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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number 814-00861

Fidus Investment Corporation

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

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

1603 Orrington Avenue, Suite 1005
Evanston, Illinois
(Address of Principal Executive Offices)

60201
(Zip Code)

(847) 859-3940

(Registrant's telephone number, including area code)

n/a

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of November 5, 2014, the Registrant had outstanding 16,026,553 shares of common stock, \$0.001 par value.

**FIDUS INVESTMENT CORPORATION
TABLE OF CONTENTS
QUARTERLY REPORT ON FORM 10-Q**

PART I — FINANCIAL INFORMATION

| | | |
|---------|--|----|
| Item 1. | Financial Statements. | 3 |
| | Consolidated Statements of Assets and Liabilities — September 30, 2014 (unaudited) and December 31, 2013 | 3 |
| | Consolidated Statements of Operations — Three and Nine Months Ended September 30, 2014 (unaudited) and 2013 (unaudited) | 4 |
| | Consolidated Statements of Changes in Net Assets — Nine Months Ended September 30, 2014 (unaudited) and 2013 (unaudited) | 5 |
| | Consolidated Statements of Cash Flows — Nine Months Ended September 30, 2014 (unaudited) and 2013 (unaudited) | 6 |
| | Consolidated Schedules of Investments — September 30, 2014 (unaudited) and December 31, 2013 | 7 |
| | Notes to Consolidated Financial Statements (unaudited) | 14 |
| Item 2. | Management’s Discussion and Analysis of Financial Condition and Results of Operations. | 28 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk. | 40 |
| Item 4. | Controls and Procedures. | 40 |

PART II — OTHER INFORMATION

| | | |
|----------|--|----|
| Item 1. | Legal Proceedings. | 41 |
| Item 1A. | Risk Factors. | 41 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds. | 41 |
| Item 3. | Defaults Upon Senior Securities. | 41 |
| Item 4. | Mine Safety Disclosures. | 41 |
| Item 5. | Other Information. | 41 |
| Item 6. | Exhibits. | 42 |
| | Signatures | 43 |
| | Exhibit Index | 44 |

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | September 30, 2014 (unaudited) | December 31, 2013 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Investments, at fair value | | |
| Affiliate investments (cost: \$96,851 and \$88,983, respectively) | \$ 83,704 | \$ 82,444 |
| Non-control/non-affiliate investments (cost: \$247,546 and \$226,231, respectively) | 252,778 | 224,537 |
| Total investments, at fair value (cost: \$344,397 and \$315,214, respectively) | 336,482 | 306,981 |
| Cash and cash equivalents | 8,488 | 53,418 |
| Interest receivable | 4,929 | 2,487 |
| Deferred financing costs (net of accumulated amortization of \$2,571 and \$2,102, respectively) | 3,600 | 3,152 |
| Proceeds receivable from stock offering | 32,440 | — |
| Prepaid expenses and other assets | 7,156 | 1,224 |
| Total assets | 393,095 | 367,262 |
| LIABILITIES | | |
| SBA debentures | 145,500 | 144,500 |
| Accrued interest and fees payable | 541 | 2,198 |
| Due to affiliates | 4,623 | 5,582 |
| Taxes payable | — | 3,571 |
| Accounts payable and other liabilities | 481 | 286 |
| Total liabilities | 151,145 | 156,137 |
| Net assets | \$ 241,950 | \$ 211,125 |
| ANALYSIS OF NET ASSETS | | |
| Common stock, \$0.001 par value (100,000,000 shares authorized, 15,943,139 and 13,755,232 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively) | \$ 16 | \$ 14 |
| Additional paid-in capital | 241,968 | 206,123 |
| Undistributed net investment income | 2,672 | 3,221 |
| Accumulated net realized gain on investments (net of taxes) | 6,420 | 11,212 |
| Accumulated net unrealized (depreciation) on investments | (9,126) | (9,445) |
| Total net assets | \$ 241,950 | \$ 211,125 |
| Net asset value per common share | \$ 15.18 | \$ 15.35 |

See Notes to Consolidated Financial Statements (unaudited).

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

| | <u>Three months ended September 30,</u> | | <u>Nine months ended September 30,</u> | |
|--|---|-----------------|--|------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Investment income: | | | | |
| Interest income | | | | |
| Control investments | \$ — | \$ 125 | \$ — | \$ 1,647 |
| Affiliate investments | 2,406 | 2,344 | 7,163 | 6,582 |
| Non-control/non-affiliate investments | 7,722 | 6,777 | 21,822 | 19,617 |
| Total interest income | 10,128 | 9,246 | 28,985 | 27,846 |
| Dividend income | | | | |
| Control investments | — | — | — | 124 |
| Affiliate investments | 31 | 31 | 92 | 92 |
| Non-control/non-affiliate investments | 576 | 448 | 1,405 | 972 |
| Total dividend income | 607 | 479 | 1,497 | 1,188 |
| Fee income | | | | |
| Control investments | — | — | — | 177 |
| Affiliate investments | 10 | — | 398 | 206 |
| Non-control/non-affiliate investments | 562 | 516 | 1,567 | 1,004 |
| Total fee income | 572 | 516 | 1,965 | 1,387 |
| Interest on idle funds and other income | 17 | 22 | 17 | 131 |
| Total investment income | 11,324 | 10,263 | 32,464 | 30,552 |
| Expenses: | | | | |
| Interest and financing expenses | 1,934 | 1,787 | 5,482 | 5,287 |
| Base management fee | 1,469 | 1,329 | 4,227 | 3,940 |
| Incentive fee | 1,320 | 1,134 | 3,015 | 5,643 |
| Administrative service expenses | 496 | 314 | 1,289 | 815 |
| Professional fees | 218 | 211 | 828 | 644 |
| Other general and administrative expenses | 228 | 212 | 981 | 808 |
| Total expenses | 5,665 | 4,987 | 15,822 | 17,137 |
| Net investment income before income taxes | 5,659 | 5,276 | 16,642 | 13,415 |
| Income tax provision | 32 | 2 | 62 | 54 |
| Net investment income | 5,627 | 5,274 | 16,580 | 13,361 |
| Net realized and unrealized gains (losses) on investments: | | | | |
| Realized gains on control investments | — | 22,107 | — | 22,107 |
| Realized gains on affiliate investments | — | — | 166 | — |
| Net realized (losses) gains on non-control/non-affiliate investments | (6,692) | 2,532 | (4,940) | 3,585 |
| Net change in unrealized appreciation (depreciation) on investments | 6,366 | (25,376) | 318 | (16,459) |
| Income tax (provision) on realized gains on investments | — | — | (17) | — |
| Net (loss) gain on investments | (326) | (737) | (4,473) | 9,233 |
| Net increase in net assets resulting from operations | \$ 5,301 | \$ 4,537 | \$ 12,107 | \$ 22,594 |
| Per common share data: | | | | |
| Net investment income per share—basic and diluted | \$ 0.41 | \$ 0.38 | \$ 1.20 | \$ 0.99 |
| Net increase in net assets resulting from operations per share—basic and diluted | \$ 0.38 | \$ 0.33 | \$ 0.88 | \$ 1.68 |
| Dividends paid per share | \$ 0.48 | \$ 0.42 | \$ 1.24 | \$ 1.18 |
| Weighted average number of shares outstanding—basic and diluted | 13,832,769 | 13,717,527 | 13,784,936 | 13,452,768 |

See Notes to Consolidated Financial Statements (unaudited).

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

| | <u>Common Stock</u> | | <u>Additional Paid in Capital</u> | <u>Undistributed Net Investment Income</u> | <u>Accumulated Net Realized Gain on Investments (net of taxes)</u> | <u>Accumulated Net Unrealized (Depreciation) Appreciation on Investments</u> | <u>Total Net Assets</u> |
|--|-----------------------------|----------------------|---|--|--|--|---------------------------------|
| | <u>Number of Shares</u> | <u>Par Value</u> | | | | | |
| Balances at December 31, 2012 | 11,953,847 | \$ 12 | \$177,498 | \$ 455 | \$ 1,493 | \$ 3,633 | \$183,091 |
| Public offering of common stock, net of expenses | 1,725,000 | 2 | 28,855 | — | — | — | 28,857 |
| Net increase in net assets resulting from operations | — | — | — | 13,361 | 16,701 | (7,468) | 22,594 |
| Dividends paid | 55,489 | — | 1,032 | (16,165) | — | — | (15,133) |
| Balances at September 30, 2013 | <u>13,734,336</u> | <u>\$ 14</u> | <u>\$207,385</u> | <u>\$ (2,349)</u> | <u>\$ 18,194</u> | <u>\$ (3,835)</u> | <u>\$219,409</u> |
| Balances at December 31, 2013 | 13,755,232 | 14 | 206,123 | 3,221 | 11,212 | (9,445) | 211,125 |
| Public offerings of common stock, net of expenses | 2,153,541 | 2 | 35,200 | — | — | — | 35,202 |
| Net increase in net assets resulting from operations | — | — | — | 16,580 | (4,792) | 319 | 12,107 |
| Dividends paid | 34,366 | — | 645 | (17,129) | — | — | (16,484) |
| Balances at September 30, 2014 | <u>15,943,139</u> | <u>\$ 16</u> | <u>\$241,968</u> | <u>\$ 2,672</u> | <u>\$ 6,420</u> | <u>\$ (9,126)</u> | <u>\$241,950</u> |

See Notes to Consolidated Financial Statements (unaudited).

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

| | <u>Nine months ended September 30,</u> | |
|---|--|------------------|
| | <u>2014</u> | <u>2013</u> |
| Cash Flows from Operating Activities: | | |
| Net increase in net assets resulting from operations | \$ 12,107 | \$ 22,594 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities: | | |
| Net change in unrealized (appreciation) depreciation on investments | (318) | 16,459 |
| Realized loss (gain) on investments | 4,774 | (25,692) |
| Interest and dividend income paid-in-kind | (4,150) | (4,152) |
| Accretion of original issue discount | (501) | (854) |
| Accretion of loan origination fees | (371) | (254) |
| Purchase of investments | (62,574) | (79,559) |
| Proceeds from sales and repayments of investments | 33,330 | 90,336 |
| Proceeds from loan origination fees | 309 | 576 |
| Amortization of deferred financing costs | 469 | 380 |
| Changes in operating assets and liabilities: | | |
| Interest receivable | (2,442) | 242 |
| Prepaid expenses and other assets | (5,932) | (491) |
| Accrued interest and fees payable | (1,657) | (1,596) |
| Due to affiliates | (959) | 2,219 |
| Taxes payable | (684) | — |
| Accounts payable and other liabilities | 195 | 172 |
| Net cash (used in) provided by operating activities | <u>(28,404)</u> | <u>20,380</u> |
| Cash Flows from Financing Activities: | | |
| Proceeds from stock offerings, net of expenses | 2,762 | 28,857 |
| Proceeds received from SBA debentures | 1,000 | — |
| Payment of deferred financing costs | (917) | (250) |
| Dividends paid to stockholders | (16,484) | (15,133) |
| Taxes paid on deemed distribution | (2,887) | — |
| Net cash (used in) provided by financing activities | <u>(16,526)</u> | <u>13,474</u> |
| Net (decrease) increase in cash and cash equivalents | <u>(44,930)</u> | <u>33,854</u> |
| Cash and cash equivalents: | | |
| Beginning of period | 53,418 | 52,042 |
| End of period | <u>\$ 8,488</u> | <u>\$ 85,896</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash payments for interest | <u>\$ 6,670</u> | <u>\$ 6,503</u> |
| Cash payments for taxes | <u>\$ 3,618</u> | <u>\$ 54</u> |
| Proceeds receivable from stock offering | <u>\$ 32,440</u> | <u>\$ —</u> |

See Notes to Consolidated Financial Statements (unaudited).

