

FIDUS INVESTMENT Corp
Form 10-Q
May 02, 2013
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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 March 31, 2013

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)

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Maryland
(State or Other Jurisdiction of

27-5017321
(I.R.S. Employer

Incorporation or Organization)

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 May 1, 2012, the Registrant had outstanding 13,699,348 shares of common stock, \$0.001 par value.

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FIDUS INVESTMENT CORPORATION

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

| | March 31, 2013 (unaudited) | December 31, 2012 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Investments, at fair value | | |
| Control investments (cost: \$20,838 and \$20,709, respectively) | \$ 31,666 | \$ 30,613 |
| Affiliate investments (cost: \$71,665 and \$64,336, respectively) | 69,455 | 62,938 |
| Non-control/non-affiliate investments (cost: \$188,031 and \$175,249, respectively) | 193,082 | 180,698 |
| Total investments, at fair value (cost: \$280,534 and \$260,294, respectively) | 294,203 | 274,249 |
| Cash and cash equivalents | 58,954 | 52,042 |
| Interest receivable | 3,354 | 3,307 |
| Deferred financing costs (net of accumulated amortization of \$1,715 and \$1,590, respectively) | 3,289 | 3,414 |
| Prepaid expenses and other assets | 1,103 | 837 |
| Total assets | 360,903 | 333,849 |
| LIABILITIES | | |
| SBA debentures | 144,500 | 144,500 |
| Accrued interest payable | 552 | 2,137 |
| Due to affiliates | 3,567 | 3,646 |
| Accounts payable and other liabilities | 521 | 475 |
| Total liabilities | 149,140 | 150,758 |
| Net assets | \$ 211,763 | \$ 183,091 |
| ANALYSIS OF NET ASSETS | | |
| Common stock, \$0.001 par value (100,000,000 shares authorized, 13,699,348 and 11,953,847 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively) | \$ 14 | \$ 12 |
| Additional paid-in capital | 206,729 | 177,498 |
| Undistributed net investment income | 180 | 455 |
| Accumulated net realized gain on investments | 1,493 | 1,493 |
| Accumulated net unrealized appreciation on investments | 3,347 | 3,633 |
| Total net assets | \$ 211,763 | \$ 183,091 |
| Net asset value per common share | \$ 15.46 | \$ 15.32 |

See Notes to Consolidated Financial Statement (unaudited).

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

| | Three Months Ended March 31, | |
|--|-------------------------------------|-----------------|
| | 2013 | 2012 |
| Investment income: | | |
| Interest and fee income | | |
| Control investments | \$ 738 | \$ 720 |
| Affiliate investments | 2,020 | 1,782 |
| Non-control/non-affiliate investments | 6,658 | 4,916 |
| | | |
| Total interest and fee income | 9,416 | 7,418 |
| Dividend income | | |
| Affiliate investments | 30 | 30 |
| Non-control/non-affiliate investments | 329 | 121 |
| | | |
| Total dividend income | 359 | 151 |
| Interest on idle funds and other income | 38 | 27 |
| | | |
| Total investment income | 9,813 | 7,596 |
| | | |
| Expenses: | | |
| Interest expense | 1,735 | 1,443 |
| Base management fee | 1,259 | 939 |
| Incentive fee | 1,157 | 877 |
| Administrative service expenses | 245 | 229 |
| Professional fees | 232 | 257 |
| Other general and administrative expenses | 222 | 216 |
| | | |
| Total expenses | 4,850 | 3,961 |
| | | |
| Net investment income before income taxes | 4,963 | 3,635 |
| Income tax expense | 40 | 14 |
| | | |
| Net investment income | 4,923 | 3,621 |
| | | |
| Net realized and unrealized gains (losses) on investments: | | |
| Net change in unrealized appreciation on investments | (286) | (102) |
| | | |
| Net loss on investments | (286) | (102) |
| | | |
| Net increase in net assets resulting from operations | \$ 4,637 | \$ 3,519 |
| | | |
| Per common share data: | | |
| Net investment income per share-basic and diluted | \$ 0.38 | \$ 0.38 |
| | | |
| Net increase in net assets resulting from operations per share-basic and diluted | \$ 0.36 | \$ 0.37 |

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| | | |
|---|------------|-----------|
| Dividends declared per share | \$ 0.38 | \$ 0.34 |
| Weighted average number of shares outstanding - basic and diluted | 12,932,030 | 9,427,021 |

See Notes to Consolidated Financial Statement (unaudited).

