2.00 to 1.00 for the four quarter periods ending on each of September 30, 2020 and December 31, 2020, and 1.75 to 1.00 for each four quarter period ending at the end of each quarter thereafter.

Under the Amended Credit Agreement, (i) revolving commitments by lenders were increased from $90,000 to $100,000, with an accordion feature that allows for an increase in total commitments up to $250,000, subject to satisfaction of certain conditions at the time of any such future increase, (ii) the maturity date of the Credit Facility was extended from June 16, 2019 to April 24, 2023, and (iii) borrowings under the credit facility bear interest, at our election, at a rate per annum equal to (a) 3.00% (or 2.75% if certain conditions are satisfied, including if (x) no equity interests are included in the borrowing base, (y) the contribution to the borrowing base of eligible portfolio investments that are performing first lien bank loans is greater than or equal to 35%, and (z) the contribution to the borrowing base of eligible portfolio investments that are performing first lien bank loans, performing last out loans, or performing second lien loans is greater than or equal to 60%) plus the one, two, three or six month LIBOR rate, as applicable, or (b) 2.00% (or 1.75% if the above conditions are satisfied) plus the highest of (A) a prime rate, (B) the Federal Funds rate plus 0.5%, (C) three month LIBOR plus 1.0%, and (D) zero. The Company pays a commitment fee that varies depending on the size of the unused portion of the Credit Facility: 3.00% per annum on the unused portion of the credit facility at or below 35% of the commitments and 0.50% per annum on any remaining unused portion of the Credit Facility between the total commitments and the 35% minimum utilization. The Amended Credit Agreement also modifies certain covenants in the credit facility, including to provide for a minimum asset coverage ratio of 2.00 to 1 (on a regulatory basis). The Credit Facility is secured by a first priority security interest in all of our assets, excluding the assets of our SBIC subsidiaries.

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, excluding investments held by the Funds. 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.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

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 December 31, 2020 and 2019, the Company was in compliance in all material respect with the terms of the Credit Facility.

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; such debentures have 10-year terms with the entire principal balance due at maturity and are guaranteed by the SBA. Interest on SBA debentures is payable semi-annually on March 1 and September 1. As of December 31, 2020 and 2019, approved and unused SBA debenture commitments were $11,500 and $17,500, 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 December 31, 2020 and 2019, the Company's issued and outstanding SBA debentures mature as follows:

Pooling Date (1)	Maturity Date	Fixed Interest Rate	December 31, 2020	December 31, 2019
9/24/2014	9/1/2024	3.775%	$ —	$ 1,000
3/25/2015	3/1/2025	3.277	22,500	22,500
9/23/2015	9/1/2025	3.571	16,700	16,700
3/23/2016	3/1/2026	3.267	1,500	1,500
3/23/2016	3/1/2026	3.249	21,800	21,800
9/21/2016	9/1/2026	2.793	500	500
3/29/2017	3/1/2027	3.587	10,000	10,000
9/20/2017	9/1/2027	3.260	1,000	1,000
9/20/2017	9/1/2027	3.190	33,000	33,000
3/21/2018	3/1/2028	3.859	16,000	16,000
3/21/2018	3/1/2028	3.534	10,500	15,500
9/19/2018	9/1/2028	3.895	—	9,500
9/19/2018	9/1/2028	4.220	—	1,000
9/25/2019	9/1/2029	2.377	7,500	7,500
3/25/2020	3/1/2030	2.172	6,000	—
Total outstanding SBA debentures			$ 147,000	$ 157,500

(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.

Notes: On February 2, 2018, the Company closed the public offering of approximately $43,478 in aggregate principal amount of its 5.875% notes due 2023, or the "2023 Notes." On February 22, 2018, the underwriters exercised their option to purchase an additional $6,522 in aggregate principal of the 2023 Notes. The total net proceeds to the Company from the 2023 Notes, including the exercise of the underwriters' option, after deducting underwriting discounts of approximately $1,500 and offering expenses of $438, were approximately $48,062.

The 2023 Notes mature on February 1, 2023 and bear interest at a rate of 5.875%. The 2023 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after February 1, 2020. Interest on the 2023 Notes is payable quarterly on February 1, May 1, August 1 and November 1 of each year. The 2023 Notes are listed on the NASDAQ Global Select Market under the trading symbol "FDUSL."

On February 8, 2019, the Company closed the public offering of approximately $60,000 in aggregate principal amount of its 6.000% notes due 2024, or the "February 2024 Notes." On February 19, 2019, the underwriters exercised their option to purchase an additional $9,000 in aggregate principal of the February 2024 Notes. The total net proceeds to the Company from the February 2024 Notes, including the exercise of the underwriters' option, after deducting underwriting discounts of approximately $2,070 and estimated offering expenses of $409, were approximately $66,521.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

The February 2024 Notes mature on February 15, 2024 and bear interest at a rate of 6.000%. The February 2024 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after February 15, 2021. Interest on the February 2024 Notes is payable quarterly on February 15, May 15, August 15 and November 15 of each year, beginning May 15, 2019. The February 2024 Notes are listed on the NASDAQ Global Select Market under the trading symbol "FDUSZ."

On October 16, 2019, the Company closed the public offering of approximately $55,000 in aggregate principal amount of its 5.375% notes due 2024, or the "November 2024 Notes" (and collectively with the 2023 Notes and February 2024 Notes, the "Public Notes"). On October 23, 2019, the underwriters exercised their option to purchase an additional $8,250 in aggregate principal of the November 2024 Notes. The total net proceeds to the Company from the November 2024 Notes, including the exercise of the underwriters' option, after deducting underwriting discounts of approximately $1,898 and estimated offering expenses of $300, were approximately $61,053.

The November 2024 Notes will mature on November 1, 2024 and bear interest at a rate of 5.375%. The November 2024 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after November 1, 2021. Interest on the November 2024 Notes is payable quarterly on February 1, May 1, August 1 and November 1 of each year, beginning February 1, 2020. The November 2024 Notes are listed on the NASDAQ Global Select Market under the trading symbol "FDUSG."

On December 23, 2020, the Company closed the offering of approximately $125,000 in aggregate principal amount of its 4.75% notes due 2026, or the "2026 Notes" (collectively with the Public Notes, the "Notes"). The total net proceeds to the Company from the 2026 Notes after deducting underwriting discounts of approximately $2,500 and estimated offering expenses of $400, were approximately $122,100.

The 2026 Notes will mature on January 31, 2026 and bear interest at a rate of 4.75%. The 2026 Notes may be redeemed in whole or in part at any time or from time to time at our option subject to a make whole provision if redeemed more than three months prior to maturity. Interest on the 2026 Notes is payable on January 31 and July 31 of each year, beginning July 31, 2021. The Company does not intent to list the 2026 Notes on any securities exchange or automated dealer quotation system.

The Notes are unsecured obligations of the Company and rank pari passu with the Company's future unsecured indebtedness; effectively subordinated to all of the Company's existing and future secured indebtedness; and structurally subordinated to all existing and future indebtedness and other obligations of any of its subsidiaries, financing vehicles, or similar facilities the Company may form in the future, with respect to claims on the assets of any such subsidiaries, financing vehicles, or similar facilities.

As of December 31, 2020, the aggregate amount outstanding of the senior securities issued by the Company was $307,250, for which our asset coverage was 233.7%. The SBA-guaranteed debentures are not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC effective March 27, 2012. The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by total senior securities representing indebtedness.

Interest and Financing Expenses

Interest and fees related to the Company's debt for the years ended December 31, 2020, 2019 and 2018 which are included in interest and financing expenses on the consolidated statements of operations, were as follows:

	Year Ended December 31, 2020				Year Ended December 31, 2019				Year Ended December 31, 2018			
	SBA debentures	**Credit Facility**	**Notes**	**Total**	**SBA debentures**	**Credit Facility**	**Notes**	**Total**	**SBA debentures**	**Credit Facility**	**Notes**	**Total**
Stated interest expense	$ 5,140	$ 1,642	$ 10,625	$ 17,407	$ 5,746	$ 2,144	$ 7,330	$ 15,220	$ 7,460	$ 1,145	$ 2,684	$ 11,289
Amortization of deferred financing costs	549	397	1,325	2,271	601	334	917	1,852	732	289	349	1,370
Total interest and financing expenses	$ 5,689	$ 2,039	$ 11,950	$ 19,678	$ 6,347	$ 2,478	$ 8,247	$ 17,072	$ 8,192	$ 1,434	$ 3,033	$ 12,659
Weighted average stated interest rate, period end	3.297%	N/A(1)	5.342%	4.680%	3.392%	4.788%	5.749%	4.665%	3.344%	6.000%	5.875%	4.149%
Unused commitment fee rate, period end	N/A	1.375%(1)	N/A	1.375%	N/A	0.833%	N/A	0.833%	N/A	0.500%	N/A	0.500%

(1) Reflects the effective rate as of December 31, 2020

Realized Losses on Extinguishment of Debt

During the years ended December 31, 2020 and 2019, the Company prepaid $16,500 and $41,000 of SBA debentures, respectively, which were scheduled to mature on dates ranging from 2024 to 2028 and 2021 to 2025, respectively. As a result of the prepayments, the Company recognized realized losses on extinguishment of debt of $299 and $399, respectively, equal to the write-off of the related unamortized deferred financing costs, during the years ended December 31, 2020 and 2019.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

Deferred Financing Costs

Deferred financing costs are amortized into interest and financing expenses on the consolidated statements of operations using the effective interest method, over the term of the respective financing instrument. Deferred financing costs related to the SBA debentures, Credit Facility, and Notes as of December 31, 2020 and 2019 were as follows:

	December 31, 20203				December 31, 2019			
	SBA debentures	Credit Facility	Notes	Total	SBA debentures	Credit Facility	Notes	Total
SBA debenture commitment fees	$ 1,750	$ —	$ —	$ 1,750	$ 1,750	$ —	$ —	$ 1,750
SBA debenture leverage fees	3,966	—	—	3,966	3,820	—	—	3,820
Credit Facility upfront fees	—	3,238	—	3,238	—	2,894	—	2,894
Public Notes underwriting discounts	—	—	7,968	7,968	—	—	5,468	5,468
Public Notes debt issue costs	—	—	1,579	1,579	—	—	1,147	1,147
Total deferred financing costs	5,716	3,238	9,547	18,501	5,570	2,894	6,615	15,079
Less: accumulated amortization	(2,720)	(2,190)	(2,591)	(7,501)	(1,872)	(1,793)	(1,266)	(4,931)
Unamortized deferred financing costs	$ 2,996	$ 1,048	$ 6,956	$11,000	$ 3,698	$ 1,101	$ 5,349	$10,148

Unamortized deferred financing costs are presented as a direct offset to the SBA debentures, Credit Facility, and Notes liabilities on the consolidated statements of assets and liabilities. The following table summarizes the outstanding debt net of unamortized deferred financing costs as of December 31, 2020 and 2019:

	December 31, 2020				December 31, 2019			
	SBA debentures	Credit Facility	Notes	Total	SBA debentures	Credit Facility	Notes	Total
Outstanding debt	$147,000	$ —	$307,250	$454,250	$157,500	$25,000	$182,250	$364,750
Less: unamortized deferred financing costs	(2,996)	(1,048)	(6,956)	(11,000)	(3,698)	(1,101)	(5,349)	(10,148)
Debt, net of deferred financing costs	$144,004	$(1,048)	$300,294	$443,250	$153,802	$23,899	$176,901	$354,602

As of December 31, 2020, the Company's debt liabilities are scheduled to mature as follows (1):

Year	SBA debentures	Credit Facility(2)	Notes	Total
2021	$ —	$ —	$ —	$ —
2022	—	—	—	—
2023	—	—	50,000	50,000
2024	—	—	132,250	132,250
2025	39,200	—	—	39,200
Thereafter	107,800	—	125,000	232,800
Total	$147,000	$ —	$307,250	$454,250

(1) The table above presents scheduled maturities of the Company's outstanding debt liabilities as of a point in time pursuant to the terms of those instruments. The timing of actual repayments of outstanding debt liabilities may not ultimately correspond with the scheduled maturity dates depending on the terms of the underlying instruments and the potential for earlier prepayments.