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
September 30, 2014 (unaudited)
(In thousands, except shares)

| Portfolio Company / Type of Investment (1) (2) (3) | Industry | Rate (4) Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|--|---------------------|----------------------|------------|---------------------|---------------|---------------|--------------------------|
| Affiliate Investments (5) | | | | | | | |
| <i>Apex Microtechnology, Inc.</i> | | | | | | | |
| | Electronic | | | | | | |
| Warrant (2,294 units) | Components Supplier | | | | \$ 220 | \$ 244 | |
| Common Equity (11,690 shares) | | | | | 1,169 | 1,259 | |
| Sub Total | | | | | 1,389 | 1,503 | 1% |
| <i>Avrio Technology Group, LLC</i> | | | | | | | |
| | Electronic | | | | | | |
| Subordinated Note (8) | Components Supplier | 0.0%/14.0% | 10/15/2015 | \$ 6,508 | 6,508 | — | |
| Preferred Equity—Series B (3,704 units) (7) | | | | | 3,704 | — | |
| Preferred Equity—Series C (872 units) (7) | | | | | 436 | — | |
| Preferred Equity—Series D (1,917 units) (7) | | | | | 639 | — | |
| Common Equity (4,215 units) (7) | | | | | 1,000 | — | |
| Sub Total | | | | | 12,287 | — | 0% |
| <i>FAR Research Inc.</i> | | | | | | | |
| | Specialty | | | | | | |
| Senior Secured Loan (12) | Chemicals | 11.8%/0.0% | 3/31/2019 | 7,600 | 7,566 | 7,600 | |
| Revolving Loan (\$1,750 commitment) (11) | | 11.8%/0.0% | 3/31/2019 | 136 | 128 | 136 | |
| Common Equity (10 units) | | | | | 1,000 | 1,000 | |
| Sub Total | | | | | 8,694 | 8,736 | 4% |
| <i>Malabar International</i> | | | | | | | |
| | Aerospace & Defense | | | | | | |
| Subordinated Note (12) | Manufacturing | 12.5%/2.5% | 5/21/2017 | 7,218 | 7,191 | 7,218 | |
| Preferred Equity (1,494 shares) (6) | | 6.0%/0.0% | | | 1,992 | 3,468 | |
| Sub Total | | | | | 9,183 | 10,686 | 4% |
| <i>Medsurant Holdings, LLC</i> | | | | | | | |
| | Healthcare | | | | | | |
| Subordinated Note | Services | 9.5%/4.5% | 7/12/2016 | 10,014 | 9,390 | 10,014 | |
| Preferred Equity (89,770 units) (7) | | | | | 1,228 | 795 | |
| Warrant (321,005 units) (7) | | | | | 4,045 | 2,726 | |
| Sub Total | | | | | 14,663 | 13,535 | 6% |
| <i>Paramount Building Solutions, LLC</i> | | | | | | | |
| | Retail | | | | | | |
| Participation (13) | Cleaning | 5.3%/0.0% | 12/31/2014 | 1,000 | 1,000 | 1,000 | |
| Subordinated Note (9) | | 12.0%/6.0% | 12/31/2014 | 7,454 | 7,454 | 4,567 | |
| Common Equity (107,143 units) (7) | | | | | 1,500 | — | |
| Sub Total | | | | | 9,954 | 5,567 | 2% |
| <i>Pfanstiehl, Inc.</i> | | | | | | | |
| | Healthcare | | | | | | |
| Subordinated Note | Products | 12.0%/2.0% | 9/29/2018 | 6,208 | 6,165 | 6,208 | |
| Common Equity (8,500 units) (11) | | | | | 850 | 2,829 | |
| Sub Total | | | | | 7,015 | 9,037 | 4% |
| <i>Safety Products Group, LLC</i> | | | | | | | |
| | Safety Products | | | | | | |
| Subordinated Note | Manufacturing | 12.0%/1.5% | 12/30/2018 | 10,000 | 9,963 | 10,000 | |
| Preferred Equity (749 units) (7) | | | | | 749 | 796 | |
| Common Equity (676 units) (7) | | | | | 1 | 8 | |
| Sub Total | | | | | 10,713 | 10,804 | 4% |
| <i>Trantech Radiator Products, Inc.</i> | | | | | | | |
| | Utility Equipment | | | | | | |
| Subordinated Note (11) | Manufacturing | 12.0%/1.8% | 5/4/2017 | 9,476 | 9,454 | 9,476 | |
| Common Equity (6,875 shares) (11) | | | | | 688 | 1,166 | |
| Sub Total | | | | | 10,142 | 10,642 | 4% |
| <i>Westminster Cracker Company, Inc.</i> | | | | | | | |
| | Specialty Cracker | | | | | | |
| Preferred Equity (94,186 units) | Manufacturing | | | | 70 | 125 | |
| Common Equity (1,208,197 units) | | | | | 1,208 | 1,606 | |
| Sub Total | | | | | 1,278 | 1,731 | 1% |
| <i>World Wide Packaging, LLC</i> | | | | | | | |
| | Consumer | | | | | | |
| Subordinated Note (11) | Products | 12.0%/1.8% | 10/26/2018 | 10,052 | 10,015 | 10,052 | |
| Common Equity (1,517,573 units) (7) (11) | | | | | 1,518 | 1,411 | |
| Sub Total | | | | | 11,533 | 11,463 | 5% |
| Total Affiliate Investments | | | | | 96,851 | 83,704 | 35% |

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
September 30, 2014 (continued) (unaudited)
(In thousands, except shares)

| Portfolio Company / Type of Investment (1) (2) (3) | Industry | Rate (4) Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|--|---------------------|----------------------|------------|------------------|--------|------------|-----------------------|
| Non-Control/Non-Affiliate Investments (5) | | | | | | | |
| <i>Acentia, LLC</i> | | | | | | | |
| | Information | | | | | | |
| Common Units (499 units) | Technology Services | | | | \$ 500 | \$ 212 | 0% |
| <i>ACFP Management, Inc.</i> | | | | | | | |
| | Restaurants | | | | | | |
| Common Units (1,000,000 units) (11) | | | | | 1,091 | 1,513 | 1% |
| <i>Anatrace Products, LLC</i> | | | | | | | |
| | Healthcare | | | | | | |
| Senior Secured Loan | Products | 11.5%/1.5% | 10/11/2018 | \$ 9,500 | 9,467 | 9,500 | |
| Revolving Loan (\$500 commitment) (10) | | N/A | 10/11/2018 | — | (2) | (2) | |
| Common Equity (360,000 shares) (11) | | | | | 360 | 462 | |
| Sub Total | | | | | 9,825 | 9,960 | 4% |
| <i>Brook & Whittle Limited</i> | | | | | | | |
| | Printing | | | | | | |
| Subordinated Note | Services | 12.0%/4.8% | 12/31/2016 | 7,210 | 7,210 | 7,210 | |
| Subordinated Note | | 12.0%/2.0% | 12/31/2016 | 2,239 | 2,239 | 2,227 | |
| Warrant (1,051 shares) | | | | | 285 | 262 | |
| Common Equity—Series A (148 shares) | | | | | 110 | 37 | |
| Common Equity—Series D (527 shares) | | | | | 53 | 66 | |
| Sub Total | | | | | 9,897 | 9,802 | 4% |
| <i>Caldwell & Gregory, LLC</i> | | | | | | | |
| | Laundry | | | | | | |
| Subordinated Note | Services | 11.5%/1.0% | 11/30/2018 | 1,520 | 1,497 | 1,520 | |
| Subordinated Note | | 0.0%/12.0% | 5/31/2019 | 3,513 | 3,276 | 3,513 | |
| Common Equity (500,000 units) (7) | | | | | 500 | 543 | |
| Warrant (242,121 units) (7) | | | | | 242 | 263 | |
| Sub Total | | | | | 5,515 | 5,839 | 2% |
| <i>Channel Technologies Group, LLC</i> | | | | | | | |
| | Component | | | | | | |
| Subordinated Note | Manufacturing | 11.0%/1.3% | 4/10/2019 | 7,000 | 6,950 | 7,000 | |
| Preferred Equity (538 units) (7) | | | | | 1,000 | 708 | |
| Common Equity (537,817 units) (7) | | | | | — | — | |
| Sub Total | | | | | 7,950 | 7,708 | 3% |
| <i>Connect-Air International, Inc.</i> | | | | | | | |
| | Specialty | | | | | | |
| Subordinated Note | Distribution | 12.8%/0.0% | 11/5/2018 | 11,400 | 11,395 | 11,400 | |
| Common Equity | | | | | — | 2,150 | |
| Sub Total | | | | | 11,395 | 13,550 | 6% |
| <i>Continental Anesthesia Management, LLC</i> | | | | | | | |
| | Healthcare | | | | | | |
| Senior Secured Loan | Services | 8.0%/6.0% | 4/15/2015 | 10,130 | 10,118 | 10,232 | |
| Warrant (263 shares) | | | | | 276 | 104 | |
| Sub Total | | | | | 10,394 | 10,336 | 4% |
| <i>EBL, LLC (EbLens)</i> | | | | | | | |
| | Retail | | | | | | |
| Subordinated Note (11) | | 12.0%/3.0% | 2/2/2018 | 9,537 | 9,508 | 9,537 | |
| Common Equity (750,000 units)(7) (11) | | | | | 750 | 921 | |
| Sub Total | | | | | 10,258 | 10,458 | 4% |
| <i>FCA, LLC</i> | | | | | | | |
| | Industrial | | | | | | |
| Subordinated Note | Products | 12.5%/1.5% | 6/18/2018 | 3,045 | 3,033 | 3,045 | |
| Preferred Equity (4,500,000 units)(6) (11) | | 11.5%/5.0% | 6/18/2018 | | 9,419 | 9,454 | |
| Sub Total | | | | | 12,452 | 12,499 | 5% |
| <i>FocusVision Worldwide, Inc.</i> | | | | | | | |
| | Business | | | | | | |
| Subordinated Note (12) | Services | 12.0%/1.0% | 1/29/2019 | 7,575 | 7,549 | 7,575 | 3% |
| <i>FTH Acquisition Corp. VII</i> | | | | | | | |
| | Information | | | | | | |
| Subordinated Note | Technology Services | 13.0%/0.0% | 2/27/2015 | 8,453 | 8,453 | 8,212 | |
| Preferred Equity (887,122 shares) | | | | | 887 | — | |
| Sub Total | | | | | 9,340 | 8,212 | 3% |
| <i>IOS Acquisitions, Inc.</i> | | | | | | | |
| | Oil & Gas | | | | | | |
| Subordinated Note | Services | 12.0%/3.5% | 6/26/2018 | 14,145 | 14,051 | 14,145 | |
| Common Equity (2,152 shares) | | | | | 500 | 420 | |
| Sub Total | | | | | 14,551 | 14,565 | 6% |
| <i>Jacob Ash Holdings, Inc.</i> | | | | | | | |
| | Apparel | | | | | | |
| Subordinated Note | Distribution | 13.0%/5.0% | 8/11/2016 | 3,500 | 3,493 | 3,500 | |
| Subordinated Note | | 13.0%/1.0% | 8/11/2016 | 963 | 952 | 963 | |
| Preferred Equity (500 shares)(6) | | 0.0%/15.0% | 8/11/2016 | | 768 | 654 | |
| Warrant (129,630 shares) | | | | | 67 | — | |
| Sub Total | | | | | 5,280 | 5,117 | 2% |

[Table of Contents](#)