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FIDUS INVESTMENT CORPORATION

Consolidated Statements of Changes in Net Assets (unaudited)

(In thousands, except shares and per share data)

| | Common Stock Number of Shares | Par Value | Additional Paid in Capital | Undistributed Net Investment Income | Accumulated Net Realized Gain (Loss) on Investments | Accumulated Net Unrealized Appreciation on Investments | Total Net Assets |
|--|-------------------------------------|--------------|----------------------------------|---|---|--|------------------------|
| Balances at December 31, 2011 | 9,427,021 | \$ 9 | \$ 138,649 | \$ 422 | \$ (482) | \$ 1,884 | \$ 140,482 |
| Net increase in net assets resulting from operations | | | | 3,621 | | (102) | 3,519 |
| Dividends declared and paid | | | | (3,205) | | | (3,205) |
| Balances at March 31, 2012 | 9,427,021 | \$ 9 | \$ 138,649 | \$ 838 | \$ (482) | \$ 1,782 | \$ 140,796 |
| 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 | | | | 4,923 | | (286) | 4,637 |
| Dividends declared and paid | 20,501 | | 376 | (5,198) | | | (4,822) |
| Balances at March 31, 2013 | 13,699,348 | \$ 14 | \$ 206,729 | \$ 180 | \$ 1,493 | \$ 3,347 | \$ 211,763 |

See Notes to Consolidated Financial Statements (unaudited).

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

(In thousands)

| | Three Months Ended March 31, | |
|---|-------------------------------------|----------------|
| | 2013 | 2012 |
| Cash Flows from Operating Activities | | |
| Net increase in net assets resulting from operations | \$ 4,637 | \$ 3,519 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities: | | |
| Net change in unrealized appreciation on investments | 286 | 102 |
| Realized (gain) loss on investments | | |
| Interest and dividend income paid-in-kind | (1,209) | (1,128) |
| Accretion of original issue discount | (304) | (259) |
| Accretion of loan origination fees | (47) | (22) |
| Amortization of deferred financing costs | 125 | 102 |
| Purchase of investments | (22,022) | (16,945) |
| Proceeds from repayments of investments | 3,208 | 5,788 |
| Proceeds from loan origination fees | 134 | 168 |
| Changes in operating assets and liabilities: | | |
| Interest receivable | (47) | 42 |
| Prepaid expenses and other assets | (266) | 82 |
| Accrued interest payable | (1,585) | (1,260) |
| Due to affiliates | (79) | 54 |
| Accounts payable and other liabilities | 46 | 38 |
| Net cash used in operating activities | (17,123) | (9,719) |
| Cash Flows from Financing Activities | | |
| Proceeds from stock offering, net of expenses | 28,857 | |
| Proceeds received from SBA debentures | | 15,000 |
| Payment of deferred financing costs | | (564) |
| Dividends paid to stockholders | (4,822) | (3,205) |
| Net cash provided by financing activities | 24,035 | 11,231 |
| Net increase in cash and cash equivalents | 6,912 | 1,512 |
| Cash and cash equivalents: | | |
| Beginning of period | 52,042 | 39,059 |
| End of period | \$ 58,954 | \$ 40,571 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash payments for interest | \$ 3,195 | \$ 2,601 |

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****March 31, 2013 (unaudited)****(In thousands, except shares and per share data)**

| Portfolio Company / Type of Investment ^{(1) (2) (3)} | Industry | Rate ⁽⁴⁾ Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|--|---------------------|---|-----------------|-----------------------------|---------------|-------------------|----------------------------------|
| Control Investments (5) | | | | | | | |
| <i>Worldwide Express Operations, LLC</i> | Transportation | | | | | | |
| | Services | | | | | | |
| Subordinated Note | | 12.0%/2.0% | 2/1/2014 | \$ 8,953 | \$ 8,953 | \$ 8,953 | |
| Subordinated Note | | 12.0%/2.0% | 2/1/2014 | 11,711 | 11,615 | 11,712 | |
| Warrant (213,382 units) ⁽⁷⁾ | | | | | | 9,385 | |
| Common Units (51,946 units) ⁽⁷⁾ | | | | | 270 | 1,616 | |
| Sub Total | | | | | 20,838 | 31,666 | 15% |
| Total Control Investments | | | | | 20,838 | 31,666 | 15% |
| Affiliate Investments (5) | | | | | | | |
| <i>Apex Microtechnology, Inc.</i> | Electronic | | | | | | |
| | Control Supplier | | | | | | |
| Subordinated Note | | 12.0%/2.0% | 2/16/2018 | 6,200 | 5,949 | 6,200 | |
| Warrant (2,294 units) | | | | | 220 | 221 | |
| Common Units (11,690 units) | | | | | 1,169 | 1,139 | |
| Sub Total | | | | | 7,338 | 7,560 | 4% |
| <i>Avrio Technology Group, LLC</i> | Electronic | | | | | | |
| | Control Supplier | | | | | | |
| Subordinated Note | | 8.0%/6.0% | 10/15/2015 | 5,671 | 5,671 | 4,501 | |
| Preferred Units - Series B (3,704 units) ⁽⁷⁾ | | | | | 3,704 | 605 | |
| Preferred Units - Series C (476 units) ⁽⁷⁾ | | | | | 238 | | |
| Common Units (3,982 units) ⁽⁷⁾ | | | | | 1,000 | | |
| Sub Total | | | | | 10,613 | 5,106 | 2% |
| <i>Malabar International</i> | Aerospace & Defense | | | | | | |
| | Manufacturing | | | | | | |
| Subordinated Note | | 12.5%/2.5% | 5/21/2017 | 5,019 | 4,992 | 5,019 | |
| Preferred Equity (1,494 shares) ⁽⁶⁾ | | 6.0%/0.0% | | | 1,988 | 3,144 | |
| Sub Total | | | | | 6,980 | 8,163 | 4% |
| <i>Medsurant Holdings, LLC</i> | Healthcare | | | | | | |
| | Services | | | | | | |