(2) The Company's Credit Facility matures on April 24, 2023. As of December 31, 2020, there were no outstanding borrowings under the Credit Facility.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

Information about our senior securities is shown in the following table for the years indicated in the table, unless otherwise noted.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities (1) *(dollars in thousands)*	Asset Coverage per Unit (2)(5)	Involuntary Liquidation Preference per Unit (3)	Average Market Value per Unit (4)
SBA debentures				
2011	$ 104,000	$ 2,351	$ *	$ N/A
2012	144,500	**	*	N/A
2013	144,500	**	*	N/A
2014	173,500	**	*	N/A
2015	213,500	**	*	N/A
2016	224,000	**	*	N/A
2017	231,300	**	*	N/A
2018	191,000	**	*	N/A
2019	157,500	**	*	N/A
2020	147,000	**	*	N/A
Credit Facility				
2011	$ —	$ N/A	*	$ N/A
2012	—	N/A	*	N/A
2013	—	N/A	*	N/A
2014	10,000	25,326	*	N/A
2015	15,500	16,959	*	N/A
2016	—	N/A	*	N/A
2017	11,500	35,198	*	N/A
2018	36,500	5,659	*	N/A
2019	25,000	2,989	*	N/A
2020	—	2,337	*	N/A
2023 Notes				
2018	$ 50,000	$ 5,659	*	$ 25.74
2019	50,000	2,989	*	25.81
2020	50,000	2,337	*	24.12
February 2024 Notes				
2019	$ 69,000	$ 2,989	*	$ 25.97
2020	69,000	2,337	*	24.60
November 2024 Notes				
2019	$ 63,250	$ 2,989	*	$ 25.75
2020	63,250	2,337	*	23.20
2026 Notes				
2020	$ 125,000	$ 2,337	*	$ N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.
(2) Asset coverage per unit is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per $1,000 of indebtedness.
(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The “*” indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.
(4) Not applicable to SBA debentures, Credit Facility, and 2026 Notes because these senior securities are not registered for public trading. The average market value per unit for the Public Notes is based on the average of the closing market price as of each quarter end during the fiscal year and the prior year end, as applicable, and is expressed per $1,000 of indebtedness. The Public Notes were issued in $25 increments.
(5) We have excluded our SBA-guaranteed debentures from the asset coverage calculation (**) as of December 31, 2012 pursuant to the exemptive relief granted by the SEC in March 2012 that permits us to exclude such debentures from the definition of senior securities in the 200% asset coverage ratio (or 150% if we satisfy certain requirements) we are required to maintain under the 1940 Act.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

Note 7. Commitments and Contingencies

Commitments: The Company had outstanding commitments to portfolio companies to fund various undrawn revolving loans, other debt investments and capital commitments totaling $5,645 and $4,757 as of December 31, 2020 and 2019, respectively. Such outstanding commitments are summarized in the following table:

	December 31, 2020		December 31, 2019	
Portfolio Company - Investment	**Total Commitment**	**Unfunded Commitment**	**Total Commitment**	**Unfunded Commitment**
Combined Systems, Inc. - Revolving Loan	$ 4,000	$ 1,050	$ —	$ —
Elements Brands, LLC - Revolving Loan	3,000	838	—	—
FDS Avionics Corp. (dba Flight Display Systems) - Revolving Loan	250	30	250	30
French Transit, LLC- Revolving Loan	—	—	1,000	1,000
Rhino Assembly Company, LLC - Delayed Draw Commitment	875	875	875	875
Safety Products Group, LLC - Common Equity (Units)	2,852 (1)	2,852 (1)	2,852 (1)	2,852 (1)
Total	$ 10,977	$ 5,645	$ 4,977	$ 4,757

(1) Portfolio company was no longer held at period end. The commitment represents the Company's maximum potential liability related to certain guaranteed obligations stemming from the prior sale of the portfolio company's underlying operations.

Additional detail for each of the commitments above is provided in the Company's consolidated schedules of investments.

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. In addition, in connection with the disposition of an investment in a portfolio company, the Company may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. The Company may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. 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 any such legal proceedings cannot be predicted with certainty, the Company does not believe any such legal proceedings will have a material adverse effect on the Company's consolidated financial statements.

Note 8. Common Stock

Public Offerings of Common Stock

The following table summarizes the cumulative total shares issued, net proceeds received, and weighted average offering price in public offerings of the Company's common stock since the IPO.

Period	**Cumulative Number of Shares**	**Cumulative Gross Proceeds**	**Cumulative Underwriting Fees and Commissions and Offering Costs (1)**	**Weighted Average Offering Price**
Cumulative since IPO	14,388,414	$ 236,597	$ 8,989	$ 16.44

(1) Fidus Investment Advisors, LLC agreed to bear a cumulative of $1,925 of underwriting fees and commissions and offering costs associated with these offerings (such amounts are not included in the number reported above). All such payments made by Fidus Investment Advisors, LLC are not subject to reimbursement by the Company.

No shares have been issued for the last three years ended December 31, 2020, 2019, and 2018.

Common Stock ATM Program

On August 21, 2014, the Company entered into an equity distribution agreement with Raymond James & Associates, Inc. and Robert W. Baird & Co. Incorporated through which the Company could sell, by means of at-the-market offerings from time to time, shares of the Company's common stock having an aggregate offering price of up to $50,000 (the "ATM Program"). There were no issuances of common stock under the ATM program during years ended December 31, 2020, 2019, and 2018.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

Stock Repurchase Program

As described in Note 2, the Company has a Stock Repurchase Program under which the Company may acquire up to $5,000 of its outstanding common stock. During the years ended December 31, 2020 and 2018, the Company repurchased 25,719 and 44,821 shares of common stock, respectively, on the open market for $268 and $582, respectively. The Company did not make any repurchases of common stock during the year ended December 31, 2019. The Company's NAV per share increased by approximately $0.01 and $0.01 for the years ended December 31, 2020 and 2018, respectively, as a result of the share repurchases. The following table summarizes the Company's share repurchases under the Stock Repurchase Program for the years ended December 31, 2020, 2019 and 2018:

Repurchases of Common Stock	Years Ended December 31, 2020	2019	2018
Number of shares repurchased	25,719	—	44,821
Cost of shares repurchased, including commissions	$ 268	$ —	$ 582
Weighted average price per share	$ 10.37	$ —	$ 12.94
Weighted average discount to net asset value at quarter end prior to repurchases	38.5%	N/A	19.4%

Refer to Note 9 for additional information regarding the issuance of shares under the DRIP.

The Company had 24,437,400 and 24,463,119 shares of common stock outstanding as of December 31, 2020 and 2019, respectively.

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 last three fiscal years.

Date Declared	Record Date	Payment Date	Amount Per Share	Total Distribution	Cash Distribution	DRIP Shares Value	DRIP Shares	DRIP Share Issue Price
Year Ended December 31, 2018:								
2/13/2018	3/9/2018	3/23/2018	$ 0.39	$ 9,558	$ 9,558	$ — (3)	— (3)	—
4/30/2018	6/8/2018	6/22/2018	0.39	9,541	9,541	— (3)	— (3)	—
7/30/2018	9/7/2018	9/21/2018	0.39	9,540	9,540	— (3)	— (3)	—
10/30/2018	12/7/2018	12/21/2018	0.39	9,541	9,541	— (3)	— (3)	—
10/30/2018 (1)	12/7/2018	12/21/2018	0.04	978	978	— (3)	— (3)	—
			$ 1.60	$ 39,158	$ 39,158	$ —	—	
Year Ended December 31, 2019:								
1/31/2019	3/8/2019	3/22/2019	$ 0.39	$ 9,541	$ 9,541	$ — (3)	— (3)	—
4/29/2019	6/7/2019	6/21/2019	0.39	9,540	9,540	— (3)	— (3)	—
7/29/2019	9/6/2019	9/20/2019	0.39	9,541	9,541	— (3)	— (3)	—
10/29/2019	12/6/2019	12/20/2019	0.39	9,541	9,541	— (3)	— (3)	—
10/29/2019 (1)	12/6/2019	12/20/2019	0.04	978	978	— (3)	— (3)	—
			$ 1.60	$ 39,141	$ 39,141	$ —	—	
Year Ended December 31, 2020:								
2/14/2020	3/13/2020	3/27/2020	$ 0.39	$ 9,537	$ 9,537	$ — (3)	— (3)	—
4/29/2020	6/12/2020	6/26/2020	0.30	7,331	7,331	— (3)	— (3)	—
8/03/2020	9/11/2020	9/25/2020	0.30	7,331	7,331	— (3)	— (3)	—
10/26/2020	12/4/2020	12/18/2020	0.30	7,331	7,331	— (3)	— (3)	—
10/26/2020 (2)	12/4/2020	12/18/2020	0.04	978	978	— (3)	— (3)	—
			$ 1.33	$ 32,508	$ 32,508	$ —	—	

(1) Special dividend.
(2) Supplemental dividend
(3) During the the years ended December 31, 2020, 2019 and 2018, the Company directed the DRIP program plan administrator to repurchase shares on the open market in order to satisfy the DRIP obligation to deliver shares of common stock in lieu of issuing new shares. Accordingly, the Company purchased and reissued shares to satisfy the DRIP obligation as follows:

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

Fiscal Year Ended December 31, 2018:	Number of Shares Purchased and Reissued	Average Price Paid Per Share	Total Amount Paid
January 1, 2018 through March 31, 2018	16,503	$ 12.97	$ 214
April 1, 2018 through June 30, 2018	16,216	14.48	235
July 1, 2018 through September 30, 2018	16,207	14.83	240
October 1, 2018 through December 31, 2018	29,152	11.85	346
Total	78,078	$ 13.25	$ 1,035

Fiscal Year Ended December 31, 2019:	Number of Shares Purchased and Reissued	Average Price Paid Per Share	Total Amount Paid
January 1, 2019 through March 31, 2019	21,855	$ 15.25	$ 333
April 1, 2019 through June 30, 2019	14,067	16.23	228
July 1, 2019 through September 30, 2019	15,289	15.35	235
October 1, 2019 through December 31, 2019	17,525	15.27	268
Total	68,736	$ 15.48	$ 1,064

Fiscal Year Ended December 31, 2020:	Number of Shares Purchased and Reissued	Average Price Paid Per Share	Total Amount Paid
January 1, 2020 through March 31, 2020	31,586	$ 7.58	$ 239
April 1, 2020 through June 30, 2020	21,904	9.04	198
July 1, 2020 through September 30, 2020	28,871	10.18	294
October 1, 2020 through December 31, 2020	20,222	12.91	261
Total	102,583	$ 9.67	$ 992

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

Note 10. Financial Highlights

The following is a schedule of financial highlights for the years ended December 31, 2020, 2019, 2018, 2017 and 2016:

	Years Ended December 31, 2020	2019	2018	2017	2016
Per share data:					
Net asset value at beginning of period	$ 16.85	$ 16.47	$ 16.05	$ 15.76	$ 15.17
Net investment income (1)	1.62	1.31	1.43	1.44	1.45
Net realized gain (loss) on investments, net of tax (provision) (1)	(0.06)	(0.05)	(0.45)	0.67	(0.77)
Net unrealized appreciation (depreciation) on investments (1)	(0.27)	0.74	1.05	(0.23)	1.59
Realized losses on extinguishment of debt (1)	(0.01)	(0.02)	(0.01)	(0.01)	—
Total increase from investment operations (1)	1.28	1.98	2.02	1.87	2.27
Accretive (dilutive) effect of share issuances and repurchases	0.01	—	0.01	0.02	(0.05)
Dividends to stockholders	(1.33)	(1.60)	(1.60)	(1.60)	(1.60)
Other (2)	—	—	(0.01)	—	(0.03)
Net asset value at end of period	$ 16.81	$ 16.85	$ 16.47	$ 16.05	$ 15.76
Market value at end of period	$ 13.10	$ 14.84	$ 11.69	$ 15.18	$ 15.73
Shares outstanding at end of period	24,437,400	24,463,119	24,463,119	24,507,940	22,446,076
Weighted average shares outstanding during the period	24,442,431	24,463,119	24,471,730	23,527,188	18,283,715
Net assets at end of period	$ 410,760	$ 412,310	$ 402,985	$ 393,273	$ 353,785
Average net assets (6)	$ 392,866	$ 404,284	$ 398,440	$ 376,292	$ 289,453
Ratios to average net assets:					
Total expenses (4)(10)	11.4%	11.0%	10.2%	9.2%	11.5%
Net investment income (5)	10.1%	7.9%	8.8%	9.0%	9.2%
Total return based on market value (3)	1.0%	37.6%	(15.8%)	3.2%	23.8%
Total return based on net asset value (8)	7.6%	12.0%	12.6%	11.9%	15.0%
Portfolio turnover ratio (3)	25.8%	17.2%	29.5%	29.5%	29.3%
Supplemental Data:					
Average debt outstanding (7)	$ 385,350	$ 319,050	$ 271,560	$ 219,920	$ 221,200
Average debt per share (1)	$ 15.77	$ 13.04	$ 11.10	$ 9.35	$ 12.10