FIDUS INVESTMENT CORPORATION
Consolidated Schedule of Investments
September 30, 2014 (continued) (unaudited)
(In thousands, except shares)

| Portfolio Company / Type of Investment (1) (2) (3) | Industry | Rate (4) Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|--|---------------------|----------------------|------------|---------------------|------------------|-------------------|--------------------------|
| K2 Industrial Services, Inc. | | | | | | | |
| | Industrial Cleaning | | | | | | |
| Subordinated Note | & Coatings | 11.8%/2.8% | 5/23/2017 | 15,107 | 15,049 | 15,106 | |
| Preferred Equity—Series A (1,200 shares) | | | | | 1,200 | 1,105 | |
| Preferred Equity—Series B (74 shares) | | | | | 68 | 80 | |
| Sub Total | | | | | 16,317 | 16,291 | 7% |
| Lightning Diversion Systems, LLC | | | | | | | |
| | Aerospace & Defense | | | | | | |
| Senior Secured Loan | Manufacturing | 10.5%/0.0% | 12/20/2018 | 12,198 | 12,151 | 12,198 | |
| Revolving Loan (\$1,000 commitment) (10) | | N/A | 12/20/2018 | — | (3) | (3) | |
| Common Equity (600,000 units) | | | | | — | 1,995 | |
| Sub Total | | | | | 12,148 | 14,190 | 6% |
| MedPlast, LLC | | | | | | | |
| | Healthcare | | | | | | |
| Subordinated Note (11) | Products | 11.0%/1.5% | 3/31/2019 | 10,147 | 10,085 | 10,146 | |
| Preferred Equity (188 shares) (6) (11) | | 0.0%/8.0% | | | 203 | 203 | |
| Common Equity (3,728 shares) (11) | | | | | 62 | 65 | |
| Sub Total | | | | | 10,350 | 10,414 | 4% |
| National Truck Protection Co., Inc. | | | | | | | |
| | Financial | | | | | | |
| Senior Secured Loan | Services | 13.5%/2.0% | 9/13/2018 | 12,662 | 12,593 | 12,662 | |
| Common Units (1,109 shares) | | | | | 758 | 1,886 | |
| Sub Total | | | | | 13,351 | 14,548 | 6% |
| Oaktree Medical Centre, P.C. (dba Pain Management Associates) | | | | | | | |
| | Healthcare | | | | | | |
| Senior Secured Loan (11) | Services | 6.5%/0.0% | 5/6/2019 | 700 | 694 | 694 | |
| Senior Secured Loan (11) | | 14.0%/0.0% | 5/6/2019 | 5,300 | 5,251 | 5,251 | |
| Revolving Loan (\$500 commitment) (11) | | 6.5%/0.0% | 5/6/2019 | 250 | 245 | 245 | |
| Sub Total | | | | | 6,190 | 6,190 | 3% |
| Pinnergy, Ltd. | | | | | | | |
| | Oil & Gas | | | | | | |
| Subordinated Note (12) | Services | 10.5%/0.8% | 1/24/2020 | 20,023 | 19,951 | 19,951 | 8% |
| Premium Franchise Brands, LLC | | | | | | | |
| | Commercial | | | | | | |
| Subordinated Note | Cleaning | 12.0%/1.5% | 3/18/2017 | 7,925 | 7,925 | 7,925 | |
| Preferred Equity (1,054,619 shares) | | | | | 832 | 662 | |
| Sub Total | | | | | 8,757 | 8,587 | 4% |
| Restaurant Finance Co, LLC | | | | | | | |
| | Restaurants | | | | | | |
| Senior Secured Loan (\$10,500 commitment) (12) | | 12.0%/4.0% | 7/31/2020 | 3,800 | 3,797 | 3,800 | 2% |
| Simplex Manufacturing Co. | | | | | | | |
| | Aerospace & Defense | | | | | | |
| Subordinated Note | Manufacturing | 14.0%/0.0% | 11/1/2015 | 4,550 | 4,533 | 4,550 | |
| Warrant (24 shares) | | | | | 710 | 723 | |
| Sub Total | | | | | 5,243 | 5,273 | 2% |
| United Biologics, LLC | | | | | | | |
| | Healthcare | | | | | | |
| Senior Secured Loan | Services | 12.0%/2.0% | 3/5/2017 | 8,643 | 8,315 | 8,643 | |
| Preferred Equity (98,377 units) (7) (11) | | | | | 1,069 | 1,222 | |
| Warrant (57,469 units) | | | | | 566 | 328 | |
| Sub Total | | | | | 9,950 | 10,193 | 4% |
| US GreenFiber, LLC | | | | | | | |
| | Building Products | | | | | | |
| Subordinated Note (12) | Manufacturing | 12.5%/0.0% | 1/2/2019 | 10,000 | 9,953 | 9,953 | |
| Common Equity (1,667 units) (7) | | | | | 500 | 500 | |
| Sub Total | | | | | 10,453 | 10,453 | 4% |
| Worldwide Express Operations, LLC | | | | | | | |
| | Transportation | | | | | | |
| Subordinated Note | Services | 11.5%/1.0% | 8/1/2020 | 12,647 | 12,542 | 12,646 | |
| Common Equity (2,500,000 units) (7) (11) | | | | | 2,500 | 2,896 | |
| Sub Total | | | | | 15,042 | 15,542 | 6% |
| Total Non-Control/Non-Affiliate Investments | | | | | <u>247,546</u> | <u>252,778</u> | <u>104%</u> |
| Total Investments | | | | | <u>\$344,397</u> | <u>\$ 336,482</u> | <u>139%</u> |

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

- (12) The portion of the investment not held by the Funds is pledged as collateral for the Credit Facility and, as a result, is not directly available to the creditors of the Company to satisfy any obligations of the Company other than the Company's obligations under the Credit Facility (see Note 6 to the consolidated financial statements).
- (13) Investment bears interest at a rate equal to 90-day LIBOR + 3.0%, which may reset daily. The interest rate shown is a weighted average current interest rate in effect at September 30, 2014. Such investment is classified as a senior secured loan for purposes of these consolidated financial statements.

See Notes to Consolidated Financial Statements (unaudited).

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

| Portfolio Company / Type of Investment (1) (2) (3) | Industry | Rate (4) Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|--|---------------------|----------------------|------------|------------------|---------------|---------------|-----------------------|
| Affiliate Investments (5) | | | | | | | |
| <i>Apex Microtechnology, Inc.</i> | | | | | | | |
| | Electronic | | | | | | |
| Subordinated Note | Components Supplier | 12.0%/2.0% | 2/16/2018 | \$ 6,200 | \$ 5,987 | \$ 6,448 | |
| Warrant (2,294 units) | | | | | 220 | 255 | |
| Common Equity (11,690 units) | | | | | 1,169 | 1,299 | |
| Sub Total | | | | | 7,376 | 8,002 | 4% |
| <i>Avrio Technology Group, LLC</i> | | | | | | | |
| | Electronic | | | | | | |
| Subordinated Note | Components Supplier | 0.0%/14.0% | 10/15/2015 | 6,291 | 6,291 | 3,200 | |
| Preferred Equity—Series B (3,704 units) (7) | | | | | 3,704 | — | |
| Preferred Equity—Series C (872 units) (7) | | | | | 436 | — | |
| Preferred Equity—Series D (1,917 units) (7) | | | | | 639 | — | |
| Common Equity (4,215 units) (7) | | | | | 1,000 | — | |
| Sub Total | | | | | 12,070 | 3,200 | 2% |
| <i>Malabar International</i> | | | | | | | |
| | Aerospace & Defense | | | | | | |
| Subordinated Note | Manufacturing | 12.5%/2.5% | 5/21/2017 | 5,116 | 5,093 | 5,116 | |
| Preferred Equity (1,494 shares) (6) | | 6.0%/0.0% | | | 1,990 | 3,616 | |
| Sub Total | | | | | 7,083 | 8,732 | 4% |
| <i>Medsurant Holdings, LLC</i> | | | | | | | |
| | Healthcare | | | | | | |
| Subordinated Note | Services | 14.0%/0.0% | 7/12/2016 | 9,750 | 8,845 | 9,541 | |
| Preferred Equity (79,091 units) (7) | | | | | 1,112 | 1,105 | |
| Warrant (288,239 units) (7) | | | | | 3,690 | 3,944 | |
| Sub Total | | | | | 13,647 | 14,590 | 7% |
| <i>Paramount Building Solutions, LLC</i> | | | | | | | |
| | Retail | | | | | | |
| Subordinated Note | Cleaning | 5.0%/13.0% | 12/31/2014 | 7,253 | 7,253 | 7,091 | |
| Common Equity (107,143 units) (7) | | | | | 1,500 | — | |
| Sub Total | | | | | 8,753 | 7,091 | 3% |
| <i>Pfanstiehl, Inc.</i> | | | | | | | |
| | Healthcare | | | | | | |
| Subordinated Note | Products | 12.0%/4.0% | 9/29/2018 | 6,082 | 6,031 | 6,082 | |
| Common Equity (8,500 shares) | | | | | 850 | 970 | |
| Sub Total | | | | | 6,881 | 7,052 | 3% |
| <i>Safety Products Group, LLC</i> | | | | | | | |
| | Safety Products | | | | | | |
| Subordinated Note | Manufacturer | 12.0%/1.5% | 12/30/2018 | 10,000 | 9,957 | 9,957 | |
| Preferred Equity (749 shares) (7) | | | | | 749 | 749 | |
| Common Equity (676 shares) (7) | | | | | 1 | 1 | |
| Sub Total | | | | | 10,707 | 10,707 | 5% |
| <i>Trantech Radiator Products, Inc.</i> | | | | | | | |
| | Utility Equipment | | | | | | |
| Subordinated Note | Manufacturer | 12.0%/1.8% | 5/4/2017 | 9,351 | 9,323 | 9,351 | |
| Common Equity (6,875 shares) | | | | | 688 | 1,317 | |
| Sub Total | | | | | 10,011 | 10,668 | 5% |
| <i>Westminster Cracker Company, Inc.</i> | | | | | | | |
| | Specialty Cracker | | | | | | |
| Preferred Equity (83,851 units) | Manufacturer | | | | 70 | 75 | |
| Common Equity (1,208,197 units) | | | | | 1,208 | 1,108 | |
| Sub Total | | | | | 1,278 | 1,183 | 1% |
| <i>World Wide Packaging, LLC</i> | | | | | | | |
| | Consumer | | | | | | |
| Subordinated Note | Products | 12.0%/1.8% | 10/26/2018 | 9,919 | 9,877 | 9,919 | |
| Common Equity (1,300,000 units) (7) | | | | | 1,300 | 1,300 | |
| Sub Total | | | | | 11,177 | 11,219 | 5% |
| Total Affiliate Investments | | | | | 88,983 | 82,444 | 39% |

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

| Portfolio Company / Type of Investment (1) (2) (3) | Industry | Rate (4) Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|--|-----------------------------|----------------------|------------|------------------|----------|------------|-----------------------|
| Non-Control/Non-Affiliate Investments (5) | | | | | | | |
| <i>Anatrace Products, LLC</i> | | | | | | | |
| Senior Secured Loan | Healthcare Products | 11.5%/1.5% | 10/11/2018 | \$ 9,533 | \$ 9,493 | \$ 9,493 | |
| Revolving Loan (\$500 commitment) (9) | | N/A | 10/11/2018 | — | (2) | (2) | |
| Common Equity (360,000 shares) | | | | | 360 | 360 | |
| Sub Total | | | | | 9,851 | 9,851 | 5% |
| <i>Acentia, LLC (f/k/a ITSolutions)</i> | | | | | | | |
| Common Units (499 units) | IT Services | | | | 500 | 267 | 0% |
| <i>ACFP Management, Inc.</i> | | | | | | | |
| Common Units (1,000,000 units) | Restaurants | | | | 1,091 | 1,140 | 1% |
| <i>Brook & Whittle Limited</i> | | | | | | | |
| Subordinated Note | Specialty Printing | 12.0%/4.8% | 12/31/2016 | 6,954 | 6,954 | 6,954 | |
| Subordinated Note | | 12.0%/2.0% | 12/31/2016 | 2,206 | 2,199 | 2,206 | |
| Warrant (1,051 shares) | | | | | 285 | 367 | |
| Common Equity—Series A (148 shares) | | | | | 110 | 52 | |
| Common Equity—Series D (527 shares) | | | | | 53 | 53 | |
| Sub Total | | | | | 9,601 | 9,632 | 5% |
| <i>Brook Furniture Rental, Inc.</i> | | | | | | | |
| Subordinated Note | Furniture Rental | 12.0%/1.5% | 9/30/2016 | 7,865 | 7,573 | 7,944 | |
| Warrants (2.5%) | | | | | 485 | 751 | |
| Sub Total | | | | | 8,058 | 8,695 | 4% |
| <i>Caldwell & Gregory, LLC</i> | | | | | | | |
| Subordinated Note | Laundry Services | 11.5%/1.0% | 11/30/2018 | 1,509 | 1,482 | 1,509 | |
| Subordinated Note | | 0.0%/12.0% | 5/31/2019 | 3,215 | 2,941 | 3,215 | |
| Common Equity (500,000 units) (7) | | | | | 500 | 511 | |
| Warrant (242,121 units) (7) | | | | | 242 | 247 | |
| Sub Total | | | | | 5,165 | 5,482 | 3% |
| <i>Channel Technologies Group, LLC</i> | | | | | | | |
| Subordinated Note | Component Manufacturer | 11.0%/1.3% | 4/10/2019 | 7,000 | 6,941 | 6,941 | |
| Preferred Equity (538 units) (7) | | | | | 1,000 | 1,000 | |
| Common Equity (537,817 units) (7) | | | | | — | — | |
| Sub Total | | | | | 7,941 | 7,941 | 4% |
| <i>Connect-Air International, Inc.</i> | | | | | | | |
| Subordinated Note | Specialty Distribution | 12.8%/0.0% | 11/5/2018 | 11,400 | 11,394 | 11,394 | |
| Common Equity | | | | | — | 1,800 | |
| Sub Total | | | | | 11,394 | 13,194 | 6% |
| <i>Continental Anesthesia Management, LLC</i> | | | | | | | |
| Senior Secured Loan | Healthcare Services | 14.0%/0.0% | 9/15/2014 | 9,825 | 9,777 | 9,717 | |
| Warrant (263 shares) | | | | | 276 | — | |
| Sub Total | | | | | 10,053 | 9,717 | 5% |
| <i>Convergent Resources, Inc.</i> | | | | | | | |
| Subordinated Note | Debt Collection Services | 13.0%/3.0% | 12/27/2017 | 5,758 | 5,719 | 5,759 | 3% |
| <i>EBL, LLC (EbLens)</i> | | | | | | | |
| Subordinated Note | Retail | 12.0%/3.0% | 2/2/2018 | 9,323 | 9,288 | 9,323 | |
| Common Equity (750,000 units)(7) | | | | | 750 | 778 | |
| Sub Total | | | | | 10,038 | 10,101 | 5% |