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|---|-------------------|------------|------------|-------|---------------|---------------|------------|
| Subordinated Note | | 14.0%/0.0% | 7/12/2016 | 9,750 | 8,574 | 9,750 | |
| Preferred Units (79,091 units) ⁽⁷⁾ | | | | | 1,112 | 1,530 | |
| Warrant (288,239 units) ⁽⁷⁾ | | | | | 3,690 | 5,632 | |
| Sub Total | | | | | 13,376 | 16,912 | 8% |
| <i>Paramount Building Solutions, LLC</i> | Retail Cleaning | | | | | | |
| Subordinated Note | | 12.0%/4.0% | 2/15/2014 | 6,564 | 6,564 | 6,564 | |
| Common Units (107,143 units) ⁽⁷⁾ | | | | | 1,500 | 345 | |
| Sub Total | | | | | 8,064 | 6,909 | 3% |
| <i>Pfanstiehl, Inc.</i> | Healthcare | | | | | | |
| | Products | | | | | | |
| Subordinated Note | | 12.0%/4.0% | 9/29/2018 | 5,903 | 5,844 | 5,844 | |
| Common Equity (8,500 shares) | | | | | 850 | 850 | |
| Sub Total | | | | | 6,694 | 6,694 | 3% |
| <i>Trantech Radiator Products, Inc.</i> | Utility Equipment | | | | | | |
| | Manufacturer | | | | | | |
| Subordinated Note | | 12.0%/1.8% | 5/4/2017 | 9,227 | 9,193 | 9,227 | |
| Common Shares (6,875 shares) | | | | | 688 | 1,126 | |
| Sub Total | | | | | 9,881 | 10,353 | 5% |
| <i>Westminster Cracker Company, Inc.</i> | Specialty Cracker | | | | | | |
| | Manufacturer | | | | | | |
| Subordinated Note | | 14.0%/4.0% | 11/17/2014 | 7,441 | 7,441 | 7,441 | |
| Preferred Units (83,851 shares) | | | | | 70 | 70 | |
| Common Units (1,208,197 units) | | | | | 1,208 | 247 | |
| Sub Total | | | | | 8,719 | 7,758 | 4% |
| Total Affiliate Investments | | | | | 71,665 | 69,455 | 33% |

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****March 31, 2013 (continued) (unaudited)****(In thousands, except shares and per share data)**