(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 the shares outstanding as of a period end or transaction date, or other rounding.
(3) Total return based on market value for the years ended December 31, 2020, 2019, 2018, 2017 and 2016 equals the change in the market value of the Company's common stock per share during the period divided by the market value per share at the beginning of the period, and assumes reinvestment of dividends at prices obtained by our dividend reinvestment plan during the period. The return does not reflect any sales load that may be paid by an investor.
(4) The total expenses to average net assets ratio is calculated using the total expenses, net of income incentive fee waiver caption as presented on the consolidated statements of operations, which includes incentive fee and excludes the income tax provision.
(5) The net investment income to average net assets ratio is calculated using the net investment income caption as presented on the consolidated statements of operations, which includes incentive fee.
(6) Average net assets is calculated as the average of the net asset balances as of each quarter end during the fiscal year and the prior year end.
(7) Average debt outstanding is calculated as the average of the outstanding debt balances as of each quarter end during the fiscal year and the prior year end.
(8) Total return based on net asset value per share equals the change in net asset value per share during the period, plus dividends paid per share during the period, less other non-operating changes during the period, and divided by beginning net asset value per share for the period. Non-operating changes include any items that affect net asset value per share other than increase from investment operations, such as the effects of share issuances and repurchases and other miscellaneous items.
(9) The ratio of waived incentive fees to average net assets was (0.11%) and zero for the years ended December 31, 2020 and 2019 through 2016, respectively.
(10) The following is a schedule of supplemental expense ratios to average net assets:

Ratio to average net assets:	Years Ended December 31, 2020	2019	2018	2017	2016
Expenses other than incentive fee (4)	9.7%	8.3%	7.1%	6.3%	7.9%
Incentive fee, net of incentive fee waiver (4)(9)	1.7%	2.7%	3.1%	2.9%	3.6%
Total expenses (4)	11.4%	11.0%	10.2%	9.2%	11.5%

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

Note 11. Selected Quarterly Financial Data (unaudited)

	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Total investment income	$ 19,983	$20,433	$ 21,077	$ 23,630
Net investment income	17,417	9,291	6,902	6,038
Net increase in net assets from operations	(26,971)	7,973	20,707	29,517
Net investment income per share	$ 0.71	$ 0.38	$ 0.28	$ 0.25
Net increase in net assets from operations per share	$ (1.10)	$ 0.33	$ 0.85	$ 1.20
Net asset value per share at end of period	$ 15.37	$ 15.39	$ 15.94	$ 16.81

	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Total investment income	$ 20,330	$18,068	$ 19,201	$ 19,507
Net investment income	9,599	9,643	7,362	5,365
Net increase in net assets from operations	11,372	3,202	13,895	19,997
Net investment income per share	$ 0.39	$ 0.39	$ 0.31	$ 0.22
Net increase in net assets from operations per share	$ 0.46	$ 0.13	$ 0.57	$ 0.82
Net asset value per share at end of period	$ 16.55	$ 16.29	$ 16.47	$ 16.85

Note 12. Income Taxes

The Company has elected to be treated for federal income tax purposes as a RIC, whereby the Company generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that the Company distributes to its stockholders as dividends. The Company must generally distribute at least 90% of its investment company taxable income to maintain its RIC status. As part of maintaining RIC status, undistributed taxable income pertaining to a given fiscal year may be distributed up to 12 months subsequent to the end of that fiscal year, provided such dividends are declared prior to the later of the due date for filing of the federal income tax return (including extensions) for the prior year or the 15th day of the 10th month following the prior tax year. Such taxable income carried forward to the next tax year will be subject to excise tax equal to 4% of the amount by which (i) 98% of the Company's ordinary income recognized during a calendar year and (ii) 98.2% of the Company's long term capital gains, as defined by Subchapter M of the Code, recognized for the one year period ending October 31st of a calendar year exceeds the respective distributions for the year. Excise tax is included as a component of income tax provision and income tax (provision) on realized gains on investments, depending on the character of the underlying taxable income (ordinary or capital gains), on the consolidated statements of operations.

The Taxable Subsidiaries hold certain portfolio investments for the Company. The Taxable Subsidiaries are consolidated for financial reporting purposes, and the portfolio investments held by the Taxable Subsidiaries are included in the Company's consolidated financial statements. The principal purpose of the Taxable Subsidiaries is to permit the Company to hold equity investments in portfolio companies which are "pass through" entities for federal income tax purposes in order to comply with the "source-of-income" requirements contained in the RIC tax provisions of Subchapter M of the Code. The Taxable Subsidiaries are not consolidated with the Company for U.S. federal corporate income tax purposes, and each Taxable Subsidiary is subject to U.S. federal corporate income tax on its taxable income. The Taxable Subsidiaries are taxed as corporations and do not intend to qualify as a RIC pursuant to Subchapter M of the Code. As corporations, the Taxable Subsidiaries are obligated to pay federal, state and local income tax on taxable income, as applicable. Income earned and gains realized on the investment or investments held by the Taxable Subsidiary are taxable to such subsidiary. A tax provision for ordinary income, if any, is shown as income tax provision in the Consolidated Statements of Operations of the Company. A tax provision for realized and unrealized gains on investments is included as a reduction of realized and unrealized gains (losses) on investments in the Consolidated Statements of Operations of the Company. For the years ended December 31, 2020, 2019 and 2018, the Taxable Subsidiaries were subject to a 21% federal income tax rate. The Company classifies interest and penalties, if any, as a component of income tax provision on the consolidated statements of operations. Income tax expense at the Taxable Subsidiaries is included as a component of the income tax provisions, depending on the character of the underlying taxable income (ordinary or capital gains), on the consolidated statements of operations. For the years ended December 31, 2020, 2019 and 2018, income tax expense at the Taxable Subsidiaries was $628, $233, and $1,103, respectively.

The Company and the Taxable Subsidiaries are also subject to various state and local income taxes.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

The following table is a reconciliation of net increase in net assets resulting from operations on the consolidated statements of operations to taxable income and to total distributions declared to common stockholders for the years ended December 31, 2020, 2019 and 2018.

	2020 (1)	2019	2018
Net increase in net assets resulting from operations	$ 31,226	$ 48,466	$ 49,452
Net change in unrealized (appreciation) depreciation on investments	6,578	(18,188)	(25,718)
Permanent book income and tax income differences	1,810	1,133	2,257
Temporary book income and tax income differences	(5,219)	6,439	(1,820)
Capital loss carry forward (utilization)	4,496	1,089	15,347
Taxable income	38,891	38,939	39,518
Taxable income earned in prior year and carried forward for distribution in current year	15,432	15,634	14,005
Taxable Subsidiaries liquidating distributions	231	—	1,269
Taxable income earned in current period and carried forward for distribution in following year	(22,046)	(15,432)	(15,634)
Total distributions to common stockholders	$ 32,508	$ 39,141	$ 39,158

(1) The Company's taxable income for 2020 is an estimate and will not be finalized until the Company files its 2020 federal income tax returns in 2021. Therefore, the Company's actual taxable income, and the Company's actual taxable income that was earned in 2020 and carried forward for distribution in 2021, may be different than this estimate.

For tax purposes, distributions paid to stockholders are reported as ordinary income, long term capital gains and return of capital, or a combination thereof. The tax character of distributions paid for the years ended December 31, 2020, 2019 and 2018 was as follows:

	2020	2019	2018
Ordinary income	$32,508	$39,141	$39,158
Long term capital gains	—	—	—
Return of capital	—	—	—
Total distributions to common stockholders	$32,508	$39,141	$39,158

The Company estimates that it generated undistributed ordinary taxable income of approximately $22,046, or a total of $0.90 per share, during 2020 that will be carried forward and distributed in 2021. Ordinary dividend distributions from a RIC do not qualify for the preferential federal income tax rate on dividend income from certain 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 Company may distribute a portion of its realized net long term capital gains in excess of realized net short term capital losses to its stockholders, but may also decide to retain a portion, or all, of its net capital gains and elect to make a "deemed distribution" to its stockholders. For the years ended December 31, 2020, 2019 and 2018, the Company did not elect to designate retained net capital gains as a deemed distribution.

As of December 31, 2020 and 2019, the tax basis components of distributable earnings were as follows:

	December 31, 2020 (1)	December 31, 2019
Undistributed ordinary income	$ 22,046	$ 15,432
Undistributed long term capital gains	—	—
Unrealized appreciation (depreciation) (2)	55,842	62,420
Temporary book/tax differences	(4,768)	(9,988)
Capital loss carry forward	(26,135)	(21,639)
Total distributable earnings	$ 46,985	$ 46,225

(1) The Company's distributable earnings for 2020 is an estimate and will not be finally determined until the Company files its 2020 federal income tax returns in 2021. Therefore, the Company's actual distributable earnings may be different than this estimate.

For federal income tax purposes, the cost of investments owned at December 31, 2020 and 2019 was approximately $685,825 and $700,264, respectively.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

	December 31, 2020 (1)	December 31, 2019
Tax-basis amortized cost of investments	$ 685,825	$ 700,264
Tax-basis gross unrealized appreciation on investments	74,929	83,301
Tax-basis gross unrealized depreciation on investments	(17,885)	(16,646)
Tax-basis net unrealized appreciation on investments	57,044	66,655
Fair value of investments	$ 742,869	$ 766,919

(1) The Company's tax-basis amortized cost of investments for 2020 is an estimate and will not be finally determined until 2021 when the Company receives the relevant tax forms from portfolio companies with equity investments. Therefore, the Company's actual tax-basis amortized cost of investments may be different than this estimate.

Distributions from net investment income and net realized capital gains are determined in accordance with U.S. federal tax regulations, which may differ from amounts determined in accordance with GAAP and those differences could be material. These permanent book-to-tax differences are reclassified on the consolidated statements of changes in net assets to reflect their tax character but have no impact on total net assets. The following permanent book-to-tax differences were reclassified on the consolidated statements of changes in net assets for the years ended December 31, 2020, 2019 and 2018.

	2020 (1)	2019	2018
Additional paid-in capital (2)	$(2,042)	$(627)	$(3,526)
Total distributable earnings	2,042	627	3,526

(1) The Company's permanent book-to-tax reclassifications for 2020 are an estimate and will not be finalized until the Company files its 2020 federal income tax returns in 2021. Therefore, the Company's actual permanent book-to-tax reclassifications may be different than this estimate. The Company adjusts such reclassifications in the following years when finalized, and such adjustments are reflected in the consolidated statements of changes in net assets and the consolidated statements of assets and liabilities.

(2) Includes the reversal of unrealized (appreciation) depreciation that was recognized prior to the IPO of zero, $504, and zero for the years ended December 31, 2020, 2019 and 2018, respectively.

Note 13. Subsequent Events

On January 11, 2021, we exited our debt investment in Bandon Fitness (Texas), Inc. We received payment in full of $15,592 on our first lien debt, which includes a prepayment fee.

On January 14, 2021, we exited our debt investment in Alzheimer's Research and Treatment Center, LLC. We received payment in full of $6,585 on our first lien debt, which includes a prepayment fee.

On January 19, 2021, we redeemed $50,000 of the aggregate principal amount on the 2023 Notes, resulting in a realized loss on extinguishment of debt of approximately $794.

On January 22, 2021, we invested $11,000 in first lien debt and $516 in common equity of GP&C Operations, LLC (dba Garlock Printing and Converting), a converter of plastic film into flexible packaging solutions.

On January 26, 2021, we exited our debt investment in Ohio Medical, LLC. We received payment in full of $10,000 on our second lien debt. We subsequently invested $5,000 in a new second lien debt investment in Ohio Medical, LLC.

On February 9, 2021, the Board declared a regular quarterly dividend of $0.31 per share and a supplemental dividend of $0.07 per share payable March 26, 2021 to stockholders of record as of March 12, 2021.

On February 10, 2021, we invested $6,500 in first lien debt and made a commitment up to $2,000 of additional first lien debt of Wonderware Holdings, LLC (dba CORE Business Technologies), a provider of revenue management and payments solutions for government, healthcare and education.

On February 11, 2021, we invested $8,900 in first lien debt and made a commitment up to $400 of additional first lien debt of Xeeva, Inc., a global provider of intelligent, cloud-based indirect spend management software solutions.