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

| Portfolio Company / Type of Investment (1) (2) (3) | Industry | Rate (4) Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|--|---------------------|----------------------|------------|------------------|----------|------------|-----------------------|
| FCA, LLC | | | | | | | |
| | Industrial | | | | | | |
| Subordinated Note | Products | 12.5%/1.5% | 6/18/2018 | \$ 1,512 | \$ 1,506 | \$ 1,512 | |
| Preferred Equity (4,500,000 units) ⁽⁶⁾ | | 11.5%/5.0% | 6/18/2018 | | 4,604 | 4,623 | |
| Sub Total | | | | | 6,110 | 6,135 | 3% |
| FocusVision Worldwide, Inc. | | | | | | | |
| | Business | | | | | | |
| Subordinated Note | Services | 12.0%/1.0% | 1/29/2019 | 7,519 | 7,487 | 7,519 | 4% |
| FTH Acquisition Corp. VII | | | | | | | |
| | IT Services | | | | | | |
| Subordinated Note | | 13.0%/0.0% | 2/27/2015 | 8,511 | 8,511 | 7,741 | |
| Preferred Equity (887,122 shares) | | | | | 887 | — | |
| Sub Total | | | | | 9,398 | 7,741 | 4% |
| IOS Acquisition, Inc. | | | | | | | |
| | Oil & Gas | | | | | | |
| Subordinated Note | Services | 12.0%/3.5% | 6/26/2018 | 13,766 | 13,654 | 13,766 | |
| Common Equity (2,152 shares) | | | | | 500 | 379 | |
| Sub Total | | | | | 14,154 | 14,145 | 7% |
| Jacob Ash Holdings, Inc. | | | | | | | |
| | Apparel | | | | | | |
| Subordinated Note | Distribution | 13.0%/5.0% | 8/11/2016 | 3,500 | 3,491 | 3,500 | |
| Subordinated Note | | 13.0%/1.0% | 8/11/2016 | 1,147 | 1,132 | 1,147 | |
| Preferred Equity (500 shares) ⁽⁶⁾ | | 0.0%/15.0% | 8/11/2016 | | 685 | 314 | |
| Warrant (129,630 shares) | | | | | 67 | — | |
| Sub Total | | | | | 5,375 | 4,961 | 2% |
| K2 Industrial Services, Inc. | | | | | | | |
| | Industrial Cleaning | | | | | | |
| Subordinated Note | & Coatings | 11.8%/2.8% | 5/23/2017 | 14,797 | 14,722 | 14,798 | |
| Preferred Equity—Series A (1,200 shares) | | | | | 1,200 | 930 | |
| Preferred Equity—Series B (69 shares) | | | | | 68 | 74 | |
| Sub Total | | | | | 15,990 | 15,802 | 7% |
| Lightning Diversion Systems, LLC | | | | | | | |
| | Aerospace & Defense | | | | | | |
| Senior Secured Loan | Manufacturing | 10.5%/0.0% | 12/20/2018 | 12,198 | 12,143 | 12,197 | |
| Revolving Loan (\$1,000 commitment) ⁽⁹⁾ | | N/A | 12/20/2018 | — | (3) | (3) | |
| Common Equity (600,000 units) | | | | | — | 1,049 | |
| Sub Total | | | | | 12,140 | 13,243 | 6% |
| MedPlast, LLC | | | | | | | |
| | Healthcare | | | | | | |
| Subordinated Note | Products | 11.0%/1.5% | 3/31/2019 | 10,033 | 9,961 | 9,961 | |
| Preferred Equity (188 shares) ⁽⁶⁾ | | 0.0%/8.0% | | | 191 | 191 | |
| Common Equity (3,728 shares) | | | | | 62 | 62 | |
| Sub Total | | | | | 10,214 | 10,214 | 5% |
| National Truck Protection Co., Inc. | | | | | | | |
| | Financial | | | | | | |
| Senior Secured Loan | Services | 13.5%/2.0% | 9/13/2018 | 13,500 | 13,418 | 13,500 | |
| Common Units (1,109 units) | | | | | 737 | 1,118 | |
| Sub Total | | | | | 14,155 | 14,618 | 7% |
| Nobles Manufacturing, Inc. | | | | | | | |
| | Aerospace & Defense | | | | | | |
| Subordinated Note | Manufacturing | 12.0%/2.5% | 10/6/2018 | 4,550 | 4,550 | 4,550 | |
| Preferred Equity (1,300,000 shares) | | | | | 867 | 2,285 | |
| Common Equity (1,300,000 shares) | | | | | — | — | |
| Sub Total | | | | | 5,417 | 6,835 | 3% |

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

| Portfolio Company / Type of Investment (1) (2) (3) | Industry | Rate (4) Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|--|---------------------|----------------------|------------|---------------------|------------------|-------------------|--------------------------|
| <i>Premium Franchise Brands, LLC</i> | Commercial | | | | | | |
| <i>(f/k/a Jan-Pro Holdings, LLC)</i> | Cleaning | | | | | | |
| Subordinated Note | | 12.0%/2.0% | 3/18/2017 | \$ 7,833 | \$ 7,833 | \$ 7,833 | |
| Preferred Equity (1,054,619 shares) | | | | | 832 | 465 | |
| Sub Total | | | | | 8,665 | 8,298 | 4% |
| <i>Restaurant Finance Co, LLC</i> | Restaurants | | | | | | |
| Senior Secured Loan (\$6,000 commitment) | | 11.0%/2.0% | 11/25/2019 | 1,664 | 1,652 | 1,652 | |
| Royalty Rights | | | | | — | — | |
| Sub Total | | | | | 1,652 | 1,652 | 1% |
| <i>S.B. Restaurant Co. (dba Elephant Bar)</i> | Restaurants | | | | | | |
| Subordinated Note (8) | | 13.0%/1.0% | 1/10/2018 | 7,594 | 7,256 | 2,974 | |
| Subordinated Note (\$500 commitment) | | 0.0%/0.0% | 1/10/2018 | 250 | 165 | 165 | |
| Warrant (652 shares) | | | | | 416 | — | |
| Sub Total | | | | | 7,837 | 3,139 | 1% |
| <i>Simplex Manufacturing Co.</i> | Aerospace & Defense | | | | | | |
| Subordinated Note | Manufacturing | 14.0%/0.0% | 11/1/2015 | 4,550 | 4,522 | 4,550 | |
| Warrant (24 shares) | | | | | 710 | 758 | |
| Sub Total | | | | | 5,232 | 5,308 | 3% |
| <i>United Biologics, LLC</i> | Healthcare | | | | | | |
| Senior Secured Loan | Services | 12.0%/2.0% | 3/5/2017 | 6,833 | 6,425 | 6,833 | |
| Preferred Equity (98,377 units) (7) | | | | | 1,069 | 1,069 | |
| Warrant (57,469 units) | | | | | 566 | 312 | |
| Sub Total | | | | | 8,060 | 8,214 | 4% |
| <i>Worldwide Express Operations, LLC</i> | Transportation | | | | | | |
| Subordinated Note | Services | 11.5%/1.0% | 8/1/2020 | 12,552 | 12,434 | 12,434 | |
| Common Equity (2,500,000 units) (7) | | | | | 2,500 | 2,500 | |
| Sub Total | | | | | 14,934 | 14,934 | 7% |
| Total Non-Control/Non-Affiliate Investments | | | | | 226,231 | 224,537 | 106% |
| Total Investments | | | | | \$315,214 | \$ 306,981 | 145% |

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

See Notes to Consolidated Financial Statements (unaudited)

FIDUS INVESTMENT CORPORATION
Notes to Consolidated Finance Statements (unaudited)
(In thousands, except shares and per share data)

Note 1. Organization and Nature of Business

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

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

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

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

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

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

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”). During the period from August 21, 2014 through September 30, 2014, 153,541 shares of the Company’s common stock were sold at an average offering price of \$18.56 per share resulting in net proceeds of \$2,794, after commissions to the sales agent on shares sold and offering costs of \$56.

On September 30, 2014, the Company issued 2,000,000 shares in a follow-on public offering at an offering price of \$17.00 per share resulting in net proceeds to the Company of \$32,440, after deducting underwriting fees and commissions and offering costs totaling \$1,560. The Company received such net proceeds on October 3, 2014.

As of September 30, 2014 and December 31, 2013, the Company had 15,943,139 and 13,755,232 shares of common stock outstanding, respectively.

Note 2. Significant Accounting Policies

Basis of presentation: The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) pursuant to the requirements

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

for reporting on Form 10-Q, 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. The current period’s results of operation are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2013.

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

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.

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

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

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

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

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

Deferred equity financing costs: Deferred equity financing costs include registration expenses related to shelf filings, including expenses related to the ATM Program. These expenses primarily consist of Securities and Exchange Commission (“SEC”) registration fees, legal fees and accounting fees incurred. These expenses are included in prepaid assets and are charged to additional paid in capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed.

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

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

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

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

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

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

The Company also typically receives upfront loan origination or closing fees in connection with investments. Such upfront loan origination and closing fees are capitalized as unearned income and offset against investment cost basis on the consolidated statements of assets and liabilities and accreted into income over the life of the investment. Upfront loan origination and closing fees received for the three months ended September 30, 2014 and 2013 totaled \$140 and \$159, respectively. Upfront loan origination and closing fees received for the nine months ended September 30, 2014 and 2013 totaled \$309 and \$576, respectively.

Partial loan sales: The Company follows the guidance in ASC 860, *Transfers and Servicing*, when accounting for loan participations and other partial loan sales. Such guidance requires a participation or other partial loan sale to meet the definition of a "participating interest", as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest should remain on the Company's consolidated statement of assets and liabilities and the proceeds recorded as a secured borrowing until the definition is met. Management has determined that all participations and other partial loan sale transactions entered into 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. In order to qualify as a RIC, the Company is required to timely distribute to its stockholders at least 90.0% of "investment company taxable income," as defined by Subchapter M of the Code, each year. Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year; however, the Company will pay a 4.0% excise tax if it does not distribute at least 98.0% of the current year's ordinary taxable income. Any such carryover taxable income must be distributed through a dividend declared prior to the later of the filing the final tax return related to the year in which the Company generated such taxable income or the 15th day of the 9th month following the close of such taxable year. In addition, the Company will be subject to federal excise tax if it does not distribute at least 98.2% of the net capital gains realized, computed for any one year period ending October 31.

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

The Company has certain indirect wholly-owned taxable subsidiaries (the "Taxable Subsidiaries"), each of which generally holds one or more of the Company's portfolio investments listed on the consolidated schedules of investments. The Taxable Subsidiaries are consolidated for financial reporting purposes, such that the Company's consolidated financial statements reflect the Company's investment in the portfolio companies owned by the Taxable Subsidiaries. The purpose of the Taxable Subsidiaries

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

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 in income tax provision, if any. There were no material uncertain income tax positions at September 30, 2014 and December 31, 2013. The 2010 through 2013 tax years remain subject to examination by U.S. federal and most state tax authorities.

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

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

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

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

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

Note 3. Portfolio Company Investments

The Company’s portfolio investments principally consist of secured and unsecured debt, equity warrants and direct equity investments in privately held companies. The debt investments may or may not be secured by either a first or second lien on the

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

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 makes a direct equity investment in the portfolio company. The Company's warrants or equity investments may be investments in a holding company related to the portfolio company. In addition, the Company periodically makes equity investments in its portfolio companies through Taxable Subsidiaries. In both situations, the investment is reported under the name of the operating company on the consolidated schedules of investments.