| 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 (f/k/a ITSolutions)</i> | IT Services | | | | | | |
| Common Units (499 units) | | | | | \$ 500 | \$ 246 | 0% |
| <i>ACFP Management, Inc.</i> | Restaurants | | | | | | |
| Subordinated Note | | 12.0%/2.0% | 6/29/2017 | \$ 7,590 | 7,562 | 7,590 | |
| Common Units (1,000,000 units) | | | | | 1,091 | 1,111 | |
| Sub Total | | | | | 8,653 | 8,701 | 4% |
| <i>Brook & Whittle Limited</i> | Specialty | | | | | | |
| | Printing | | | | | | |
| Subordinated Note | | 12.0%/4.8% | 8/9/2016 | 6,706 | 6,706 | 6,381 | |
| Subordinated Note | | 12.0%/2.0% | 8/9/2016 | 2,172 | 2,120 | 1,917 | |
| Warrant (1,051 shares) | | | | | 285 | 324 | |
| Common Shares (148 shares) | | | | | 111 | 46 | |
| Sub Total | | | | | 9,222 | 8,668 | 4% |
| <i>Brook Furniture Rental, Inc.</i> | Furniture Rental | | | | | | |
| Subordinated Note | | 12.0%/1.5% | 9/30/2016 | 7,775 | 7,406 | 7,775 | |
| Warrants (2.5%) | | | | | 485 | 608 | |
| Sub Total | | | | | 7,891 | 8,383 | 4% |
| <i>Caldwell & Gregory, LLC</i> | Laundry Services | | | | | | |
| Subordinated Note | | 12.5%/1.5% | 4/23/2016 | 1,897 | 1,897 | 1,897 | |
| Preferred Units (11,628 units) ⁽⁷⁾ | | | | | 1,163 | 1,543 | |
| Common Units (4,464 units) ⁽⁷⁾ | | | | | 4 | 577 | |
| Sub Total | | | | | 3,064 | 4,017 | 2% |
| <i>Connect-Air International, Inc.</i> | Specialty | | | | | | |
| | Distribution | | | | | | |
| Subordinated Note | | 12.5%/3.0% | 12/31/2014 | 4,031 | 4,031 | 4,031 | |
| Preferred Interest ⁽⁶⁾ | | 0.0%/10.0% | 12/31/2014 | | 5,388 | 6,255 | |
| Sub Total | | | | | 9,419 | 10,286 | 5% |
| <i>Continental Anesthesia Management, LLC</i> | Healthcare Services | | | | | | |
| Senior Secured Loan | | 14.0%/0.0% | 11/10/2014 | 9,950 | 9,860 | 9,762 | |
| Warrant (263 shares) | | | | | 276 | | |
| Sub Total | | | | | 10,136 | 9,762 | 5% |
| <i>Convergent Resources, Inc.</i> | Debt Collection | | | | | | |

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|---|------------|------------|--------|--------|--------|----|--|
| Services | | | | | | | |
| Subordinated Note | 13.0%/3.0% | 12/27/2017 | 5,628 | 5,581 | 5,628 | 3% | |
| EBL, LLC (EbLens) Retail | | | | | | | |
| Subordinated Note | 12.0%/3.0% | 2/2/2018 | 9,113 | 9,071 | 9,071 | | |
| Common Equity (750,000 units) ⁽⁷⁾ | | | | 750 | 750 | | |
| Sub Total | | | | 9,821 | 9,821 | 5% | |
| FocusVision Worldwide, Inc. Business Services | | | | | | | |
| Subordinated Note | 12.0%/1.0% | 1/29/2019 | 15,025 | 14,953 | 14,953 | 7% | |
| FutureTech Holding Company IT Services | | | | | | | |
| Subordinated Note | 13.5%/5.5% | 2/29/2016 | 7,983 | 7,929 | 7,608 | 4% | |
| Goodrich Quality Theaters, Inc. Movie Theaters | | | | | | | |
| Subordinated Note | 12.8%/0.0% | 3/31/2015 | 12,500 | 12,194 | 12,500 | | |
| Warrant (71 shares) | | | | 750 | 2,245 | | |
| Sub Total | | | | 12,944 | 14,745 | 7% | |
| IOS Acquisition, Inc. Oil & Gas Services | | | | | | | |
| Subordinated Note | 12.0%/2.0% | 6/26/2018 | 12,063 | 11,949 | 11,949 | | |
| Common Equity (2,152 shares) | | | | 500 | 500 | | |
| Sub Total | | | | 12,449 | 12,449 | 6% | |

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****March 31, 2013 (continued) (unaudited)****(In thousands, except shares and per share data)**