On February 12, 2021, we exited our debt and equity investments in FDS Avionics Corp. (dba Flight Display Systems). Flight Display Systems was acquired and combined with Calculex Inc. and Argon Corporation under a new holding company, Spectra A&D Holdings ("Spectra"). We received payment in full of $5,122 on our second lien and revolving debt. We sold our preferred and a portion of our common equity investments for a realized gain of approximately $958. In conjunction with the transaction, we invested $8,000 in first lien debt and $4,129 in preferred equity, of which $1,997 was rolled over from our original common equity investment in Flight Display Systems.

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

On February 16, 2021, we redeemed $50,000 of the $69,000 aggregate principal amount on the February 2024 Notes, resulting in a realized loss on extinguishment of debt of approximately $1,081.

On February 19, 2021, we exited our debt investment in Wheel Pros, Inc. We received payment in full of $20,400 on our second lien debt, which includes a prepayment fee.

Subsequent to December 31, 2020, the global outbreak of the COVID-19 pandemic has adversely affected some of the Company’s investments and continues to have adverse consequences on the U.S. and global economies. The ultimate economic fallout from the pandemic, and the long-term impact on economies, markets, industries and individual portfolio companies, remains uncertain. At the time of this filing, there is no indication of a reportable subsequent event impacting the Company’s financial statements for the year ended December 31, 2020. The Company cannot predict the extent to which its financial condition and results of operations will be adversely affected at this time. The potential impact to our results will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of COVID-19. The Company continues to observe and respond to the evolving COVID-19 environment and its potential impact on areas across its business.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure 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 Exchange 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.

Management's Annual Report on Internal Control over Financial Reporting and Attestation Report of the Registered Public Accounting Firm

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management (with the participation of our Chief Executive Officer and Chief Financial Officer) conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2020.*

Attestation Report of the Registered Public Accounting Firm

Our internal control over financial reporting as of December 31, 2020 has been audited by RSM US LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8 of Part II of this Annual Report under the heading Report of Independent Registered Public Accounting Firm.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

DIRECTORS

Our board of directors has five members and is divided into three classes. Each class has a three-year term. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualified. Vacancies on the board of directors may be filled by persons elected by a majority of the remaining directors. A director elected by the board of directors to fill a vacancy in a class, including any vacancies created by an increase in the number of directors, shall serve for the remainder of the full term of that class or until the director's successor is duly elected and qualified.

Certain of our directors who are also officers of the Company may serve as directors of, or on the boards of managers of, certain of our portfolio companies. In addition, the board of directors of Fidus Mezzanine Capital, L.P., or Fund I, a wholly-owned consolidated subsidiary that has elected to be treated as a BDC under the 1940 Act, is composed of all of the Company's directors.

The business address of each director listed below is 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201.

Certain information as of February 23, 2021 with respect to the directors is set forth below.

Interested Directors

Name	Age	Background Information
Edward H. Ross	55	Mr. Ross has served as chairman of our board of directors and our chief executive officer, and as chairman of our investment advisor's investment committees, since our initial public offering in June 2011. Additionally, Mr. Ross is the chief executive officer and a manager of our investment advisor. Mr. Ross is an interested director due to his positions with the Company and our investment advisor. Mr. Ross has more than 30 years of debt and equity capital investing experience with lower middle-market companies. Mr. Ross co-founded Fidus Capital, LLC, the predecessor firm to our investment advisor, in 2005. From February 2007 to June 2011, Mr. Ross served as a member of the investment committee of Fidus Mezzanine Capital GP, LLC, Fund I's former general partner. From 2002 to 2005, Mr. Ross was a managing director and the head of the Chicago office for Allied Capital Corporation, a publicly-traded business development company, where he focused on making debt and equity investments in middle-market companies. Prior to joining Allied Capital Corporation, Mr. Ross co-founded Middle Market Capital, a merchant banking group of Wachovia Securities and its predecessor, First Union Securities, Inc., a retail brokerage and institutional capital markets and investment banking firm. Mr. Ross earned a bachelor of arts from Southern Methodist University and a master of business administration from the University of Notre Dame's Mendoza College of Business. Mr. Ross is the brother of John J. Ross, II, a manager of our investment advisor and a member of its investment committee.

Name	Age	Background Information
Thomas C. Lauer	53	Mr. Lauer has served as our director and as a member of our investment advisor's investment committees since our initial public offering in June 2011 and as our President since September 2016. Additionally, Mr. Lauer is a manager of our investment advisor. Mr. Lauer is an interested director due to his position with the investment advisor. Mr. Lauer has more than 25 years of experience investing debt and equity capital in lower middle-market companies. Mr. Lauer was a managing partner of Fidus Partners, LLC, an investment banking firm, from 2008 to June 2011. From 2004 to 2008, Mr. Lauer was a managing director of Allied Capital Corporation, a publicly-traded business development company, and member of that firm's Management Committee from 2006 to 2008, Private Finance Investment Committee from 2005 to 2008,and Senior Debt Fund Investment Committee from 2007 to 2008. Prior to joining Allied Capital Corporation, Mr. Lauer worked with the Global Sponsor Finance Group of GE Capital, the financial services unit of General Electric, the Leveraged Capital Group at Wachovia Securities and its predecessor, First Union Securities, Inc., a retail brokerage and institutional capital markets and investment banking firm, and the Platform Components Division of Intel Corporation. Mr. Lauer earned a bachelor of business administration from the University of Notre Dame and master of business administration from the University of Notre Dame's Mendoza College of Business.

Independent Directors

Name	Age	Background Information
Raymond L. Anstiss, Jr.	54	Mr. Anstiss has served on our board of directors since September 2011 and is the chairman of our audit committee and a member of our nominating committee. Mr. Anstiss is the President of Anstiss & Co., an accounting, audit, tax and financial consulting firm headquartered in Lowell, Massachusetts. Prior to joining Anstiss & Co. in 1993, Mr. Anstiss served on the audit staff of KPMG Peat Marwick from 1988 to 1992. Mr. Anstiss has served on the board of directors for several not-for-profit companies.

Name	Age	Background Information
Charles D. Hyman	62	Mr. Hyman has served on our board of directors since our initial public offering in June 2011 and is the chairman of our nominating committee and a member of our audit committee. Mr. Hyman is the founder and chief executive officer of Charles D. Hyman & Co., a private, registered investment management firm located in Ponte Vedra Beach, Florida. Prior to forming Charles D. Hyman & Co. in 1994, Mr. Hyman served as a senior vice president of St. Johns Investment Management Company. Mr. Hyman has served on the board of directors for several not-for-profit companies and currently serves on the board of Patriot Transportation Holding, Inc. (NASDAQ: PATI).

Name	Age	Background Information
Edward X. Tune	51	Mr. Tune has served on our board of directors since March 2019 and is a member of our audit committee and our nominating committee. Mr. Tune is a Partner of Brown Advisory, an investment management firm with offices in North America, Europe, and Asia. Prior to joining Brown Advisory, Mr. Tune was a Managing Director at Brown Brothers Harriman (BBH) where for 14 years he served in a variety of client-facing and leadership roles in Charlotte and Chicago including Chief Operating Officer and Chief Financial Officer for BBH's wealth management unit. Prior to that, Mr. Tune served as a Vice President and investment advisor with Stein Roe & Farnham in Chicago for 8 years. Mr. Tune brings to the board of directors extensive investment management experience.

INFORMATION ABOUT EXECUTIVE OFFICER WHO IS NOT A DIRECTOR

The following is a brief biography of our executive officer, Shelby E. Sherard, who is not a director of the Company.

Name	Age	Background Information
Shelby E. Sherard	50	Shelby E. Sherard has served as our chief financial officer and secretary since joining the Company on June 2, 2014 and chief compliance officer since August 11, 2014. Ms. Sherard has more than 25 years of finance experience most recently as a financial officer at Prologis, Inc., a leading owner, operator and developer of industrial real estate, first serving as Chief Financial Officer, Americas, and then overseeing the U.S. tax department. Previously, she served as the Finance Director for Chicago Union Station Development Company, LLC, a real estate development company. From 2005 through 2006, Ms. Sherard served as Executive Vice President and Chief Financial Officer of Grubb & Ellis Company, a publicly-traded real estate services company. From 2002 through 2005, Ms. Sherard was the Chief Financial Officer and Senior Vice President of SiteStuff, Inc., a procurement solutions provider for the commercial real estate industry. Ms. Sherard is a CPA and earned a bachelor's degree from Northwestern University, a master of business administration from the University of Pennsylvania's Wharton School and a master's degree in tax from the University of Illinois.

CORPORATE GOVERNANCE

Meetings of the Board Committees

The board of directors has established the audit committee and nominating and corporate governance committee ("nominating committee"). The Company does not have a separate compensation committee because its executive officers do not receive any direct compensation from the Company; however, the audit committee has been charged with carrying out the duties that would typically be addressed by a compensation committee. During 2020, the board of directors held ten meetings, the audit committee held nine meetings and the nominating committee held two meetings. The Company encourages, but does not require, the directors to attend the Company's annual meeting of its stockholders. During 2020, all of our current directors attended 100% of the aggregate number of meetings of the board of directors and of the respective committees on which they served. All of our directors attended the 2020 annual meeting.

Board Leadership Structure

The board of directors monitors and performs an oversight role with respect to the business and affairs of the Company. Among other things, the board of directors approves the appointment of our investment advisor, administrator and officers, reviews and monitors the services and activities performed by our investment advisor, administrator and officers, approves annually the renewal of any investment advisory agreement with our investment advisor and approves the engagement, and reviews the performance of, the Company's independent registered public accounting firm.

Under the bylaws, the board of directors may designate a chairman to preside over the meetings of the board of directors and meetings of the stockholders and to perform such other duties as may be assigned to him by the board of directors. The Company does not have a fixed policy as to whether the chairman of the board of directors should be an independent director and believes that its flexibility to select its chairman and reorganize its leadership structure from time to time is in the best interests of the Company and its stockholders.

Presently, Mr. Ross serves as the chairman of the board of directors. Mr. Ross is an interested director because he is the Chief Executive Officer of the Company, serves on our investment advisor's investment committee and is a manager of our investment advisor. The Company believes that Mr. Ross's history with the Company, familiarity with the Fidus investment platform and extensive experience in the management of private equity and debt investments qualifies him to serve as chairman of the board of directors. Moreover, our board of directors believes that it is in the best interests of our stockholders for Mr. Ross to lead our board of directors because of his broad experience with the day-to-day management and operation of other investment funds and his significant background in the financial services industry, as described above.

Our board of directors does not have a lead independent director. We are aware of the potential conflicts that may arise when a non-independent director is Chairman of the board of directors, but believe these potential conflicts are offset by our strong corporate governance practices. Our corporate governance practices include regular meetings of the independent directors in executive session without the presence of interested directors and management, the establishment of an audit and compensation committee and a nominating committee, each of which is comprised solely of independent directors, and the appointment of a Chief Compliance Officer, with whom the independent directors meet without the presence of interested directors and other members of management, for administering our compliance policies and procedures. Additionally, Mr. Anstiss, an independent director and the chairman of the audit committee, acts as a liaison between the independent directors and management between meetings of our board of directors and presides over regular executive sessions of the board of directors. Our board of directors believes that its leadership structure is appropriate in light of the Company's characteristics and circumstances because the structure allocates areas of responsibility among the individual directors and the committees in a manner that encourages effective oversight. Specifically, the board of directors believes that the relationship of Messrs. Ross and Lauer with our Adviser provides an effective bridge between the board of directors and management, and encourages an open dialogue between management and our board of directors, ensuring that these groups act with a common purpose. The members of our board of directors also believe that its small size creates a highly efficient governance structure that provides ample opportunity for direct communication and interaction between both the members of management and our investment advisor and our board of directors.

Board Role in Risk Oversight

The board of directors performs its risk oversight function primarily through (a) its two standing committees, which report to the entire board of directors and are comprised solely of independent directors and (b) monitoring by the Company's Chief Compliance Officer in accordance with its compliance policies and procedures.

As described below in more detail under "Audit and Compensation Committee" and "Nominating and Corporate Governance Committee," the audit committee and the nominating committee assist the board of directors in fulfilling its risk oversight responsibilities. The audit committee's risk oversight responsibilities include overseeing the Company's accounting and financial reporting processes, the Company's systems of internal controls regarding finance and accounting and audits of the Company's financial statements and discussing with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies. The nominating committee's risk oversight responsibilities include selecting, researching and nominating directors for election by the Company's stockholders, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the board of directors and its committees. Both the audit committee and the nominating committee consist solely of independent directors.