As of September 30, 2014, the Company had investments in 37 portfolio companies with an aggregate fair value of \$336,482 and a weighted average effective yield on its debt investments of 13.8%. At September 30, 2014, the Company held equity investments in 89.2% of its portfolio companies and the average fully diluted equity ownership in those portfolio companies was 7.8%. As of December 31, 2013, the Company had investments in 37 portfolio companies with an aggregate fair value of \$306,981 and a weighted average effective yield on its debt investments of 14.5%. At December 31, 2013, the Company held equity investments in 91.9% of its portfolio companies and the average fully diluted equity ownership in those portfolio companies was 7.3%. The weighted average yields were computed using the effective interest rates for debt investments at cost as of September 30, 2014 and December 31, 2013, including accretion of original issue discount and loan origination fees, but excluding investments on non-accrual status, if any.

Purchases of debt and equity investments for the nine months ended September 30, 2014 and 2013 totaled \$62,574 and \$79,559, respectively. Proceeds from sales and repayments, including principal, return of capital distributions and realized gains, of portfolio investments for the nine months ended September 30, 2014 and 2013 totaled \$33,330 and \$90,336, respectively.

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

| | Fair Value | | | | Cost | | | |
|----------------------|--------------------|---------------|-------------------|---------------|--------------------|---------------|-------------------|---------------|
| | September 30, 2014 | | December 31, 2013 | | September 30, 2014 | | December 31, 2013 | |
| Subordinated notes | \$217,659 | 64.7% | \$214,400 | 69.8% | \$225,784 | 65.5% | \$220,372 | 69.9% |
| Senior secured loans | 71,956 | 21.4 | 53,387 | 17.4 | 71,320 | 20.7 | 52,903 | 16.8 |
| Equity | 42,217 | 12.5 | 32,560 | 10.6 | 40,882 | 11.9 | 34,982 | 11.1 |
| Warrants | 4,650 | 1.4 | 6,634 | 2.2 | 6,411 | 1.9 | 6,957 | 2.2 |
| Royalty rights | — | — | — | — | — | — | — | — |
| Total | <u>\$336,482</u> | <u>100.0%</u> | <u>\$306,981</u> | <u>100.0%</u> | <u>\$344,397</u> | <u>100.0%</u> | <u>\$315,214</u> | <u>100.0%</u> |

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

| | Fair Value | | | | Cost | | | |
|-----------|--------------------|---------------|-------------------|---------------|--------------------|---------------|-------------------|---------------|
| | September 30, 2014 | | December 31, 2013 | | September 30, 2014 | | December 31, 2013 | |
| Southeast | \$ 98,487 | 29.2% | \$ 54,885 | 17.9% | \$ 98,481 | 28.6% | \$ 55,855 | 17.7% |
| West | 75,356 | 22.4 | 76,361 | 24.9 | 70,932 | 20.6 | 75,488 | 24.0 |
| Northeast | 60,906 | 18.1 | 59,500 | 19.4 | 59,646 | 17.3 | 59,611 | 18.9 |
| Midwest | 58,123 | 17.3 | 67,287 | 21.9 | 68,290 | 19.8 | 74,430 | 23.6 |
| Southwest | 43,609 | 13.0 | 48,948 | 15.9 | 47,048 | 13.7 | 49,830 | 15.8 |
| Total | <u>\$336,482</u> | <u>100.0%</u> | <u>\$306,981</u> | <u>100.0%</u> | <u>\$344,397</u> | <u>100.0%</u> | <u>\$315,214</u> | <u>100.0%</u> |

As of September 30, 2014 and December 31, 2013, the Company had no portfolio company investments that represented more than 10% of the total investment portfolio. As of September 30, 2014, the Company had a debt investment in one portfolio company on non-accrual status, which had an aggregate cost and fair value of \$6,508 and \$0, respectively. In addition, the Company had a debt investment in one portfolio company that was on non-accrual status only with respect to the PIK interest component of the investment, which had a cost and fair value of \$7,454 and \$4,567, respectively. As of December 31, 2013, the Company had debt investments in one portfolio company on non-accrual status, which had a cost and fair value of \$7,256 and \$2,974, respectively.

Note 4. Fair Value Measurements*Investments*

The 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

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

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.

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

- the quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals of the Investment Advisor responsible for the portfolio investment;
- preliminary valuation conclusions are then documented and discussed with the investment committee of the Investment Advisor;
- the Board also engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of our investments for which market quotations are not readily available. The Company will consult with independent valuation firm(s) relative to each portfolio company at least once in every calendar year, and for new portfolio companies, at least once in the twelve-month period subsequent to the initial investment. The Board consulted with the independent valuation firm in arriving at the Company's determination of fair value on 11 and 13 of its portfolio company investments representing 34.9% and 40.9% of the total portfolio investments at fair value as of September 30, 2014 and December 31, 2013, respectively.
- the audit committee of the Board reviews the preliminary valuations of the Investment Advisor and of the independent valuation firm(s) and responds and supplements the valuation recommendations to reflect any comments; and
- the Board discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of the Investment Advisor, the independent valuation firm(s) and the audit committee.

In making the good faith determination of the value of portfolio investments, the 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, 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.

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

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

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

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

The 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 nine months ended September 30, 2014 and 2013.

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

| | Subordinated Notes | Senior Secured Loans | Equity | Warrants | Royalty Rights | Total |
|---|-----------------------|----------------------------|-----------------|-----------------|-------------------|------------------|
| Balance, December 31, 2012 | \$ 193,691 | \$32,736 | \$26,430 | \$ 21,392 | \$ — | \$274,249 |
| Realized gain on investments | 259 | — | 3,941 | 21,492 | — | 25,692 |
| Net change in unrealized (depreciation) appreciation on investments | (3,738) | (89) | (1,266) | (11,366) | — | (16,459) |
| Purchase of investments | 62,921 | 5,621 | 10,775 | 242 | — | 79,559 |
| Proceeds from sales and repayments of investments | (60,876) | (1,126) | (6,092) | (22,242) | — | (90,336) |
| Interest and dividend income paid-in-kind | 3,483 | 103 | 566 | — | — | 4,152 |
| Proceeds from loan origination fees | (508) | (45) | (23) | — | — | (576) |
| Accretion of loan origination fees | 221 | 30 | 3 | — | — | 254 |
| Accretion of original issue discount | 724 | 125 | 5 | — | — | 854 |
| Balance, September 30, 2013 | <u>\$ 196,177</u> | <u>\$37,355</u> | <u>\$34,339</u> | <u>\$ 9,518</u> | <u>\$ —</u> | <u>\$277,389</u> |
| Balance, December 31, 2013 | \$ 214,400 | \$53,387 | \$32,560 | \$ 6,634 | \$ — | \$306,981 |
| Net realized (losses) gains on investments | (7,234) | — | 1,774 | 686 | — | (4,774) |
| Net change in unrealized (depreciation) appreciation on investments | (2,152) | 150 | 3,758 | (1,438) | — | 318 |
| Purchase of investments | 33,663 | 22,223 | 6,333 | 355 | — | 62,574 |
| Proceeds from sales and repayments of investments | (24,730) | (4,393) | (2,620) | (1,587) | — | (33,330) |
| Interest and dividend income paid-in-kind | 3,193 | 536 | 421 | — | — | 4,150 |
| Proceeds from loan origination fees | (143) | (144) | (22) | — | — | (309) |
| Accretion of loan origination fees | 286 | 77 | 8 | — | — | 371 |
| Accretion of original issue discount | 376 | 120 | 5 | — | — | 501 |
| Balance, September 30, 2014 | <u>\$ 217,659</u> | <u>\$71,956</u> | <u>\$42,217</u> | <u>\$ 4,650</u> | <u>\$ —</u> | <u>\$336,482</u> |

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

Net change in unrealized (depreciation) of \$(825) and \$(4,958) for the three and nine months ended September 30, 2014, respectively, were attributable to Level 3 investments held at September 30, 2014. Net change in unrealized (depreciation) of \$(2,077) and \$(4,046) for the three and nine months ended September 30, 2013, respectively, were attributable to Level 3 investments held at September 30, 2013.

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

| | Fair Value at September 30, 2014 | Valuation Techniques | Unobservable Inputs | Range (weighted average) |
|----------------------------|--|----------------------|----------------------------------|--------------------------|
| Debt investments: | | | | |
| Subordinated notes | \$ 213,092 | Discounted cash flow | Weighted average cost of capital | 11.8% – 22.1% (14.6%) |
| | 4,567 | Enterprise value | Revenue multiples | 5.5x – 5.5x (5.5x) |
| Senior secured loans | 71,956 | Discounted cash flow | Weighted average cost of capital | 7.1% – 17.0% (13.2%) |
| Equity investments: | | | | |
| Equity | 42,217 | Enterprise value | EBITDA multiples | 4.5x – 10.4x (6.5x) |
| Warrants | 4,650 | Enterprise value | EBITDA multiples | 5.0x – 9.5x (6.8x) |

| | Fair Value at December 31, 2013 | Valuation Techniques | Unobservable Inputs | Range (weighted average) |
|----------------------------|---------------------------------------|----------------------|----------------------------------|--------------------------|
| Debt investments: | | | | |
| Subordinated notes | \$ 208,226 | Discounted cash flow | Weighted average cost of capital | 10.9% – 24.0% (15.5%) |
| | 6,174 | Enterprise value | EBITDA multiples | 4.5x – 5.5x (4.9x) |
| | | | Revenue multiples | 0.3x – 0.5x (0.5x) |
| Senior secured loans | 53,387 | Discounted cash flow | Weighted average cost of capital | 10.9% – 16.6% (14.4%) |
| Equity investments: | | | | |
| Equity | 32,560 | Enterprise value | EBITDA multiples | 4.5x – 10.4x (6.6x) |
| Warrants | 6,634 | Enterprise value | EBITDA multiples | 4.7x – 9.5x (6.3x) |

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

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

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

Other Financial Assets and Liabilities

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

Note 5. Related Party Transactions

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

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. For the three months ended September 30, 2014, the Investment Advisor waived \$13 of the base management fee attributable to a portfolio investment that funded into escrow on September 30, 2014 but did not close until after the end of the quarter. The base management fee under the Investment Advisory Agreement for the three months ended September 30, 2014 and 2013 totaled \$1,469 and \$1,329 respectively. The base management fee under the Investment Advisory Agreement for the nine months ended September 30, 2014 and 2013 totaled \$4,227 and \$3,940, respectively.

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

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

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

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

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

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

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

The sum of the calculations above equals the income incentive fee. The income incentive fee is appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the calendar quarter. The income incentive fee for the three months ended September 30, 2014 and 2013 totaled \$1,386 and \$1,281, respectively. The income incentive fee for the nine months ended September 30, 2014 and 2013 totaled \$3,881 and \$3,797, respectively.

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

In addition, the Company accrues, but does not pay, a capital gains incentive fee in connection with any unrealized capital appreciation, as appropriate. If, on a cumulative basis, the sum of net realized gains/(losses) plus net unrealized appreciation/(depreciation) decreases during a period, the Company will reverse any excess capital gains incentive fee previously accrued such that the amount of capital gains incentive fee accrued is no more than 20.0% of the sum of net realized gains/(losses) plus net unrealized appreciation/(depreciation). During the three and nine months ended September 30, 2014, the Company recognized reversals of accrued capital gains incentive fees of \$66 and \$866, respectively. During the three months ended September 30, 2013, the Company recognized a reversal of accrued capital gains incentive fees of \$147. During the nine months ended September 30, 2013, the Company recognized accrued capital gains incentive fees totaling \$1,846.

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

Unless terminated earlier as described below, the Investment Advisory Agreement will continue in effect from year to year if approved annually by the Board or by the affirmative vote of the holders of a majority of the Company's outstanding voting securities, and, in either case, if also approved by a majority of the 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: Concurrent with the Formation Transactions, the Company also entered into an administration agreement (the "Administration Agreement") with the Investment Advisor. On June 4, 2014, the Board approved the renewal of the Administrative Agreement through June 20, 2015. Under the Administration Agreement, the Investment Advisor furnishes the Company with office facilities and equipment, provides it clerical, bookkeeping and record keeping services at such facilities and provides the Company with other administrative services necessary to conduct its day-to-day operations. The Company reimburses the Investment Advisor for the allocable portion of overhead expenses incurred in performing its obligations under the Administration Agreement, including rent and the Company's allocable portion of the cost of its chief financial officer and chief compliance officer and their respective staffs. Under the Administration Agreement, the Investment Advisor also provides

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

managerial assistance to those portfolio companies to which the Company is required to provide such assistance. Under the Administration Agreement, administrative expenses for services provided for the three months ended September 30, 2014 and 2013 totaled \$496 and \$314, respectively. Under the Administration Agreement, administrative expenses for services provided for the nine months ended September 30, 2014 and 2013 totaled \$1,289 and \$815. Accrued administrative expenses are reported in the due to affiliates line in the consolidated statements of assets and liabilities.