| Portfolio Company / Type of Investment ^{(1) (2) (3)} | Industry | Rate ⁽⁴⁾ Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|--|--------------------------------------|---|-----------------|-----------------------------|-------------|-------------------|----------------------------------|
| <i>Jacob Ash Holdings, Inc.</i> | Apparel Distribution | | | | | | |
| Subordinated Note | | 13.0%/4.0% | 8/11/2016 | \$ 3,500 | \$ 3,488 | \$ 3,500 | |
| Subordinated Note | | 13.0%/0.0% | 8/11/2016 | 1,250 | 1,222 | 1,250 | |
| Preferred Equity (500 shares) ⁽⁶⁾ | | 0.0%/15.0% | 8/11/2016 | | 609 | 201 | |
| Warrant (129,630 shares) | | | | | 67 | | |
| Sub Total | | | | | 5,386 | 4,951 | 2% |
| <i>K2 Industrial Services, Inc.</i> | Industrial Cleaning & Coatings | | | | | | |
| Subordinated Note | | 11.8%/2.0% | 5/23/2017 | 12,334 | 12,289 | 12,334 | |
| Preferred Equity - Series A (1,200 shares) | | | | | 1,200 | 1,079 | |
| Preferred Equity - Series B (34 shares) | | | | | 34 | 34 | |
| Sub Total | | | | | 13,523 | 13,447 | 6% |
| <i>Lightning Diversion Systems, Inc.</i> | Aerospace & Defense Manufacturing | | | | | | |
| Revolving Loan (\$1,000 Commitment) | | 12.0%/0.0% | 6/17/2017 | | (4) | (4) | |
| Senior Secured Loan | | 12.0%/0.0% | 6/17/2017 | 7,063 | 7,031 | 7,062 | |
| Common Units (600,000 units) | | | | | 600 | 662 | |
| Sub Total | | | | | 7,627 | 7,720 | 4% |
| <i>National Truck Protection Co., Inc.</i> | Financial Services | | | | | | |
| Senior Secured Loan | | 13.5%/2.0% | 8/10/2017 | 9,000 | 8,941 | 9,000 | |
| Common Units (531 units) | | | | | 450 | 558 | |
| Sub Total | | | | | 9,391 | 9,558 | 5% |
| <i>Nobles Manufacturing, Inc.</i> | Aerospace & Defense Manufacturing | | | | | | |
| Subordinated Note | | 12.0%/2.5% | 10/6/2018 | 4,550 | 4,550 | 4,550 | |
| Preferred Equity (1,300,000 shares) | | | | | 867 | 1,437 | |
| Common Equity (1,300,000 shares) | | | | | | | |
| Sub Total | | | | | 5,417 | 5,987 | 3% |
| <i>Premium Franchise Brands, LLC (f/k/a Jan-Pro Holdings, LLC)</i> | Commercial Cleaning | | | | | | |
| Subordinated Note | | 12.5%/3.5% | 3/18/2017 | 7,678 | 7,678 | 7,678 | |
| Preferred Equity (1,054,619 shares) | | | | | 832 | 559 | |
| Sub Total | | | | | 8,510 | 8,237 | 4% |

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| | | | | | | |
|--|------------|---------------------|-------|------------|------------|------|
| <i>S.B. Restaurant Co. (dba Elephant Bar)</i> | | Restaurants | | | | |
| Subordinated Note | 13.0%/1.0% | 1/10/2018 | 7,555 | 7,156 | 7,416 | |
| Warrant (652 shares) | | | | 416 | 290 | |
| Sub Total | | | | 7,572 | 7,706 | 4% |
| <i>Simplex Manufacturing Co.</i> | | Aerospace & Defense | | | | |
| | | Manufacturing | | | | |
| Subordinated Note | 13.0%/0.0% | 10/31/2013 | 4,550 | 4,471 | 4,434 | |
| Warrant (24 shares) | | | | 710 | 862 | |
| Sub Total | | | | 5,181 | 5,296 | 3% |
| <i>Tulsa Inspection Resources, Inc.</i> | | Oil & Gas Services | | | | |
| Subordinated Note | 14.0%/0.0% | 3/12/2014 | 4,000 | 3,963 | 4,000 | |
| Subordinated Note | 17.5%/0.0% | 3/12/2014 | 648 | 648 | 648 | |
| Warrant (6 shares) | | | | 193 | 1,949 | |
| Common Equity (1 share) | | | | 95 | 134 | |
| Sub Total | | | | 4,899 | 6,731 | 3% |
| <i>United Biologics, LLC</i> | | Healthcare Services | | | | |
| Senior Secured Loan | 12.0%/2.0% | 3/5/2017 | 6,898 | 6,397 | 6,899 | |
| Preferred Equity (88,968 units) ⁽⁷⁾ | | | | 1,000 | 1,000 | |
| Warrant (52,750 units) | | | | 566 | 283 | |
| Sub Total | | | | 7,963 | 8,182 | 4% |
| Total Non-Control/Non-Affiliate Investments | | | | 188,031 | 193,082 | 91% |
| Total Investments | | | | \$ 280,534 | \$ 294,203 | 139% |

- (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.
- (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.

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****December 31, 2012****(In thousands, except shares and per share data)**