The board of directors is assisted in its risk oversight responsibilities by the Chief Compliance Officer. The Company's Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures of the Company and certain of its service providers. The Chief Compliance Officer's report, which is reviewed by the board of directors, addresses at a minimum (a) the operation of the compliance policies and procedures of the Company and certain of its service providers since the last report; (b) any material changes to such policies and procedures since the last report; (c) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer's annual review; and (d) any compliance matter that has occurred since the date of the last report about which the board of directors would reasonably need to know to oversee the Company's compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the independent directors periodically, but in no event less than once each year.

The Company believes that the board of directors' role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a BDC. Specifically, as a BDC, the Company must comply with certain regulatory requirements that control the levels of risk in its business and operations. For example, the Company's ability to incur indebtedness is limited such that its asset coverage must equal at least 150% immediately after each time it incurs indebtedness and the Company generally has to invest at least 70% of its total assets in "qualifying assets" as described in section 55 of the 1940 Act. In addition, the Company has elected to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended. As a RIC, the Company must, among other things, meet certain income source and asset diversification requirements.

The Company believes that the board of directors' existing role in risk oversight is appropriate. However, the Company reexamines the manner in which the board of directors administers its oversight function on an ongoing basis to ensure that it continues to meet the Company's needs.

Audit and Compensation Committee

The members of the audit committee are Messrs. Anstiss, Hyman and Tune, each of whom is not an interested person and is otherwise independent for purposes of the 1940 Act and Nasdaq's corporate governance regulations. Since September 2011, Mr. Anstiss has served as chairman of the audit committee. Our board of directors has adopted a charter for the audit committee, which is available on our website at *http://investor.fdus.com/governance.cfm*.

The audit committee is responsible for approving our independent accountants and recommending them to the board of directors (including a majority of the independent directors) for approval and submission to the board of directors for ratification, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls.

The audit committee is also responsible for aiding the board of directors in determining the fair value of debt and equity securities that are not publicly traded or for which current market values are not readily available. The audit committee also currently receives input from independent valuation firms that have been engaged at the direction of the board of directors to value certain portfolio investments. In addition, the audit committee is responsible for discussing with management our major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies.

The board of directors has determined that Mr. Anstiss is an “audit committee financial expert” within the meaning of the rules of the SEC. Mr. Anstiss acquired his financial expertise from his education and experience as a public accountant, his experience actively supervising financial officers of public companies and in his supervisory role at a public accounting firm and from his experience overseeing and assessing the performance of public accountants with respect to the preparation, auditing and evaluation of financial statements. Mr. Anstiss has consented to be named as an audit committee financial expert.

Because the audit committee is charged with approving our related-party transactions, the board of directors has determined not to create a separate compensation committee and instead has charged the audit committee with overseeing amounts payable to our advisor pursuant to the Advisory Agreement and the Administration Agreement, and making a recommendation to the board of directors with respect to the Board of Director’s approval (including the approval of a majority of the directors who are not “interested persons” of the Company within the meaning of Section 2(a)(19) of the 1940 Act, as amended) of the renewal of the Advisory Agreement and the Administration Agreement.

The board of directors has determined not to create a separate compensation committee charter and instead has included applicable compensation charter provisions in the charter of the audit committee, which is available on our website at *http://investor.fdus.com/governance.cfm*. The audit committee charter sets forth the responsibilities of a compensation committee, including overseeing the Company’s compensation policies, evaluating executive officer performance and reviewing and approving the compensation, if any, by the Company of its executive officers.

In reviewing and approving the compensation, if any, by the Company for each of the Company’s executive officers, the audit committee will, among other things, consider corporate goals and objectives relevant to executive officer compensation, evaluate each executive officer’s performance in light of such goals and objectives, and set each executive officer’s compensation based on such evaluation and such other factors as the audit committee deems appropriate and in the best interests of the Company (including the cost to the Company of such compensation). Notwithstanding the foregoing, currently none of the Company’s executive officers are directly compensated by the Company. However, the Company reimburses its administrator for the allocable portion of overhead and other expenses incurred by the administrator in performing its obligations under an administration agreement, including an allocable share of the compensation of certain of the Company’s executive officers with finance and compliance responsibilities.

Nominating Committee

The members of the nominating committee are Messrs. Anstiss, Hyman and Tune, each of whom is not an interested person and is otherwise independent for purposes of the 1940 Act and Nasdaq’s corporate governance regulations. Mr. Hyman currently serves as chairman of the nominating committee. The board of directors has adopted a charter for the nominating committee, which is available on the Company’s website at *http://investor.fdus.com/governance.cfm*.

The nominating committee is responsible for selecting, researching and nominating directors for election by the Company’s stockholders, selecting nominees to fill vacancies on the board of directors or a committee of the board of directors, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the board of directors and its committees.

The nominating committee identifies potential nominees based on suggestions from members of the nominating committee, other members of the board of directors, other executive officers and by other means, and evaluates such persons as a committee. The nominating committee will also consider nominees to the board of directors recommended by a stockholder, if such stockholder complies with the advance notice provisions of our bylaws. From time to time, the board of directors may determine that it requires a director with a particular expertise or qualification and will actively recruit such a candidate.

In considering which persons to nominate as directors for election by stockholders, the board of directors and its nominating committee consider the experience, qualifications, attributes and skills of candidates, in light of the Company’s then existing business and structure. Additionally, the committee generally will hire an outside firm to perform a background check on potential nominees. On an annual basis, the nominating committee evaluates the qualifications and diversity of the board of directors who are available for reelection in light of the characteristics of independence, age, skills, experience, availability of service to the Company and tenure of its members, and the board of directors’ anticipated needs. The nominating committee has adopted a policy that it will seek to enhance the perspectives and experiences of the members of the board of directors through diversity in gender, ethnic background, geographic origin and professional experience. The nominating committee recommends to the board of directors for its approval the slate of directors to be nominated for election at the annual meeting of the Company’s stockholders. The board of directors and its nominating committee periodically review board composition and the policies with respect thereto and as part of this review, the nominating committee evaluates the effectiveness of its policies, including the provisions with respect to diversity.

In considering possible candidates for nomination as a director, the nominating committee takes into account, in addition to such other factors as it deems relevant, the desirability of selecting directors who:

- have strength of character;

- have mature judgment;
- have industry knowledge or experience; and
- have an ability to work collegially with the other members of the board of directors.

The nominating committee also considers all applicable legal and regulatory requirements that govern the composition of the board of directors.

All nominees properly submitted to the Company (or which the nominating committee otherwise elects to consider) will be evaluated and considered by the members of the nominating committee using the same criteria as nominees identified by the nominating committee itself.

Communications Between Stockholders and the Board of Directors

Stockholders with questions about Fidus Investment Corporation are encouraged to contact Shelby E. Sherard at Fidus Investment Corporation, 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201. In addition, if stockholders feel their questions have not been addressed, they may communicate with our board of directors by sending their communications to: Fidus Investment Corporation, board of directors, c/o Edward H. Ross at the address listed above. In addition, stockholders may communicate with the board of directors by clicking "Contact the Board" on the Investor Relations section of our website at the following URL: *http://investor.fdus.com/contactBoard.com*. Communications are distributed to the board of directors as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, the board of directors has requested that certain items that are unrelated to the duties and responsibilities of the board of directors should be excluded, such as: product complaints, product inquiries, new product suggestions, resumes and other forms of job inquiries, surveys and business solicitations or advertisements. In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out must be available to any non-management director upon request.

Executive Sessions and Communication with the Board of Directors

The independent directors serving on our board of directors intend to meet in executive sessions at the conclusion of each regularly scheduled meeting of the board of directors, and additionally as needed, without the presence of any directors or other persons who are part of the Company's management. These executive sessions of our board of directors will be presided over by Mr. Anstiss or one of the other independent directors serving on the board of directors selected on an ad-hoc basis.

Code of Business Conduct and Corporate Governance Guidelines

The Company has adopted a code of ethics (which we call our "Code of Business Conduct") which all officers, directors and employees of the Company and its investment advisor are expected to observe. The Company intends to disclose any amendments to or waivers of required provisions of the Code of Business Conduct on the Company's website. The Company also has adopted corporate governance guidelines (which we call our "Corporate Governance Guidelines") which apply to our board of directors. The Company's Code of Business Conduct and Corporate Governance Guidelines can be accessed via the Company's website at *http://investor.fdus.com/governance.cfm*. We will also provide any person, without charge, upon request, a copy of our Code of Business Conduct or Corporate Governance Guidelines. To receive a copy of either or both documents, please provide a written request to: Fidus Investment Corporation, Attn: Shelby E. Sherard, Chief Compliance Officer, 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201.

Item 11. Executive Compensation.

COMPENSATION DISCUSSION AND ANALYSIS

Our executive officers do not receive any direct compensation from us. We do not currently have any employees and currently do not expect to have any employees. Services necessary for our business are provided by individuals who are employees or other affiliates of our investment advisor, pursuant to the terms of our Investment Advisory Agreement and our administration agreement. Each of our executive officers is an employee or other affiliate of our investment advisor. Our day-to-day investment operations are managed by our investment advisor. All of the services necessary for the origination and administration of our investment portfolio are provided by investment professionals employed by our investment advisor. In addition, we reimburse our investment advisor, as administrator, for its allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including its allocable portion of the cost related to certain of our officers and their respective staffs, and for certain expenses under the administration agreement.

Under the Investment Advisory Agreement, our investment advisor earned and was paid approximately $21.5 million in fees for the year ended December 31, 2020, consisting of a base management fee of $12.9 million and an income incentive fee of $8.6 million. For the year ended December 31, 2020, we accrued, but did not receive, $1.7 million of capital gains incentive fees reversed in accordance with generally accepted accounting principles. During 2020, our investment advisor incurred approximately $1.7 million of allocable expenses that are payable by the Company under the administration agreement.

2020 DIRECTOR COMPENSATION TABLE

The following table shows information regarding the compensation received by the Company's directors, none of whom is an employee of the Company, for the fiscal year ended December 31, 2020.

Name	Fees Earned or Paid in Cash(1)	Total
Independent Directors		
Raymond L. Anstiss, Jr.	$ 105,000	$105,000
Charles D. Hyman	$ 100,000	$100,000
Edward X. Tune	$ 95,000	$ 95,000
Interested Directors		
Edward H. Ross	None	None
Thomas C. Lauer	None	None

(1) For a discussion of the independent directors' compensation, see below.

The independent directors receive an annual fee of $60,000. They receive $5,000 plus reimbursement of reasonable and authorized business expenses incurred in connection with attending each regularly scheduled board of directors meeting which consists of quarterly meetings and a meeting held in conjunction with the annual shareholders meeting. In addition, the chairperson of the audit committee receives an additional annual fee of $10,000 and the chairperson of the nominating committee receives an additional annual fee of $5,000 for his or her additional services in these capacities. They also receive $2,500 per each additional audit committee meeting to review quarterly investment valuations.

No compensation is paid by the Company to interested directors. No information has been provided with respect to executive officers of the Company who are not directors since its executive officers do not receive any direct compensation from the Company.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth information with respect to the beneficial ownership of our common stock as of February 23, 2021 by each of our executive officers and independent directors and all of our directors and executive officers as a group. As of February 23, 2021, we are not aware of any five percent beneficial owners of our common stock.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. There is no common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of February 23, 2021. Percentage of beneficial ownership is based on 24,437,400 shares of common stock outstanding as of February 23, 2021. Unless otherwise stated, the business address of each person below is 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201. Except as otherwise described in the notes below, the following beneficial owners have sole voting power and sole investment power with respect to all shares of common stock set forth opposite their respective names.

Name and Address	Number of Shares Beneficially Owned (1)	Percentage of Class	Dollar Range of Equity Securities Beneficially Owned(2)(3)
Interested Directors:			
Edward H. Ross	177,788	*	Over $100,000
Thomas C. Lauer	81,600	*	Over $100,000
Independent Directors:			
Raymond L. Anstiss, Jr.	25,896	*	Over $100,000
Charles D. Hyman	25,200	*	Over $100,000
Edward X. Tune	6,000	*	$50,001-$100,000
Executive Officers Who Are Not Directors:			
Shelby E. Sherard	31,660	*	Over $100,000
All Directors and Executive Officers as a Group	348,144	1.4%	Over $100,000

* Represents less than 1.0%.

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

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

(3) The dollar range of equity securities beneficially owned by our directors is based on a stock price of $14.40 per share as of February 23, 2021.