Note 6. Debt

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

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

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

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

For the three months ended September 30, 2014 and 2013, commitment fees related to the unused portion of the Credit Facility of \$76 and \$0, respectively, are included in interest and financing expenses on the consolidated statements of operations. For the nine months ended September 30, 2014 and 2013, commitment fees related to the Credit Facility of \$89 and \$0, respectively, are included in interest and financing expenses on the consolidated statements of operations. As of September 30, 2014 and December 31, 2013, accrued interest and fees payable related to the Credit Facility totaled \$0 and \$0, respectively.

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

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

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

| Pooling Date(1) | Maturity Date | Fixed Interest Rate | September 30, 2014 | December 31, 2013 |
|------------------------|----------------------|----------------------------|---------------------------|--------------------------|
| 3/26/2008 | 3/1/2018 | 6.188% | \$ 24,750 | \$ 24,750 |
| 9/24/2008 | 9/1/2018 | 6.442 | 11,950 | 11,950 |
| 3/25/2009 | 3/1/2019 | 5.337 | 19,750 | 19,750 |
| 9/23/2009 | 9/1/2019 | 4.950 | 10,000 | 10,000 |
| 3/24/2010 | 3/1/2020 | 4.825 | 13,000 | 13,000 |
| 9/22/2010 | 9/1/2020 | 3.932 | 12,500 | 12,500 |
| 3/29/2011 | 3/1/2021 | 4.801 | 1,550 | 1,550 |
| 9/21/2011 | 9/1/2021 | 3.594 | 3,250 | 3,250 |
| 3/21/2012 | 3/1/2022 | 3.483 | 3,250 | 3,250 |
| 3/21/2012 | 3/1/2022 | 3.051 | 19,000 | 19,000 |
| 9/19/2012 | 9/1/2022 | 2.530 | 11,000 | 11,000 |
| 9/19/2012 | 9/1/2022 | 3.049 | 11,500 | 11,500 |
| 3/27/2013 | 3/1/2023 | 3.155 | 3,000 | 3,000 |
| 9/24/2014 | 9/1/2024 | 3.775 | 1,000 | — |
| | | | <u>\$ 145,500</u> | <u>\$ 144,500</u> |

- (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.

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

Interest on SBA debentures is payable semi-annually on March 1 and September 1. For the three months ended September 30, 2014 and 2013, interest and financing expenses on outstanding SBA debentures amounted to \$1,662 and \$1,657, respectively. For the nine months ended September 30, 2014 and 2013, interest and financing expenses on outstanding SBA debentures amounted to \$4,924 and \$4,907, respectively. As of September 30, 2014 and December 31, 2013, accrued interest and fees payable related to the SBA debentures totaled \$541 and \$2,198, respectively. The weighted average fixed interest rate for all SBA debentures as of September 30, 2014 and December 31, 2013 was 4.5% and 4.6%, respectively.

Deferred Financing Costs

Deferred financing costs are amortized into interest and financing expenses on the consolidated statement of operations using the straight-line method, which approximates the effective interest method, over the term of the respective financing instrument. Deferred financing cost amortization for the three months ended September 30, 2014 and 2013 was \$196 and \$130, respectively. Deferred financing cost amortization for the nine months ended September 30, 2014 and 2013 was \$469 and \$380, respectively. Deferred financing costs related to the Credit Facility and SBA debentures as of September 30, 2014 and December 31, 2013, were as follows:

| | September 30, 2014 | December 31, 2013 |
|-------------------------------|-----------------------|----------------------|
| SBA debenture commitment fees | \$ 1,750 | \$ 1,750 |
| SBA debenture leverage fees | 3,528 | 3,504 |
| Credit Facility upfront fees | 893 | — |
| Subtotal | 6,171 | 5,254 |
| Accumulated amortization | (2,571) | (2,102) |
| Net deferred financing costs | <u>\$ 3,600</u> | <u>\$ 3,152</u> |

Note 7. Commitments and Contingencies

Commitments: As of September 30, 2014, the Company had four unfunded revolving loan commitments totaling \$3,364 to portfolio companies and two unfunded loan commitments totaling \$6,726 to a portfolio company. As of December 31, 2013, the Company had two unfunded revolving loan commitments totaling \$1,500, two unfunded loan commitments totaling \$4,589 to portfolio companies and one unfunded capital commitment of \$308 related to a portfolio company. The commitments are generally subject to the borrowers meeting certain criteria such as compliance with financial and nonfinancial covenants. Since commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

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

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

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

Note 8. Financial Highlights

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

| | Nine months ended September 30, | |
|--|---------------------------------|-----------------|
| | 2014 | 2013 |
| Per share data: | | |
| Net asset value at beginning of period | \$ 15.35 | \$ 15.32 |
| Net investment income ⁽¹⁾ | 1.20 | 0.99 |
| Net realized (loss) gain on investments (net of taxes) ⁽¹⁾ | (0.34) | 1.91 |
| Net unrealized appreciation (depreciation) on investments ⁽¹⁾ | 0.02 | (1.22) |
| Total increase from investment operations ⁽¹⁾ | 0.88 | 1.68 |
| Accretive effect of share issuance above NAV | 0.19 | 0.16 |
| Dividends to stockholders | (1.24) | (1.18) |
| Net asset value at end of period | <u>\$ 15.18</u> | <u>\$ 15.98</u> |
| Market value at end of period | <u>\$ 16.51</u> | <u>\$ 19.40</u> |
| Shares outstanding at end of period | 15,943,139 | 13,734,336 |
| Weighted average shares outstanding during the period | 13,784,936 | 13,452,768 |
| Ratios to average net assets: | | |
| Expenses other than incentive fee ⁽²⁾ | 7.9% | 7.4% |
| Incentive fee ⁽²⁾ | 1.8% | 3.6% |
| Total expenses ⁽²⁾ | 9.7% | 11.0% |
| Net investment income ⁽²⁾ | 10.2% | 8.5% |
| Total return ⁽³⁾ | (18.4)% | 25.1% |
| Net assets at end of period | \$ 241,950 | \$ 219,409 |
| Average debt outstanding | \$ 145,000 | \$ 144,500 |
| Average debt per share ⁽¹⁾ | \$ 10.52 | \$ 10.74 |
| Portfolio turnover ratio ⁽²⁾ | 14.1% | 36.7% |

(1) Weighted average per share data.

(2) Annualized for periods less than one year.

(3) The total return for the nine months ended September 30, 2014 and 2013 equals the change in the ending market value of the Company's common stock plus dividends paid per share during the period, divided by the beginning common stock price and is not annualized.

Note 9. Dividends and Distributions

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

| Date Declared | Record Date | Payment Date | Amount Per Share | Cash Distribution | DRIP Shares Issued | DRIP Shares Value |
|---|-------------|--------------|------------------|-------------------|--------------------|-------------------|
| Fiscal Nine Months September 30, 2013: | | | | | | |
| 2/22/2013 | 3/14/2013 | 3/28/2013 | \$ 0.38 | \$ 4,822 | 20,501 | \$ 376 |
| 5/1/2013 | 6/12/2013 | 6/26/2013 | \$ 0.38 | \$ 4,893 | 17,415 | \$ 313 |
| 7/31/2013 | 9/12/2013 | 9/26/2013 | \$ 0.38 | \$ 4,902 | 15,899 | \$ 310 |
| 7/31/2013 ⁽¹⁾ | 9/12/2013 | 9/26/2013 | \$ 0.04 | \$ 516 | 1,674 | \$ 33 |
| | | | <u>\$ 1.18</u> | <u>\$ 15,133</u> | <u>55,489</u> | <u>\$1,032</u> |
| Fiscal Nine Months September 30, 2014: | | | | | | |
| 2/18/2014 | 3/21/2014 | 3/31/2014 | \$ 0.38 | \$ 5,028 | 10,410 | \$ 199 |
| 5/5/2014 | 6/13/2014 | 6/27/2014 | \$ 0.38 | \$ 5,037 | 9,459 | \$ 194 |
| 5/5/2014 ⁽²⁾ | 7/25/2014 | 7/31/2014 | \$ 0.05 | \$ 664 | 1,368 | \$ 25 |
| 5/5/2014 ⁽³⁾ | 8/25/2014 | 8/29/2014 | \$ 0.05 | \$ 660 | 1,567 | \$ 29 |
| 5/5/2014 | 9/12/2014 | 9/26/2014 | \$ 0.38 | \$ 5,095 | 11,562 | \$ 198 |
| | | | <u>\$ 1.24</u> | <u>\$ 16,484</u> | <u>34,366</u> | <u>\$ 645</u> |

(1) Special dividend of \$0.04 per share.

(2) Special dividend of \$0.05 per share.

(3) Special dividend of \$0.05 per share.

For the nine months ended September 30, 2014, \$645 of the total \$17,129 paid to stockholders represented DRIP participation. During this period, the Company satisfied the DRIP participation requirements with the issuance of 34,366 shares at

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

an average value of \$18.78 per share at the date of issuance. For the nine months ended September 30, 2013, \$1,032 of the total \$16,165 paid to stockholders represented DRIP participation. During this period, the Company satisfied the DRIP participation requirements with the issuance of 55,489 shares at an average value of \$18.61 per share at the date of issuance.

Since the Company's IPO, dividends and distributions to stockholders total \$65,419 or \$5.28 per share.

Note 10. Subsequent Events

On October 2, 2014, the Company invested \$6,000 in the senior secured loan of Plymouth Rock Energy, LLC, a leading retail energy marketer for the domestic natural gas and electricity industries.

On October 31, 2014, the Company invested \$10,500 in the subordinated notes of Grindmaster Corporation, a leading global manufacturer of commercial beverage dispensing and complementary foodservice equipment.

On November 4, 2014, the Board declared a regular quarterly dividend of \$0.38 per share and a special dividend of \$0.10 per share, both of which are payable on December 19, 2014 to shareholders of record as of December 5, 2014.

On November 5, 2014, the Company invested \$7,200 in the subordinated notes and common equity of FDS Avionics Corp., doing business as Flight Display Systems, a leading designer, developer and light manufacturer of avionics focusing on cabin electronics for business and commercial aircraft and ruggedized special mission monitors and other retrofit solutions for military aircraft.

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

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

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

Forward Looking Statements

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

- our dependence on key personnel of our investment advisor and our executive officers;
- our ability to maintain or develop referral relationships;
- our use of leverage;
- the availability of additional capital on attractive terms or at all;
- uncertain valuations of our portfolio investments;
- competition for investment opportunities;
- actual and potential conflicts of interest with our investment advisor;
- other potential conflicts of interest;
- SBA regulations affecting our wholly-owned SBIC subsidiaries;
- changes in interest rates;
- the impact of a protracted decline in the liquidity of credit markets on our business and portfolio investments;
- our ability to maintain our status as a RIC and as a BDC;
- the timing, form and amount of any distributions from our portfolio companies;
- changes in laws or regulations applicable to us;
- dilution risks related to our ability to issue shares below our current net asset value;
- possible resignation of our investment advisor or administrator;
- the general economy and its impact on the industries in which we invest;
- risks associated with investing in lower middle-market companies;
- the ability of our investment advisor to identify, invest in and monitor companies that meet our investment criteria; and
- our ability to invest in qualifying assets.

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

Overview

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

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

In June 2011, we closed our initial public offering, or IPO, issuing a total of 5,370,500 shares of common stock at a price of \$15.00 per share resulting in net proceeds of \$73.6 million, after deducting underwriting fees and offering costs totaling \$6.9 million.

In September 2012, we issued 2,472,500 shares in a follow-on public offering, including shares purchased by the underwriters pursuant to their exercise of the over-allotment option, at an offering price of \$16.10 per share resulting in net proceeds of \$38.0 million after deducting underwriting fees and offering costs totaling \$1.9 million.

In February 2013, we issued 1,725,000 shares of common stock in a follow-on public offering, including shares purchased by the underwriters pursuant to their exercise of the over-allotment option, at an offering price of \$17.60 per share resulting in net proceeds of approximately \$28.9 million after deducting underwriting commissions and offering costs totaling \$1.5 million.