| Portfolio Company / Type of Investment (1) (2) (3) | Industry | Rate (4) Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|---|---------------------|------------------------------|-----------------|-----------------------------|---------------|-------------------|----------------------------------|
| Control Investments (5) | | | | | | | |
| <i>Worldwide Express Operations, LLC</i> | Transportation | | | | | | |
| Subordinated Note | Services | 12.0%/2.0% | 2/1/2014 | \$ 8,909 | \$ 8,909 | \$ 8,909 | |
| Subordinated Note | | 12.0%/2.0% | 2/1/2014 | 11,654 | 11,530 | 11,654 | |
| Warrant (213,382 units) (7) | | | | | | 8,569 | |
| Common Units (51,946 units) (7) | | | | | 270 | 1,481 | |
| Sub Total | | | | | 20,709 | 30,613 | 17% |
| Total Control Investments | | | | | 20,709 | 30,613 | 17% |
| Affiliate Investments (5) | | | | | | | |
| <i>Apex Microtechnology, Inc.</i> | Electronic | | | | | | |
| | Control Supplier | | | | | | |
| Subordinated Note | | 12.0%/2.0% | 2/16/2018 | 6,200 | 5,937 | 5,937 | |
| Warrant (2,294 units) | | | | | 220 | 220 | |
| Common Units (11,690 units) | | | | | 1,169 | 1,169 | |
| Sub Total | | | | | 7,326 | 7,326 | 4% |
| <i>Avrio Technology Group, LLC</i> | Electronic | | | | | | |
| | Control Supplier | | | | | | |
| Subordinated Note | | 8.0%/6.0% | 10/15/2015 | 5,589 | 5,589 | 4,620 | |
| Preferred Units (3,704 units) (7) | | | | | 3,704 | 823 | |
| Common Units (3,982 units) (7) | | | | | 1,000 | | |
| Sub Total | | | | | 10,293 | 5,443 | 3% |
| <i>Malabar International</i> | Aerospace & Defense | | | | | | |
| | Manufacturing | | | | | | |
| Subordinated Note | | 12.5%/2.5% | 5/21/2017 | 4,988 | 4,959 | 4,988 | |
| Preferred Equity (1,494 shares) (6) | | 6.0%/0.0% | | | 1,988 | 3,133 | |
| Sub Total | | | | | 6,947 | 8,121 | 4% |
| <i>Medsurant Holdings, LLC</i> | Healthcare Services | | | | | | |
| Subordinated Note | | 14.0%/0.0% | 7/12/2016 | 9,750 | 8,485 | 9,750 | |
| Preferred Units (79,091 units) (7) | | | | | 1,112 | 1,565 | |
| Warrant (288,239 units) (7) | | | | | 3,690 | 5,784 | |
| Sub Total | | | | | 13,287 | 17,099 | 9% |

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|---|--|-------------------|------------|-------|--------|--------|-----|
| <i>Paramount Building Solutions, LLC</i> | | Retail Cleaning | | | | | |
| Subordinated Note | | 12.0%/4.0% | 2/15/2014 | 6,499 | 6,499 | 6,499 | |
| Common Units (107,143 units) ⁽⁷⁾ | | | | | 1,500 | 530 | |
| Sub Total | | | | | 7,999 | 7,029 | 4% |
| <i>Trantech Radiator Products, Inc.</i> | | Utility Equipment | | | | | |
| | | Manufacturer | | | | | |
| Subordinated Note | | 12.0%/1.8% | 5/4/2017 | 9,187 | 9,151 | 9,187 | |
| Common Shares (6,875 shares) | | | | | 688 | 1,183 | |
| Sub Total | | | | | 9,839 | 10,370 | 6% |
| <i>Westminster Cracker Company, Inc.</i> | | Specialty Cracker | | | | | |
| | | Manufacturer | | | | | |
| Subordinated Note | | 14.0%/4.0% | 11/17/2014 | 7,367 | 7,367 | 7,316 | |
| Preferred Units (83,851 shares) | | | | | 70 | 70 | |
| Common Units (1,208,197 units) | | | | | 1,208 | 164 | |
| Sub Total | | | | | 8,645 | 7,550 | 4% |
| Total Affiliate Investments | | | | | 64,336 | 62,938 | 34% |

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****December 31, 2012 (continued)****(In thousands, except shares and per share data)**