Each of our advisor’s investment committee members has ownership and financial interests in, and may receive compensation and/or profit distributions from, our investment advisor. Each of the members of the investment committee will receive compensation and/or profit distributions from our investment advisor. None of the members of the investment committee receives any direct compensation from us. The following table shows the dollar range of our common stock beneficially owned by each member of our investment advisor’s investment committees as of February 23, 2021:

Member of our Investment Advisor’s Investment Committee	Dollar Range of Equity Securities in Fidus Investment Corporation (1)
Edward H. Ross	Over $1,000,000
John J. Ross, II	Over $1,000,000
Thomas C. Lauer	Over $1,000,000
W. Andrew Worth	$ 500,001 - $1,000,000
John H. Grigg	$ 100,001 - $500,000
Robert G. Lesley	$ 100,001 - $500,000
Thomas J. Steiglehner	$ 50,001 - $100,000

(1) Dollar ranges are as follows: None, $1-$10,000, $10,001-$50,000, $50,001-$100,000, $100,001 - $500,000, $500,001 - $1,000,000, or Over $1,000,000

Item 13. Certain Relationships and Related Transactions, and Director Independence.

CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Related Party Transactions Policy and Procedure

The Company has procedures in place for the review, approval and monitoring of transactions involving the Company and certain related persons of the Company. The Company has a written Code of Business Conduct that generally prohibits any officer, director and employee of the Company and employees of its investment advisor from engaging in any transaction where there is a conflict between such individual’s personal interest and the interests of the Company. Certain actions or relationships that might give rise to a conflict of interest are reviewed and approved by the board of directors. Waivers to the Code of Business Conduct for directors and executive officers can be obtained from the board of directors under certain circumstances and will be publicly disclosed as required by applicable law and regulations. In addition, the audit committee reviews and preapproves all related-party transactions (as defined in Item 404 of Regulation S-K).

Moreover, our investment advisor has enacted a conflict-resolution policy that addresses the co-investment restrictions set forth under the 1940 Act and the allocation of investment opportunities. The 1940 Act generally prohibits us from making certain negotiated co-investments with affiliates unless we first obtain an order from the SEC permitting us to do so. Where co-investments can be made, or where an investment opportunity becomes available to one investment vehicle managed by our investment advisor, then an equitable allocation must be made with respect to the investment.

The Company has obtained exemptive relief allowing us to engage in certain transactions with our affiliates that would otherwise be prohibited by the 1940 Act, as applicable to BDCs. The relief permits the Company and a wholly-owned subsidiary that is licensed by the U.S. Small Business Administration (the "SBA") as a small business investment company (an "SBIC") 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. Our second and third wholly-owned SBIC subsidiaries have not elected to be treated as a BDC and is not party to this exemptive relief. The fourth exemption described above allows us to exclude any indebtedness guaranteed by the SBA and issued by Fund I from the 150.0% asset coverage requirements applicable to us. Effective June 30, 2014, any SBA debentures issued by our second and third wholly-owned SBIC subsidiaries are not considered senior securities for purposes of the 150.0% asset coverage requirements.

If we invest alongside other accounts managed by our investment advisor, our investment advisor will seek to ensure the equitable allocation of investment opportunities between us and the other relevant accounts. If we invest alongside such other accounts as permitted by the 1940 Act and related rules, such investments will be made consistent with our investment advisor's allocation policy. Under this allocation policy, a fixed percentage of each opportunity, which may vary based on asset class and from time to time, will be offered to us and similar eligible accounts, as periodically determined by our investment advisor and approved by our board of directors, including our Independent Directors. The allocation policy provides that allocations among us and other accounts will generally be made pro rata based on each account's capital available for investment, as determined, in our case, by our board of directors, including our Independent Directors. It is our policy to make our determinations as to the amount of capital available for investment based on such factors as the amount of cash on hand, existing commitments and reserves, if any, the targeted leverage level, the targeted asset mix and diversification requirements and other investment policies and restrictions set by our board of directors, or imposed by applicable laws, rules, regulations or interpretations. We expect that these determinations will be made similarly for other accounts. On January 4, 2017, the SEC granted us relief sought in an exemptive application that expands our ability to co-invest in portfolio companies with certain of our affiliates managed by our investment advisor in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, subject to compliance with certain conditions (the "Order"). Pursuant to the Order, we are permitted to co-invest with our affiliates if a "required majority" (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching by us or our stockholders on the part of any person concerned, and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. We intend to co-invest, subject to the conditions included in the Order.

In situations where co-investment with other entities managed by our investment advisor is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, our investment advisor will need to decide whether we or such other entity or entities will proceed with the investment. Our investment advisor will make these determinations based on our allocation policy that generally requires that such opportunities be offered to eligible accounts on a basis that will be fair and equitable over time, including, for example, through random or rotational methods.

In addition, certain members of our investment advisor and its investment committees are also members of Fidus Partners, LLC ("Partners"), an investment banking firm. Partners may in the future serve as an advisor to our portfolio companies and we may invest in companies that Partners is advising. Partners may receive fees in connection with these advisory services, subject to regulatory restrictions imposed by the 1940 Act.

In May 2015, our investment advisor entered into a combination with Partners (the "Combination"), by which members of Fidus Investment Advisors LLC and Partners contributed all of their respective membership interest in Fidus Investment Advisors LLC and Partners to a newly formed limited liability company, Fidus Group Holdings, LLC ("Holdings"). As a result, our investment adviser is a wholly-owned subsidiary of Holdings, which is a limited liability company organized under the laws of Delaware.

Certain Transactions With or Involving Related Persons

Investment Advisory Agreement

Under the Investment Advisory Agreement with our investment advisor, we pay our investment advisor a management fee and incentive fee that consists of an income incentive fee and a capital gains incentive fee. The incentive fee is computed and paid on income that we may not have yet received in cash. This fee structure may create an incentive for our investment advisor to invest in certain types of securities that may have a high degree of risk. Additionally, we rely on investment professionals from our investment advisor to assist our board of directors with the valuation of our portfolio investments. Our investment advisor's management fee and incentive fee are based on the value of our investments and there may be a conflict of interest when personnel of our investment advisor are involved in the valuation process for our portfolio investments. The base management fee under the Investment Advisory Agreement for the year ended December 31, 2020 totaled $12.9 million. The income incentive fee expense for the year ended December 31, 2020 totaled $8.6 million. For the year ended December 31, 2020, we accrued, but did not receive, $1.7 million of capital gains incentive fees reversed in accordance with generally accepted accounting principles.

Mr. E. Ross is the chairman of the board of directors of the Company and Fund I and the chairman of our investment advisor's investment committees. Moreover, Mr. E. Ross is the Chief Executive Officer of our investment advisor. The board of managers of our investment advisor, the manager of Fidus Investment GP, LLC, the general partner of the Funds, currently controls the Funds. The following people are members of the board of managers of our investment advisor: Messrs. E. Ross, Lauer, J. Ross, John H. Grigg and Andrew W. Worth. Officers and members of the board of managers of our investment advisor receive a benefit from the fees paid to our investment advisor pursuant to the Investment Advisory Agreement. Our board of directors, which consists of a majority of non-interested directors, has approved the Investment Advisory Agreement, including the fees paid pursuant to such agreement.

Administration Agreement

Pursuant to the administration agreement, our investment advisor furnishes us with office facilities and equipment and clerical, bookkeeping and record keeping services at such facilities. Under the administration agreement, our investment advisor performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, our investment advisor assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the administration agreement, our investment advisor also provides managerial assistance on our behalf to those portfolio companies that have accepted our offer to provide such assistance. Payments under the administration agreement are equal to an amount based upon our allocable portion of our investment advisor's overhead in performing its obligations under the administration agreement, including rent and our allocable portion of the cost related to certain of our officers, including our Chief Financial Officer and Chief Compliance Officer and their respective staffs. Under the administration agreement, administrative expenses for services provided for the year ended December 31, 2020 totaled $1.7 million.

Director Independence

The board of directors has a majority of directors who are independent under the listing standards of the Nasdaq Global Select Market, or Nasdaq. The Nasdaq Marketplace Rules provide that a director of a BDC shall be considered to be independent if he or she is not an "interested person" of the Company, as defined in Section 2(a)(19) of the 1940 Act. Section 2(a)(19) of the 1940 Act defines an "interested person" to include, among other things, any person who has, or within the last two years had, a material business or professional relationship with the Company.

The board of directors has determined that the following directors are independent: Messrs. Anstiss, Hyman and Tune. Messrs. Ross and Lauer are "interested persons" due to their positions with the Company and/or our investment advisor, as discussed in their respective biographies. Based upon information requested and received from each director concerning their respective background, employment and affiliations, the board of directors has affirmatively determined that none of the independent directors has a material business or professional relationship with the Company, other than in his capacity as a member of the board of directors or any committee thereof.

Item 14. Principal Accountant Fees and Services.

The audit committee of the board of directors has selected RSM US LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2021. RSM US LLP also will serve as the independent registered public accounting firm for all of our wholly-owned subsidiaries.

RSM US LLP has advised us that neither the firm nor any present member or associate of it has any material financial interest, direct or indirect, in us or our wholly-owned subsidiaries. It is expected that a representative of RSM US LLP will be present at the Annual Meeting and will have an opportunity to make a statement if he or she chooses and will be available to answer appropriate questions.

Independent Registered Public Accounting Firm's Fees

We have paid or expect to pay the following fees to RSM US LLP for work performed in 2020 and 2019 or attributable to the audit of our 2020 and 2019 financial statements:

	Fiscal Year Ended December 31, 2020 (1)	Fiscal Year Ended December 31, 2019
Audit Fees	$ 654,051(2)	$ 645,087(3)
Audit Related Fees	—	—
Tax Fees	—	—
All Other Fees	—	—
Total Fees:	$ 654,051	$ 645,087

(1) Includes estimated billings for fiscal year 2020.
(2) Includes fees of $69,641 related to our offerings of notes under our universal shelf registration statement on Form N-2.
(3) Includes fees of $107,600 related to our public offerings of notes under our universal shelf registration statement on Form N-2.

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

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

Tax Fees. Tax fees include corporate and subsidiary compliance and consulting.

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

Pre-Approval Policies and Procedures

Our audit committee has established, and our board of directors has approved a pre-approval policy that describes the permitted audit, audit-related, tax and other services to be provided by RSM US LLP, the Company's independent registered accounting firm. The policy requires that the audit committee pre-approve the audit and non-audit services performed by the independent registered accounting firm in order to assure that the provision of such service does not impair the firm's independence. The audit committee has pre-approved all services by RSM US LLP that were performed during the fiscal year ended December 31, 2020.

Any requests for audit, audit-related, tax and other services that have not received general pre-approval must be submitted to the audit committee for specific pre-approval, irrespective of the amount. Before the Company engages the independent registered public accounting firm to render a service, the engagement must be either (i) specifically approved by the audit committee or (ii) entered into pursuant to the pre-approval policy. Normally, pre-approval is provided at regularly scheduled meetings of the audit committee. However, the audit committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the audit committee at its next scheduled meeting. The audit committee does not delegate its responsibilities to pre-approve services performed by the independent registered accounting firm to management.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed or incorporated by reference as part of this Annual Report:

(1) **Consolidated Financial Statements**

(2) Financial Statement Schedules

None.

(3) Exhibits

Unless otherwise noted, the following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC:

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of the Registrant (Filed as Exhibit (a)(1) to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the U.S. Securities and Exchange Commission on April 29, 2011 and incorporated herein by reference).
3.2	Bylaws of the Registrant (Filed as Exhibit (b)(1) to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the U.S. Securities and Exchange Commission on April 29, 2011 and incorporated herein by reference).
4.1	Form of Stock Certificate of the Registrant (Filed as Exhibit (d) to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the U.S. Securities and Exchange Commission on April 29, 2011 and incorporated herein by reference).
4.2	Agreement to Furnish Certain Instruments (Filed as Exhibit (f)(2) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the U.S. Securities and Exchange Commission on May 26, 2011 and incorporated herein by reference).
4.3	Form of Indenture (Filed as Exhibit (d)(5) to Post-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-202531) filed with the Securities and Exchange Commission on April 29, 2016 and incorporated herein by reference).
4.4	First Supplemental Indenture dated as of February 2, 2018, between Fidus Investment Corporation and U.S. Bank National Association, as trustee (Filed as Exhibit (d)(9) to Post-Effective Amendment No. 4 to the Registrant's Registration Statement on Form N-2 (File No. 333-202531) filed with the Securities and Exchange Commission on April 18, 2017 and incorporated herein by reference).
4.5	Form of 5.875% Notes due 2023 (Incorporated by reference to Exhibit 4.4 hereto and Exhibit A therein).
4.6	Second Supplemental Indenture dated as of February 8, 2019, between Fidus Investment Corporation and U.S. Bank National Association, as trustee (Filed as Exhibit (d)(11) to the Registrant's post-effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-223350) filed with the Securities and Exchange Commission on May 1, 2018 and incorporated herein by reference).