In August 2014, we 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 \$50.0 million (the "ATM Program"). During the period from August 21, 2014 through September 30, 2014, 153,541 shares of our common stock were sold at an average offering price of \$18.56 per share resulting in net proceeds of \$2.8 million after commissions to the sales agent on shares sold and offering costs of \$0.1 million.

In September 2014, we issued 2,000,000 shares of our common stock in a follow-on public offering at an offering price of \$17.00 per share, resulting in net proceeds of approximately \$32.4 million after deducting underwriting commissions and offering costs totaling \$1.6 million. We received such proceeds on October 3, 2014.

Our shares are listed on The NASDAQ Global Select Market under the symbol "FDUS."

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

Fund I received its SBIC license on October 22, 2007 and Fund II received its SBIC license on May 28, 2013. We plan to continue to operate the Funds as SBICs, subject to SBA approval, and to utilize the proceeds of the sale of SBA debentures to enhance returns to our stockholders. We have also made, and continue to make, investments directly through FIC. We believe that utilizing FIC and the Funds as investment vehicles provides us with access to a broader array of investment opportunities. Given our access to lower cost capital through the SBA's SBIC debenture program, we expect that the majority of our investments will continue to be made through the Funds until such time as we have met the limit for funds we can borrow under the SBIC Debenture Program. As of September 30, 2014, we had investments in 37 portfolio companies with an aggregate fair value of \$336.5 million and cost of \$344.4 million.

Revenues: We generate revenue in the form of interest income on debt investments and capital gains and distributions, if any, on equity investments. Our debt investments, whether in the form of mezzanine, senior secured or unitranche loans, typically have terms of five to seven years and bear interest at a fixed rate but may bear interest at a floating rate. In some instances, we receive payments on our debt investments based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our debt investments prior to their scheduled maturity dates. The frequency or volume of these repayments fluctuates significantly from period to period. Our portfolio activity may reflect the proceeds of sales of securities. In some cases, our investments provide for deferred interest payments or PIK interest. The principal amount of loans and any accrued but unpaid interest generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, amendment, or structuring fees and fees for providing managerial assistance. Loan origination fees, original issue discount and market discount or premium, if any, are capitalized, and we accrete or amortize such amounts into interest income. We record

[Table of Contents](#)

prepayment premiums on loans as fee income. Interest and dividend income is recorded on the accrual basis to the extent that we expect to collect such amounts. Loans or preferred equity securities are placed on non-accrual status when principal, interest or dividend payments become materially past due, or when there is reasonable doubt that principal, interest or dividends will be collected. See “Critical Accounting Policies and Use of Estimates – Revenue Recognition.” Interest and dividend income is accrued based upon the outstanding principal amount and contractual terms of debt and preferred equity investments. Interest is accrued on a daily basis. Dividend income is recorded as dividends are declared or at the point an obligation exists for the portfolio company to make a distribution. Distributions of earnings from portfolio companies are evaluated to determine if the distribution is a distribution of earnings or a return of capital.

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

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

- organization;
- calculating our net asset value (including the cost and expenses of any independent valuation firm);
- fees and expenses incurred by our investment advisor under the Investment Advisory Agreement or payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for us and in monitoring our investments and performing due diligence on our prospective portfolio companies or otherwise relating to, or associated with, evaluating and making investments;
- interest payable on debt, if any, incurred to finance our investments;
- offerings of our common stock and other securities;
- investment advisory fees and management fees;
- administration fees and expenses, if any, payable under the Administration Agreement (including payments under the Administration Agreement between us and our investment advisor based upon our allocable portion of our investment advisor’s overhead in performing its obligations under the Administration Agreement, including rent and the allocable portion of the cost of our officers, including our chief compliance officer, our chief financial officer, and their respective staffs);
- transfer agent, dividend agent and custodial fees and expenses;
- federal and state registration fees;
- all costs of registration and listing our shares on any securities exchange;
- U.S. federal, state and local taxes;
- Independent Directors’ fees and expenses;
- costs of preparing and filing reports or other documents required by the SEC or other regulators including printing costs;
- costs of any reports, proxy statements or other notices to stockholders, including printing and mailing costs;
- our allocable portion of any fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs;
- proxy voting expenses; and
- all other expenses reasonably incurred by us or our investment advisor in connection with administering our business.

Portfolio Composition, Investment Activity and Yield

During the nine months ended September 30, 2014, we invested \$62.6 million in debt and equity investments, including four new portfolio companies. These investments consisted of subordinated notes (\$33.7 million, or 53.8%), senior secured loans (\$22.2 million, or 35.5%), equity securities (\$6.3 million, or 10.1%), and warrants (\$0.4 million, or 0.6%). During the nine months ended September 30, 2014 we received proceeds from sales or repayments, including principal, return of capital dividends and net realized gains (losses), of \$33.3 million. During the nine months ended September 30, 2013, we invested \$79.6 million in debt and equity investments, including four new portfolio companies. These new investments consisted of subordinated notes (\$62.9 million, or 79.0%), a senior secured loan (\$5.6 million, or 7.1%), equity securities (\$10.8 million, or 13.6%) and warrants (\$0.2 million, or 0.3%). During the nine months ended September 30, 2013 we received proceeds from repayments of principal, including return of capital dividends and realized gains, of \$90.3 million.

As of September 30, 2014, the fair value of our investment portfolio totaled \$336.5 million and consisted of 37 portfolio companies. As of September 30, 2014, our debt portfolio was primarily comprised of fixed rate investments. Overall, the portfolio had a net unrealized depreciation of \$7.9 million as of September 30, 2014. Our average portfolio company investment at amortized cost was \$9.3 million as of September 30, 2014.

[Table of Contents](#)

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

The weighted average yields on debt investments at their cost basis at September 30, 2014 and December 31, 2013 were 13.8% and 14.5%, respectively. The weighted average yields were computed using the effective interest rates for debt investments at cost as of September 30, 2014 and December 31, 2013, including the accretion of original issue discount and loan origination fees, but excluding investments on non-accrual status, if any.

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

| | Fair Value | | Cost | |
|----------------------|--------------------|-------------------|--------------------|-------------------|
| | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 |
| Subordinated notes | 64.7% | 69.8% | 65.5% | 69.9% |
| Senior secured loans | 21.4 | 17.4 | 20.7 | 16.8 |
| Equity | 12.5 | 10.6 | 11.9 | 11.1 |
| Warrants | 1.4 | 2.2 | 1.9 | 2.2 |
| Royalty rights | — | — | — | — |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

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

| | Fair Value | | Cost | |
|-----------|--------------------|-------------------|--------------------|-------------------|
| | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 |
| Southeast | 29.2% | 17.9% | 28.6% | 17.7% |
| West | 22.4 | 24.9 | 20.6 | 24.0 |
| Northeast | 18.1 | 19.4 | 17.3 | 18.9 |
| Midwest | 17.3 | 21.9 | 19.8 | 23.6 |
| Southwest | 13.0 | 15.9 | 13.7 | 15.8 |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

Table of Contents

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 | |
|-----------------------------------|--------------------|-------------------|--------------------|-------------------|
| | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 |
| Healthcare services | 12.0% | 10.6% | 12.1% | 10.1% |
| Oil & gas services | 10.3 | 4.6 | 10.0 | 4.5 |
| Aerospace & defense manufacturing | 9.0 | 11.2 | 7.7 | 9.6 |
| Healthcare products | 8.7 | 8.8 | 7.9 | 8.5 |
| Industrial cleaning & coatings | 4.8 | 5.1 | 4.7 | 5.1 |
| Transportation services | 4.6 | 4.9 | 4.4 | 4.7 |
| Financial services | 4.3 | 4.8 | 3.9 | 4.5 |
| Specialty distribution | 4.0 | 4.3 | 3.3 | 3.6 |
| Industrial products | 3.7 | 2.0 | 3.6 | 1.9 |
| Consumer products | 3.4 | 3.7 | 3.3 | 3.5 |
| Safety products manufacturing | 3.2 | 3.5 | 3.1 | 3.4 |
| Utility equipment manufacturing | 3.2 | 3.5 | 2.9 | 3.2 |
| Retail | 3.1 | 3.3 | 3.0 | 3.2 |
| Building products manufacturing | 3.1 | — | 3.0 | — |
| Printing services | 2.9 | 3.1 | 2.9 | 3.0 |
| Specialty chemicals | 2.6 | — | 2.5 | — |
| Commercial cleaning | 2.6 | 2.7 | 2.5 | 2.7 |
| Information technology services | 2.5 | 2.6 | 2.9 | 3.1 |
| Components manufacturing | 2.3 | 2.6 | 2.3 | 2.5 |
| Business services | 2.3 | 2.4 | 2.2 | 2.4 |
| Laundry services | 1.7 | 1.8 | 1.6 | 1.6 |
| Retail cleaning | 1.7 | 2.3 | 2.9 | 2.8 |
| Restaurants | 1.6 | 1.9 | 1.4 | 3.4 |
| Apparel distribution | 1.5 | 1.6 | 1.5 | 1.7 |
| Specialty cracker manufacturing | 0.5 | 0.4 | 0.4 | 0.4 |
| Electronic components supplier | 0.4 | 3.6 | 4.0 | 6.2 |
| Debt collection services | — | 1.9 | — | 1.8 |
| Furniture rental | — | 2.8 | — | 2.6 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

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 and the trends and risk factors are favorable, and may include an expected capital gain.
- 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 portfolio company 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 as of September 30, 2014 and December 31, 2013:

| Investment Rating | September 30, 2014 | | December 31, 2013 | |
|-------------------|-------------------------------|----------------------------|---------------------------|----------------------------|
| | Investments at Fair Value | Percent of Total Portfolio | Investments at Fair Value | Percent of Total Portfolio |
| | <i>(dollars in thousands)</i> | | | |
| 1 | \$ 53,641 | 15.9% | \$ 44,572 | 14.5% |
| 2 | 268,235 | 79.8 | 229,113 | 74.6 |
| 3 | 9,827 | 2.9 | 30,322 | 9.9 |
| 4 | 4,779 | 1.4 | — | — |
| 5 | — | — | 2,974 | 1.0 |
| Totals | \$ 336,482 | 100.0% | \$ 306,981 | 100.0% |

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

Non-Accrual

As of September 30, 2014, we had a debt investment in one portfolio company on non-accrual status, which had an aggregate cost and fair value of \$6.5 million and \$0.0 million, respectively. In addition, we had a debt investment in one portfolio company that was on non-accrual status only with respect to the PIK interest component of the investment, which had a cost and fair value of \$7.5 million and \$4.6 million, respectively. As of December 31, 2013, we had debt investments in one portfolio company on non-accrual status, which had a cost and fair value of \$7.3 million and \$3.0 million, respectively.

[Table of Contents](#)

For the three and nine months ended September 30, 2014, we recognized unrealized depreciation on our non-accrual debt investments of \$1.0 million and \$6.1 million, respectively.

Discussion and Analysis of Results of Operations

Comparison of three months ended September 30, 2014 and September 30, 2013

Investment Income

For the three months ended September 30, 2014, total investment income was \$11.3 million, an increase of \$1.0 million, or 10.3%, over the \$10.3 million of total investment income for the three months ended September 30, 2013. The increase was primarily attributable to a \$0.9 million increase in interest income which primarily resulted from higher average levels of debt investments outstanding and a \$0.1 million increase in dividend income primarily due to higher average levels of income producing equity investments outstanding during the three months ended September 30, 2014, as compared to the three months ended September 30, 2013.

Expenses

For the three months ended September 30, 2014, total expenses, including income tax provision, were \$5.7 million, an increase of \$0.7 million or 14.2%, over the \$5.0 million of total expenses for the three months ended September 30, 2013. Interest and financing expenses for the three months ended September 30, 2014 were \$1.9 million, an increase of \$0.1 million or 8.2%, compared to \$1.8 million for the three months ended September 30, 2013 as a result of higher average balances of SBA debentures outstanding during 2014 and commitment fees related to the Credit Facility. The base management fee increased \$0.1 million, or 10.5%, to \$1.5 million for the three months ended September 30, 2014 due to higher average total assets less cash and cash equivalents for the three months ended September 30, 2014 than the comparable period in 2013. The incentive fee for the three months ended September 30, 2014 was \$1.3 million, a \$0.2 million, or 16.4%, increase from the \$1.1 million incentive fee for the three months ended September 30, 2013 which was primarily the result of a \$0.4 million increase in net investment income during the 2014 period compared to 2013. The administrative service fee, professional fees and other general and administrative expenses increased \$0.2 million, or 27.8%, to \$0.9 million primarily due to increased personnel costs.