| 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 (f/k/a ITSolutions)</i> | IT Services | | | | | | |
| Common Units (499 units) | | | | | \$ 500 | \$ 268 | 0% |
| <i>ACFP Management, Inc.</i> | Restaurants | | | | | | |
| Subordinated Note | | 12.0%/2.0% | 6/29/2017 | \$ 7,552 | 7,522 | 7,552 | |
| Common Units (1,000,000 units) | | | | | 1,091 | 1,091 | |
| Sub Total | | | | | 8,613 | 8,643 | 5% |
| <i>Brook & Whittle Limited</i> | Specialty | | | | | | |
| | Printing | | | | | | |
| Subordinated Note | | 12.0%/4.8% | 8/9/2016 | 6,626 | 6,626 | 6,526 | |
| Subordinated Note | | 12.0%/2.0% | 8/9/2016 | 2,162 | 2,095 | 1,965 | |
| Warrant (1,051 shares) | | | | | 285 | 370 | |
| Common Shares (148 shares) | | | | | 111 | 51 | |
| Sub Total | | | | | 9,117 | 8,912 | 5% |
| <i>Brook Furniture Rental, Inc.</i> | Furniture | | | | | | |
| | Rental | | | | | | |
| Subordinated Note | | 12.0%/1.5% | 9/30/2016 | 7,746 | 7,351 | 7,746 | |
| Warrants (2.5%) | | | | | 485 | 586 | |
| Sub Total | | | | | 7,836 | 8,332 | 5% |
| <i>Caldwell & Gregory, LLC</i> | Laundry | | | | | | |
| | Services | | | | | | |
| Subordinated Note | | 12.5%/1.5% | 4/23/2016 | 1,890 | 1,890 | 1,890 | |
| Preferred Units (11,628 units) ⁽⁷⁾ | | | | | 1,163 | 1,523 | |
| Common Units (4,464 units) ⁽⁷⁾ | | | | | 4 | 376 | |
| Sub Total | | | | | 3,057 | 3,789 | 2% |
| <i>Connect-Air International, Inc.</i> | Specialty | | | | | | |
| | Distribution | | | | | | |
| Subordinated Note | | 12.5%/3.0% | 12/31/2014 | 4,031 | 4,031 | 4,031 | |
| Preferred Interest ⁽⁶⁾ | | 0.0%/10.0% | 12/31/2014 | | 5,247 | 5,719 | |
| Sub Total | | | | | 9,278 | 9,750 | 5% |
| <i>Continental Anesthesia Management, LLC</i> | Healthcare | | | | | | |

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| | | | | | | |
|--|------------|------------|--------|--------|--------|----|
| Services | | | | | | |
| Senior Secured Loan | 14.0%/0.0% | 11/10/2014 | 9,950 | 9,846 | 9,876 | |
| Warrant (263 shares) | | | | 276 | 27 | |
| Sub Total | | | | 10,122 | 9,903 | 5% |
| <i>Convergent Resources, Inc.</i> | | | | | | |
| Debt Collection | | | | | | |
| Services | | | | | | |
| Subordinated Note | 13.0%/3.0% | 12/27/2017 | 5,587 | 5,536 | 5,587 | 3% |
| <i>EBL, LLC (EbLens)</i> | | | | | | |
| Retail | | | | | | |
| Subordinated Note | 12.0%/3.0% | 2/2/2018 | 9,045 | 9,001 | 9,001 | |
| Common Equity (750,000 units) ⁽⁷⁾ | | | | 750 | 750 | |
| Sub Total | | | | 9,751 | 9,751 | 5% |
| <i>FutureTech Holding Company</i> | | | | | | |
| IT Services | | | | | | |
| Subordinated Note | 13.5%/5.5% | 2/29/2016 | 7,875 | 7,816 | 7,875 | 4% |
| <i>Goodrich Quality Theaters, Inc.</i> | | | | | | |
| Movie | | | | | | |
| Theaters | | | | | | |
| Subordinated Note | 12.8%/0.0% | 3/31/2015 | 12,500 | 12,157 | 12,500 | |
| Warrant (71 shares) | | | | 750 | 2,314 | |
| Sub Total | | | | 12,907 | 14,814 | 8% |
| <i>IOS Acquisition, Inc.</i> | | | | | | |
| Oil & Gas Services | | | | | | |
| Subordinated Note | 12.0%/2.0% | 6/26/2018 | 12,003 | 11,884 | 11,884 | |
| Common Equity (2,152 shares) | | | | 500 | 500 | |
| Sub Total | | | | 12,384 | 12,384 | 7% |

Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****December 31, 2012 (continued)****(In thousands, except shares and per share data)**