4.7	Form of 6.00% Notes due 2024 (Incorporated by reference to Exhibit 4.6 hereto and Exhibit A therein).
4.8	Third Supplemental Indenture dated as of October 16, 2019, between Fidus Investment Corporation and U.S. Bank National Association, as trustee (Filed as Exhibit 4.2 to the Registrant's current report on Form 8-K filed with the U.S. Securities and Exchange Commission on October 16, 2019 and incorporated herein by reference).
4.9	Form of 5.375% Notes due 2024 (Incorporated by reference to Exhibit 4.8 hereto and Exhibit A therein).
4.10	Fourth Supplemental Indenture dated as of December 23, 2020 between Fidus Investment Corporation and U.S. Bank National Association, as trustee (Filed as Exhibit 4.1 to the Registrant's current report on Form 8-K filed with the U.S. Securities and Exchange Commission on December 23, 2020 and incorporated herein by reference).
4.11	Form of 4.75% Notes due 2026 (Incorporated by reference to Exhibit 4.10 hereto and Exhibit A therein).
4.12	Description of Securities.*
10.1	Investment Advisory and Management Agreement between Registrant and Fidus Investment Advisors, LLC (Filed as Exhibit (g) to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the U.S. Securities and Exchange Commission on April 29, 2011 and incorporated herein by reference).
10.2	Custody Agreement (Filed as Exhibit (j) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the U.S. Securities and Exchange Commission on May 26, 2011 and incorporated herein by reference).
10.3	Administration Agreement between Registrant and Fidus Investment Advisors, LLC (Filed as Exhibit (k)(1) to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the U.S. Securities and Exchange Commission on April 29, 2011 and incorporated herein by reference).
10.4	Trademark License Agreement between Registrant and Fidus Partners, LLC (Filed as Exhibit (k)(2) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the U.S. Securities and Exchange Commission on May 26, 2011 and incorporated herein by reference).
10.5†	Form of Indemnification Agreement by and between Registrant and each of its directors (Filed as Exhibit (k)(3) to Pre-Effective Amendment No. 4 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the U.S. Securities and Exchange Commission on June 10, 2011 and incorporated herein by reference).
10.6	Dividend Reinvestment Plan (Filed as Exhibit (e) to Pre-Effective Amendment No. 1 to the Registrant's Registration Statement on Form N-2 (File No. 333-182785) filed with the U.S. Securities and Exchange Commission on August 27, 2012 and incorporated herein by reference).
10.7	First Amendment to Investment Advisory and Management Agreement between Registrant and Fidus Investment Advisors, LLC (Filed as exhibit 10.7 to the Registrant's annual report on Form 10-K, filed with the U.S. Securities and Exchange Commission on March 6, 2014 and incorporated herein by reference).
10.8	Senior Secured Revolving Credit Agreement, dated June 16, 2014, by and among the Registrant, 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 filed with the U.S. Securities and Exchange Commission on June 20, 2014 and incorporated herein by reference).

10.9	Amendment No. 1, dated December 19, 2014, to the Senior Secured Revolving Credit Agreement dated June 16, 2014, by and among the Registrant, 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 (Filed with the U.S. Securities and Exchange Commission on December 22, 2014 and incorporated herein by reference).
10.10	Amendment No. 2, dated December 29, 2017, to the Senior Secured Revolving Credit Agreement dated June 16, 2014, by and among the Registrant, 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 (Filed with the U.S. Securities and Exchange Commission on January 2, 2018 and incorporated herein by reference).
10.11	Incremental Commitment Agreement to Senior Secured Revolving Credit Agreement, dated June 5, 2018 by and among the Registrant, the subsidiary guarantors party thereto and ING Capital LLC as Administrative Agent and increasing lender (Filed as exhibit 10.1 to the Registrant's current report on Form 8-K filed with the U.S. Securities and Exchange Commission on June 5, 2018 and incorporated herein by reference).
10.12	Amendment No. 3 and Incremental Commitment Agreement to Senior Secured Revolving Credit Agreement, dated October 19, 2018, to the Senior Secured Revolving Credit Agreement dated June 16, 2014, by and among the Registrant, the lenders party thereto, TIAA, FSB, as increasing lender and a lender and ING Capital LLC as Administrative Agent and a lender (Filed as exhibit 10.1 to the Registrant's current report on Form 8-K filed with the U.S. Securities and Exchange Commission on October 19, 2018 and incorporated herein by reference).
10.13	Amended & Restated Senior Secured Revolving Credit Agreement, dated as of April 24, 2019, 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 filed with the U.S. Securities and Exchange Commission on April 24, 2019 and incorporated herein by reference).
10.14	Amended and Restated Guarantee, Pledge and Security Agreement, dated as of April 24, 2019, by and among the Company, as borrower, the subsidiary guarantors party thereto, ING Capital LLC, as revolving administrative agent, and ING Capital LLC, as collateral agent (Filed as Exhibit 10.2 to the Registrant's current report on Form 8-K filed with the U.S. Securities and Exchange Commission on April 24, 2019 and incorporated herein by reference).
10.15	Amendment No. 1, dated June 26, 2020, to the Amended & Restated Senior Secured Revolving Credit Agreement dated April 24, 2019, by and among the Company, as borrower, the subsidiary guarantors party thereto, ING Capital LLC, as administrative agent, and the lenders party thereto (Filed as Exhibit 10.1 to the Registrant's current report on Form 8-K filed with the U.S. Securities and Exchange Commission on June 29, 2020 and incorporated herein by reference).
14.1	Code of Business Conduct of the Registrant (Filed as Exhibit 14.1 to the Registrant's Annual Report on Form 10-K (File No. 814-00861) filed with the U.S. Securities and Exchange Commission on March 8, 2012 and incorporated herein by reference).
21.1	List of Subsidiaries.*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.*

* Filed herewith.
† Denotes a management contract or compensatory plan, contract or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
A Maryland Corporation

Date: February 25, 2021

/s/ EDWARD H. ROSS
Name: Edward H. Ross
Title: Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ EDWARD H. ROSS Edward H. Ross	Chairman and Chief Executive Officer (Principal Executive Officer)	February 25, 2021
/s/ THOMAS C. LAUER Thomas C. Lauer	President and Director	February 25, 2021
/s/ SHELBY E. SHERARD Shelby E. Sherard	Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2021
/s/ RAYMOND L. ANSTISS, JR. Raymond L. Anstiss, Jr.	Director	February 25, 2021
/s/ CHARLES D. HYMAN Charles D. Hyman	Director	February 25, 2021
/s/ EDWARD X. TUNE Edward X. Tune	Director	February 25, 2021

DESCRIPTION OF SECURITIES

As of December 31, 2020, Fidus Investment Corporation ("we," "our," "us," or the "Company") has four classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (i) its common stock, par value $0.001 per share ("common stock"); (ii) its 5.875% Notes due 2023 (the "2023 Notes"); (iii) its 6.000% Notes due 2024 (the "February 2024 Notes"); and (iv) its 5.375% Notes due 2024 (the "November 2024 Notes," together with the 2023 Notes and the February 2024 Notes, the "Notes").

The following descriptions of the Company's common stock and the Notes are as of December 31, 2020[1] and based on, as applicable, the relevant portions of the Maryland General Corporation Law ("MGCL"), the Company's articles of amendment and restatement ("charter"), our bylaws ("bylaws"), the first supplemental indenture, dated February 2, 2018 (the "First Supplemental Indenture), the second supplemental indenture, dated February 8, 2019 (the "Second Supplemental Indenture), and the third supplemental indenture, dated October 16, 2019 (the "Third Supplemental Indenture"), and the indenture, dated February 2, 2018 (the "Base Indenture" together with the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture, the "Indenture"), by and between the Company and U.S. Bank National Association, as trustee (the "Trustee"). This summary is a description of the material terms of, and is qualified in its entirety by, the charter, the bylaws and the indenture, each of which is incorporated by reference as an exhibit to this Annual Report on Form 10-K. As a result, this summary may not contain all of the information that is important to you. We refer you to the MGCL, the charter, the bylaws, and the indenture for a more detailed description of the provisions summarized below. Capitalized terms used but not defined herein shall have the meaning ascribed to them in the Annual Report on Form 10-K to which this Description of Securities is an exhibit.

A. <u>Common Stock, $0.001 par value per share</u>

The authorized capital stock of Fidus Investment Corporation (the "Company," "we," "our" or "us") consists of 100,000,000 shares of common stock, par value $0.001 per share, of which 24,463,119 were outstanding as of December 31, 2019. Our common stock trades on the Nasdaq Global Select Market under the ticker symbol "FDUS." There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plan. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock without obtaining stockholder approval. As permitted by the MGCL, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

All shares of our common stock have equal rights as to earnings, assets, voting, and distributions and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of assets legally available therefor. Shares of our common stock have no preemptive, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

---

1 Subsequent to the year ended December 31, 2020, the Company redeemed (i) $50,000,000 in aggregate principal amount of the issued and outstanding 2023 Notes on January 19, 2021 and, as a result, there are no issued and outstanding 2023 Notes as of the filing of the Annual Report on Form 10-K, and (ii) $50,000,000 in aggregate principal amount of the $69,000,000 in aggregate principal amount of the issued and outstanding February 2024 Notes on February 16, 2021.

Provisions of the MGCL and our Charter and Bylaws

The MGCL and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified Board of Directors

Our board of directors is divided into three classes of directors serving staggered three-year terms. The terms of the first, second and third classes expire in 2021, 2019 and 2020, respectively, and in each case, those directors will serve until their successors are elected and qualify. Directors of each class will be elected to serve for three-year terms and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

Election of Directors

Our charter and bylaws provide that the affirmative vote of the holders of a plurality of the outstanding shares of stock entitled to vote in the election of directors cast at a meeting of stockholders duly called and at which a quorum is present is required to elect a director. Pursuant to our bylaws our board of directors may amend the bylaws to alter the vote required to elect directors.

Number of Directors; Vacancies; Removal

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than one nor more than eight. Except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by Stockholders

Under the MGCL, stockholder action can be taken only at an annual or special meeting of stockholders or (unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not) by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the board of directors and the proposal of business to be considered by stockholders may be made only (a) pursuant to our notice of the meeting, (b) by the board of directors or (c) by a stockholder who was a stockholder of record both at the time of giving notice and at the time of the annual meeting and who is entitled to vote at the meeting and who has complied with the advance notice procedures of our bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the board of directors at a special meeting may be made only (a) pursuant to our notice of the meeting, (b) by the board of directors or (c) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who was a stockholder of record both at the time of giving notice and at the time of the annual meeting and who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of (a) precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and (b) discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of Special Meetings of Stockholders

Our bylaws provide that special meetings of stockholders may be called by the chairman of our board of directors, our President and our board of directors. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter provides that certain charter amendments, any proposal for our conversion, whether by charter amendment, merger or otherwise, from a closed-end company to an open-end company and any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80.0% of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by a majority of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The “continuing directors” are defined in our charter as (a) our current directors, (b) those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of our current directors then on the board of directors or (c) any successor directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of continuing directors or the successor continuing directors then in office.

Our charter and bylaws provide that the board of directors has the exclusive power to make, alter, amend or repeal any provision of our bylaws.

No Appraisal Rights

Except with respect to appraisal rights arising in connection with the Control Share Act discussed below, as permitted by the MGCL, our charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of the board of directors shall determine such rights apply.

Control Share Acquisitions

The MGCL provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter (the “Control Share Act”). Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations, including, as provided in our bylaws compliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Act only if the board of directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Control Share Act does not conflict with the 1940 Act.

Business Combinations

Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder (the “Business Combination Act”). These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10.0% or more of the voting power of the corporation’s outstanding voting stock; or

- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10.0% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which the stockholder otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80.0% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation’s common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution, subject to the provisions of the 1940 Act, that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution may be altered or repealed in whole or in part at any time; however, our board of directors will adopt resolutions so as to make us subject to the provisions of the Business Combination Act only if the board of directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Business Combination Act does not conflict with the 1940 Act. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Conflict with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the MGCL, including the Control Share Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

B. Debt Securities

Unless otherwise specifically stated, the summary below relates to each of the 2023 Notes, the February 2024 Notes, and the November 2024 Notes, and therefore, references to the “Notes” below refer to each of the 2023 Notes, the February 2024 Notes, and the November 2024 Notes.