Net Investment Income

As a result of the \$1.0 million increase in total investment income and the \$0.7 million increase in total expenses, net investment income for the three months ended September 30, 2014 was \$5.6 million, which was an increase of \$0.4 million, or 6.7%, compared to net investment income of \$5.3 million during the three months ended September 30, 2013.

Net Increase in Net Assets Resulting From Operations

For the three months ended September 30, 2014, net realized losses on investments was \$6.7 million as a result of realized losses on investments in one non-control/non-affiliate portfolio company, which were partially offset by realized gains on investments in three non-control/non-affiliate portfolio companies. For the three months ended September 30, 2013, the total realized gain on investments was \$24.6 million, which consisted of realized gains on investments in a control portfolio company and realized gains on investments in a non-control/non-affiliate portfolio company.

During the three months ended September 30, 2014, we recorded a net change in unrealized appreciation on investments of \$6.4 million attributable to (i) the reversal of net unrealized depreciation on investments of \$7.2 million related to the exit or sale of investments, resulting in unrealized appreciation, (ii) net unrealized depreciation of \$1.2 million on debt investments and (iii) net unrealized appreciation of \$0.4 million on equity investments. During the three months ended September 30, 2013, we recorded net unrealized appreciation of \$25.4 million attributable to (i) the reversal of net unrealized appreciation on investments of \$23.3 million related to the exit or sale of investments, resulting in unrealized depreciation, (ii) net unrealized depreciation of \$1.6 million on debt investments and (iii) net unrealized depreciation of \$0.5 million on equity investments.

As a result of these events, our net increase in net assets resulting from operations during the three months ended September 30, 2014 was \$5.3 million, or an increase of \$0.8 million, or 16.8%, compared to a net increase in net assets resulting from operations of \$4.5 million during the prior year period.

Comparison of nine months ended September 30, 2014 and September 30, 2013

Investment Income

For the nine months ended September 30, 2014, total investment income was \$32.5 million, an increase of \$1.9 million, or 6.3%, over the \$30.6 million of total investment income for the nine months ended September 30, 2013. The increase was primarily attributable to a \$1.1 million increase in interest income and a \$0.6 million increase in fee income from investments. The \$1.1 million increase in interest income is primarily due to higher average levels of portfolio debt investments outstanding during

[Table of Contents](#)

the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The fee income increase of \$0.6 million is the result of an increase in the prepayment fees during the nine months ended September 30, 2014 compared to the prior year.

Expenses

For the nine months ended September 30, 2014, total expenses, including income tax provision, were \$15.9 million, a decrease of \$1.3 million or 7.6%, over the \$17.2 million of total expenses, including income tax provision, for the nine months ended September 30, 2013. The base management fee increased \$0.3 million, or 7.3%, due to higher average total assets less cash and cash equivalents for the nine months ended September 30, 2014 than the comparable period in 2013. The incentive fee for the nine months ended September 30, 2014 was \$3.0 million, a \$2.6 million, or 46.6%, decrease from the \$5.6 million incentive fee for the nine months ended September 30, 2013 which was primarily the result of a \$13.7 million decrease in net (loss) gain on investments during the 2014 period compared to 2013. The administrative service fee, professional fees and other general and administrative expenses increased \$0.8 million, or 36.7%, to \$3.1 million primarily due to increased personnel costs and a change in the timing of audit related work.

Net Investment Income

As a result of the \$1.9 million increase in total investment income and the \$1.3 million decrease in total expenses, net investment income for the nine months ended September 30, 2014 was \$16.6 million, which was an increase of \$3.2 million, or 24.1%, compared to net investment income of \$13.4 million during the nine months ended September 30, 2013.

Net Increase in Net Assets Resulting From Operations

For the nine months ended September 30, 2014, net realized losses on investments was \$4.8 million as a result of realized losses on investments in one non-control/non-affiliate portfolio company, which were partially offset by realized gains on an investment in an affiliate portfolio company and investments in four non-control/non-affiliate portfolio companies. For the nine months ended September 30, 2013, the total realized gain on investments was \$25.7 million, which consisted of realized gains on investments in a control portfolio company and realized gains on investments in two non-control/non-affiliate portfolio companies.

During the nine months ended September 30, 2014, we recorded a net change in unrealized appreciation on investments of \$0.3 million attributable to (i) the reversal of net unrealized depreciation on investments of \$5.3 million related to the exit or sale of investments, resulting in unrealized appreciation, (ii) net unrealized depreciation of \$8.7 million on debt investments and (iii) net unrealized appreciation of \$3.7 million on equity investments. During the nine months ended September 30, 2013, we recorded net unrealized depreciation of \$16.5 million attributable to (i) the reversal of net unrealized appreciation on investments of \$12.4 million related to the exit or sale of investments, resulting in unrealized depreciation, (ii) net unrealized depreciation of \$3.5 million on debt investments and (ii) net unrealized depreciation of \$0.6 million on equity investments.

As a result of these events, our net increase in net assets resulting from operations during the nine months ended September 30, 2014 was \$12.1 million, a decrease of \$10.5 million, or 46.4%, compared to a net increase in net assets resulting from operations of \$22.6 million during the prior year period.

Liquidity and Capital Resources

As of September 30, 2014, we had \$8.5 million in cash and cash equivalents and our net assets totaled \$242.0 million. Cash and cash equivalents at September 30, 2014 does not include approximately \$32.4 million of net proceeds from the issuance of 2,000,000 shares of common stock on September 30, 2014, which were received on October 3, 2014. We believe that our current cash and cash equivalents on hand, our available SBA leverage, our Credit Facility and our anticipated cash flows from operations will be adequate to meet our cash needs for our daily operations for at least the next 12 months. We intend to generate additional cash primarily from the ATM Program, future offerings of securities, 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.

Cash Flows

For the nine months ended September 30, 2014, we experienced a net decrease in cash and cash equivalents in the amount of \$44.9 million. During that period, we used \$28.4 million of cash for operating activities, primarily for the funding of \$62.6 million of investments, which was partially offset by the proceeds from sales and repayments of investments of \$33.3 million. During the same period, we used \$16.5 million for financing activities, primarily consisting of cash dividends paid to stockholders of \$16.5 million and a \$2.9 million payment for taxes paid on behalf of the stockholders related to the 2013 deemed distribution, which was partially offset by proceeds received from stock offerings, net of expenses, of \$2.8 million.

For the nine months ended September 30, 2013, we experienced a net increase in cash and cash equivalents in the amount of \$33.9 million. During that period, we generated \$20.4 million in cash in operating activities primarily from \$90.3 million of

[Table of Contents](#)

investment sale and repayments received and \$13.4 million of net investment income partially offset by funding of \$79.6 million of investments and \$6.5 million of interest payments. During the same period, we generated \$13.5 million from financing activities, consisting primarily of proceeds from a follow-on equity offering of \$28.9 million, net of expenses. This increase was partially offset by cash dividends paid to stockholders in the amount of \$15.1 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.

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

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

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

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

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

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

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

[Table of Contents](#)

On August 21, 2014, we entered into an equity distribution agreement with Raymond James & Associates, Inc. and Robert W. Baird & Co. Incorporated through which we could sell, by means of at-the-market offerings from time to time, shares of our common stock having an aggregate offering price of up to \$50.0 million. During the period from August 21, 2014 through September 30, 2014, we sold 153,541 shares of our common stock at an average offering price of \$18.56 per share resulting in net proceeds of \$2.8 million, after commissions to the sales agent on shares sold and offering costs of \$0.1 million.

Current Market Conditions

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

Critical Accounting Policies and Use of Estimates

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

Valuation of Portfolio Investments

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

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

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

- our quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals of our investment advisor responsible for the portfolio investment;
- preliminary valuation conclusions are then documented and discussed with the investment committee of our investment advisor;
- our board of directors also engages one or more independent valuation firms to provide an independent appraisal for each of our investments at least once in every calendar year, and for new portfolio companies, at least once in the twelve-month period subsequent to the initial investment;
- the audit committee of our board of directors reviews the preliminary valuations of our investment advisor and of the independent valuation firm(s) and responds and supplements the valuation recommendations to reflect any comments; and
- the board of directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our investment advisor, the independent valuation firm(s) and the audit committee.

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

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

[Table of Contents](#)

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

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

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

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

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

Revenue Recognition

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

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

Payment-in-kind interest. We have investments in our portfolio that contain a PIK income provision. The PIK income, computed at the contractual rate specified in the applicable investment agreement, is added to the principal balance of the investment, rather than being paid in cash, and recorded as interest or dividend income on the consolidated statements of operations. Generally, PIK can be paid-in-kind or all in cash. We stop accruing PIK income when it is determined that PIK income is no longer collectible. In addition, to maintain our status as a RIC and to avoid paying corporate federal income tax, substantially

[Table of Contents](#)

all of this income must be paid out to stockholders in the form of distributions, even though we have not yet collected the cash. We may have difficulty paying our required distributions if we recognize income before, or without, receiving cash representing such income.

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

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

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

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

Recently Issued Accounting Standards

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

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of September 30, 2014, we had off-balance sheet arrangements consisting of four unfunded revolving loan commitments totaling \$3.4 million to portfolio companies and two unfunded loan commitment totaling \$6.7 million to a portfolio company. As of December 31, 2013, we had off-balance sheet arrangements consisting of two unfunded revolving loan commitments totaling \$1.5 million, two unfunded loan commitments totaling \$4.6 million to portfolio companies, and one unfunded capital commitment of \$0.3 million related to a portfolio company.

Related Party Transactions

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

- In connection with the Formation Transactions, Fund I terminated its management services agreement with Fidus Capital, LLC and we entered into the Investment Advisory Agreement with Fidus Investment Advisors, LLC, as our investment advisor. The investment professionals of Fidus Investment Advisors, LLC were also the investment professionals of Fidus Capital, LLC. We entered into the Investment Advisory Agreement with Fidus Investment Advisors, LLC to manage our day-to-day operating and investing activities. We pay our investment advisor a fee for its services under the Investment Advisory Agreement consisting of two components — a base management fee and an incentive fee. See Note 5 to our consolidated financial statements.

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

[Table of Contents](#)

- We entered into the Administration Agreement with Fidus Investment Advisors, LLC to provide us with the office facilities and administrative services necessary to conduct day-to-day operations. See Note 5 to our consolidated financial statements.
- We entered into a license agreement with Fidus Partners, LLC, pursuant to which Fidus Partners, LLC has granted us a non-exclusive, royalty-free license to use the name “Fidus.”

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

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

Recent Developments

On October 2, 2014, we invested \$6.0 million in the senior secured loan of Plymouth Rock Energy, LLC, a leading retail energy marketer for the domestic natural gas and electricity industries.

On October 31, 2014, we invested \$10.5 million in the subordinated notes of Grindmaster Corporation, a leading global manufacturer of commercial beverage dispensing and complementary foodservice equipment.

On November 4, 2014, the Board declared a regular quarterly dividend of \$0.38 per share and a special dividend of \$0.10 per share, both of which are payable on December 19, 2014 to shareholders of record as of December 5, 2014.

On November 5, 2014, we invested \$7.2 million in the subordinated notes and common equity of FDS Avionics Corp., doing business as Flight Display Systems, a leading designer, developer and light manufacturer of avionics focusing on cabin electronics for business and commercial aircraft and ruggedized special mission monitors and other retrofit solutions for military aircraft.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

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

Item 4. Controls and Procedures.

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

[Table of Contents](#)

Item 6. Exhibits.

| <u>Number</u> | <u>Exhibit</u> |
|---------------|---|
| 31.1 | Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

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

Date: November 6, 2014

FIDUS INVESTMENT CORPORATION

/s/ EDWARD H. ROSS

Edward H. Ross
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 6, 2014

/s/ SHELBY E. SHERARD

Shelby E. Sherard
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

| <u>Number</u> | <u>Exhibit</u> |
|---------------|---|
| 31.1 | Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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 quarterly report on Form 10-Q 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: November 6, 2014

/s/ EDWARD H. ROSS

Edward H. Ross
Chairman and Chief Executive Officer
(Principal Executive Officer)

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 quarterly report on Form 10-Q 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: November 6, 2014

/s/ SHELBY E. SHERARD

Shelby E. Sherard

Chief Financial Officer

(Principal Financial and Accounting Officer)

**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 Quarterly Report on Form 10-Q of Fidus Investment Corporation (the "Company") for the quarterly period ended September 30, 2014, as filed with the 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: November 6, 2014

/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)