The 2023 Notes

In January 2018, we issued $43,478,275 in aggregate principal amount of the 2023 Notes. On February 22, 2018, the underwriters exercised their option to purchase an additional $6.5 million in aggregate principal of the 2023 Notes. The total net proceeds to us from the 2023 Notes, including the exercise of the underwriters’ option, after deducting underwriting discounts of approximately $1.5 million and estimated offering expenses of $0.4 million, were approximately $48.1 million.

The 2023 Notes were issued under the Base Indenture, as supplemented by the First Supplemental Indenture. The 2023 Notes will mature on February 1, 2023 and bear interest at a rate of 5.875% per year. The 2023 Notes may be redeemed in whole or in part at any time or from time to time at our option on or after February 1, 2020. Interest on the 2023 Notes is payable quarterly on February 1, May 1, August 1 and November 1 of each year, beginning May 1, 2018. The 2023 Notes are listed on the NASDAQ Global Select Market under the trading symbol "FDUSL." As of December 31, 2019, the outstanding principal balance of the 2023 Notes was $50.0 million.

The February 2024 Notes

In February 2019, we issued $60,000,000 in aggregate principal amount of the February 2024 Notes. On February 19, 2019, the underwriters exercised their option to purchase an additional $9.0 million in aggregate principal of the February 2024 Notes. The total net proceeds to us from the February 2024 Notes, including the exercise of the underwriters' option, after deducting underwriting discounts of approximately $2.1 million and estimated offering expenses of $0.4 million, were approximately $66.5 million.

The February 2024 Notes were issued under the Base Indenture, as supplemented by the Second Supplemental Indenture. The February 2024 Notes will mature on February 15, 2024 and bear interest at a rate of 6.000%. The February 2024 Notes may be redeemed in whole or in part at any time or from time to time at our option on or after February 15, 2021. Interest on the February 2024 Notes is payable quarterly on February 15, May 15, August 15 and November 15 of each year, beginning May 15, 2019. The February 2024 Notes are listed on the NASDAQ Global Select Market under the trading symbol "FDUSZ." As of December 31, 2019, the outstanding principal balance of the February 2024 Notes was $69.0 million.

The November 2024 Notes

In October 2019, we issued $55,000,000 in aggregate principal amount of the November 2024 Notes. On October 23, 2019, the underwriters exercised their option to purchase an additional $8.3 million in aggregate principal of the November 2024 Notes. The total net proceeds to us from the November 2024 Notes, including the exercise of the underwriters' option, after deducting underwriting discounts of approximately $1.9 million and estimated offering expenses of $0.3 million, were approximately $61.1 million.

The November 2024 Notes were issued under the Base Indenture, as supplemented by the Third Supplemental Indenture. The November 2024 Notes will mature on November 1, 2024 and bear interest at a rate of 5.375%. The November 2024 Notes may be redeemed in whole or in part at any time or from time to time at our option on or after November 1, 2021. Interest on the November 2024 Notes is payable quarterly on February 1, May 1, August 1 and November 1 of each year, beginning February 1, 2020. The November 2024 Notes are listed on the NASDAQ Global Select Market under the trading symbol "FDUSG." As of December 31, 2019, the outstanding principal balance of the November 2024 Notes was approximately $63.3 million.

General

For purposes of this description, any reference to the payment of principal of, or premium or interest, if any, on, the 2023 Notes, the February 2024 Notes and the November 2024 Notes will include additional amounts if required by the terms of such Notes.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an "indenture." An indenture is a contract between us and the financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The Trustee has two main roles. First, the Trustee can enforce your rights against us if we default. There are some limitations on the extent to which the Trustee acts on your behalf, see "Events of Default" for more information. Second, the Trustee performs certain administrative duties for us with respect to our debt securities.

The Indenture provides that any debt securities may be issued under the Indenture in one or more series. The Indenture does not limit the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the Indenture, when a single trustee is acting for all debt securities issued under the Indenture, are called the "indenture securities." The Indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See "Resignation of Trustee" below for more information. At a time when two or more trustees are acting under the Indenture, each with respect to only certain series, the term "indenture securities" means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the Indenture, the powers and trust obligations of each trustee will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the Indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

Except as described under “Events of Default” and “Merger or Consolidation” below, the Indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

Optional Redemption

The 2023 Notes, the February 2024 Notes and the November 2024 Notes may be redeemed in whole or in part at any time or from time to time at our option on or after February 1, 2020, February 15, 2021 and November 1, 2021, respectively, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption.

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

If we redeem only some of the Notes, the Trustee or the Depositary Trust Company (“DTC”), as applicable, will determine the method for selection of the particular Notes to be redeemed, in accordance with the Indenture governing the Notes and in accordance with the rules of any national securities exchange or quotation system on which the Notes are listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

Ranking of the Notes

The Notes are the Company’s direct unsecured obligations and will rank:

- *pari passu* with our other outstanding and future unsecured unsubordinated indebtedness;
- senior to any of our future indebtedness that expressly provides it is subordinated to the Notes;
- effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured in respect of which we subsequently grant a security interest), to the extent of the value of the assets securing such indebtedness; and
- structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including the Funds.

Denominations

The Notes are issued in denominations of $25 and integral multiples of $25 in excess thereof.

Sinking Fund

The Notes will not be subject to any sinking fund.

Book-Entry Holders

The Notes were issued as registered securities in book-entry form only. We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means debt securities will be represented by one or more global securities registered in the name of a depositary that will hold them on behalf of financial institutions that participate in the depositary's book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depositary or its nominee. These institutions may hold these interests on behalf of themselves or customers.

Under the Indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depositary as the holder of the debt securities and we will make all payments on the debt securities to the depositary. The depositary will then pass along the payments it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.

As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depositary's book-entry system or holds an interest through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders, of the debt securities.

Global Securities

As noted above, the Notes are issued in book-entry form and represented by a global security that we deposit with and register in the name of DTC or its nominee. A global security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all the Notes represented by a global security, and investors will be permitted to own only beneficial interests in a global security.

Termination of a Global Security

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

Conversion and Exchange

The Notes are not convertible into or exchangeable for other securities.

Payment and Paying Agents

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

Payments on Global Securities

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

Payment When Offices Are Closed

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

Events of Default

You will have rights if an Event of Default occurs in respect of the Notes and the Event of Default is not cured, as described later in this subsection.

The term "Event of Default" in respect of the Notes means any of the following:

- We do not pay the principal of, or any premium on, any Note when due and payable at maturity;
- We do not pay interest on any Note when due and payable, and such default is not cured within 30 days of its due date;
- We remain in breach of any other covenant in respect of the Notes for 60 days after we receive a written notice of default stating we are in breach (the notice must be sent by either the Trustee or holders of at least 25% of the principal amount of the outstanding Notes);
- We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days; or
- On the last business day of each of twenty-four consecutive calendar months, the Notes have an asset coverage of less than 100%, giving effect to the exemptive relief granted to us by the SEC with respect to the consolidation of debt of the Funds.

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

Remedies if an Event of Default Occurs

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

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

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

- You must give the Trustee written notice that an Event of Default has occurred and remains uncured;
- The holders of at least 25% in principal amount of all the Notes must make a written request that the Trustee take action because of the default and must offer the Trustee indemnity, security, or both reasonably satisfactory to it against the cost and other liabilities of taking that action;
- The Trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity and/or security; and
- The holders of a majority in principal amount of the Notes must not have given the Trustee a direction inconsistent with the above notice during that 60-day period.

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

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

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

Waiver of Default

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

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

Merger or Consolidation

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

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

Modification or Waiver

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

Changes Requiring Your Approval

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

- change the stated maturity of the principal of (or premium, if any, on) or any installment of principal of or interest on the Notes;

- reduce any amounts due on the Notes or reduce the rate of interest on the Notes;
- reduce the amount of principal payable upon acceleration of the maturity of a Note following a default;
- change the place or currency of payment on a Note;
- impair your right to sue for payment;
- reduce the percentage of holders of Notes whose consent is needed to modify or amend the Indenture; and
- reduce the percentage of holders of Notes whose consent is needed to waive compliance with certain provisions of the Indenture or to waive certain defaults or reduce the percentage of holders of Notes required to satisfy quorum or voting requirements at a meeting of holders of the Notes.

Changes Not Requiring Approval

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

Changes Requiring Majority Approval

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

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

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

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under “Changes Requiring Your Approval.”

Further Details Concerning Voting

When taking a vote, we will use the following rules to decide how much principal to attribute to the Notes:

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

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

Defeasance

The following provisions will be applicable to the Notes.

Covenant Defeasance

Under current U.S. federal income tax law and the Indenture, we can make the deposit described below and be released from some of the restrictive covenants in the Indenture under which the Notes were issued. This is called “covenant defeasance.” In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your Notes. In order to achieve covenant defeasance, the following must occur:

- Since the Notes are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of the Notes a combination of cash and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates;
- We must deliver to the Trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the Notes any differently than if we did not make the deposit;
- We must deliver to the Trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, and a legal opinion and officers’ certificate stating that all conditions precedent to covenant defeasance have been complied with;
- Defeasance must not result in a breach or violation of, or result in a default under, the Indenture or any of our other material agreements or instruments; and
- No default or Event of Default with respect to the Notes shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 60 days.

If we accomplish covenant defeasance, you can still look to us for repayment of the Notes if there were a shortfall in the trust deposit or the Trustee is prevented from making payment. In fact, if one of the remaining Events of Default occurred (such as our bankruptcy) and the Notes became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Full Defeasance

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

- Since the Notes are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of the Notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates;
- We must deliver to the Trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an Internal Revenue Service (“IRS”) ruling that allows us to make the above deposit without causing you to be taxed on the Notes any differently than if we did not make the deposit;
- We must deliver to the Trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, and a legal opinion and officers’ certificate stating that all conditions precedent to defeasance have been complied with;
- Defeasance must not result in a breach or violation of, or constitute a default under, the Indenture or any of our other material agreements or instruments; and
- No default or Event of Default with respect to the Notes shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 60 days.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the Notes. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent.

Resignation of Trustee

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

Governing Law

The Indenture and the Notes will be governed by and construed in accordance with the laws of the State of New York.

Indenture Provisions — Subordination

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the Indenture in right of payment to the prior payment in full of all Senior Indebtedness (as defined below), but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

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

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

Senior Indebtedness is defined in the Indenture as the principal of (and premium, if any) and unpaid interest on:

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

The Trustee under the Indenture

U.S Bank National Association serves as the Trustee, paying agent, and security registrar under the Indenture. Separately, our securities are held by U.S. Bank National Association pursuant to a custody agreement.

Exhibit 21.1

SUBSIDIARIES OF FIDUS INVESTMENT CORPORATION

Name	Jurisdiction
BBRSS Blocker Corp.	Delaware
FCDS Corp.	Delaware
FCMH Equity Corp.	Delaware
Fidus Capital GP, LLC	Delaware
Fidus Investment GP, LLC	Delaware
Fidus Mezzanine Capital, L.P.	Delaware
Fidus Mezzanine Capital II, L.P.	Delaware
Fidus Mezzanine Capital III, L.P.	Delaware
Fidus Investment Holdings, Inc.	Delaware

Exhibit 31.1

Fidus Investment Corporation 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

I, Edward H. Ross, as Chief Executive Officer of Fidus Investment Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of Fidus Investment Corporation;

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

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

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

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

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

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

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

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

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

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

Date: February 25, 2021

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

Exhibit 31.2

Fidus Investment Corporation 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

I, Shelby E. Sherard, as Chief Financial Officer of Fidus Investment Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of Fidus Investment Corporation;

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

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

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

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

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

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

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

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

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

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

Date: February 25, 2021

/s/ SHELBY E. SHERARD
Shelby E. Sherard
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002

In connection with the Annual Report on Form 10-K of Fidus Investment Corporation (the "Company") for the annual period ended December 31, 2020, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Edward H. Ross, Chief Executive Officer of the Company, and I, Shelby E. Sherard, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: February 25, 2021

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

/s/ SHELBY E. SHERARD
Shelby E. Sherard
Chief Financial Officer
(Principal Financial and Accounting Officer)