| Portfolio Company / Type of Investment (1) (2) (3) | Industry | Rate (4) Cash/PIK | Maturity | Principal Amount | Cost | Fair Value | Percent of Net Assets |
|---|---------------------|------------------------------|-----------------|-----------------------------|-------------|-------------------|----------------------------------|
| <i>Jacob Ash Holdings, Inc.</i> | | | | | | | |
| | Apparel | | | | | | |
| | Distribution | | | | | | |
| Subordinated Note | | 13.0%/4.0% | 8/11/2016 | \$ 3,500 | \$ 3,487 | \$ 3,500 | |
| Subordinated Note | | 13.0%/0.0% | 8/11/2016 | 1,750 | 1,720 | 1,750 | |
| Preferred Equity (500 shares) ⁽⁶⁾ | | 0.0%/15.0% | 8/11/2016 | | 586 | 250 | |
| Warrant (129,630 shares) | | | | | 67 | | |
| Sub Total | | | | | 5,860 | 5,500 | 3% |
| <i>Jan-Pro Holdings, LLC</i> | | | | | | | |
| | Commercial | | | | | | |
| | Cleaning | | | | | | |
| Subordinated Note | | 12.5%/3.5% | 3/18/2017 | 7,611 | 7,611 | 7,611 | |
| Preferred Equity (1,054,619 shares) | | | | | 832 | 626 | |
| Sub Total | | | | | 8,443 | 8,237 | 4% |
| <i>K2 Industrial Services, Inc.</i> | | | | | | | |
| | Industrial Cleaning | | | | | | |
| | & Coatings | | | | | | |
| Subordinated Note | | 11.8%/2.0% | 5/23/2017 | 12,273 | 12,224 | 12,273 | |
| Preferred Equity (1,200 shares) | | | | | 1,200 | 1,044 | |
| Sub Total | | | | | 13,424 | 13,317 | 7% |
| <i>Lightning Diversion Systems, Inc.</i> | | | | | | | |
| | Aerospace & Defense | | | | | | |
| | Manufacturing | | | | | | |
| Revolving Loan (\$1,000 Commitment) | | 12.0%/0.0% | 6/17/2017 | | (4) | (4) | |
| Senior Secured Loan | | 12.0%/0.0% | 6/17/2017 | 7,062 | 7,029 | 7,062 | |
| Common Units (600,000 units) | | | | | 600 | 600 | |
| Sub Total | | | | | 7,625 | 7,658 | 4% |
| <i>National Truck Protection Co., Inc.</i> | | | | | | | |
| | Financial | | | | | | |
| | Services | | | | | | |
| Senior Secured Loan | | 13.5%/2.0% | 8/10/2017 | 9,000 | 8,938 | 8,938 | |
| Common Units (531 units) | | | | | 450 | 450 | |
| Sub Total | | | | | 9,388 | 9,388 | 5% |
| <i>Nobles Manufacturing, Inc.</i> | | | | | | | |
| | Aerospace & Defense | | | | | | |
| | Manufacturing | | | | | | |

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| | | | | | | |
|--|------------|------------|-------|------------|------------|------|
| Subordinated Note | 13.0%/3.0% | 4/6/2016 | 6,825 | 6,825 | 6,825 | |
| Preferred Equity (1,300,000 shares) | | | | 1,300 | 1,943 | |
| Common Equity (1,300,000 shares) | | | | | | |
| Sub Total | | | | 8,125 | 8,768 | 5% |
| S.B. Restaurant Co. (dba Elephant Bar) | | | | | | |
| Restaurants | | | | | | |
| Subordinated Note | 13.0%/1.0% | 1/10/2018 | 7,537 | 7,117 | 7,117 | |
| Warrant (652 shares) | | | | 416 | 416 | |
| Sub Total | | | | 7,533 | 7,533 | 4% |
| Simplex Manufacturing Co. | | | | | | |
| Aerospace & Defense | | | | | | |
| Manufacturing | | | | | | |
| Subordinated Note | 13.0%/0.0% | 10/31/2013 | 4,550 | 4,438 | 4,550 | |
| Warrant (24 shares) | | | | 710 | 1,058 | |
| Sub Total | | | | 5,148 | 5,608 | 3% |
| Tulsa Inspection Resources, Inc. | | | | | | |
| Oil & Gas Services | | | | | | |
| Subordinated Note | 14.0%/0.0% | 3/12/2014 | 4,000 | 3,953 | 4,000 | |
| Subordinated Note | 17.5%/0.0% | 3/12/2014 | 648 | 648 | 648 | |
| Warrant (6 shares) | | | | 193 | 1,752 | |
| Common Equity (1 share) | | | | 95 | 121 | |
| Sub Total | | | | 4,889 | 6,521 | 4% |
| United Biologics, LLC | | | | | | |
| Healthcare Services | | | | | | |
| Senior Secured Loan | 12.0%/2.0% | 3/5/2017 | 6,864 | 6,331 | 6,864 | |
| Preferred Equity (88,968 units) ⁽⁷⁾ | | | | 1,000 | 1,000 | |
| Warrant (78,148 units) | | | | 566 | 296 | |
| Sub Total | | | | 7,897 | 8,160 | 4% |
| Total Non-Control/Non-Affiliate Investments | | | | 175,249 | 180,698 | 99% |
| Total Investments | | | | \$ 260,294 | \$ 274,249 | 150% |

- (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.
- (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.

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents**FIDUS INVESTMENT CORPORATION****Notes to Consolidated Financial Statements (unaudited)****(In thousands, except shares and per share data)****Note 1. Organization and Nature of Business**

Fidus Investment Corporation, a Maryland corporation (FIC, and together with its subsidiaries, the Company), was formed on February 14, 2011 for the purposes of (i) acquiring 100% of the limited partnership interests of Fidus Mezzanine Capital, L.P. and its consolidated subsidiaries (collectively, the Fund) and 100% of the membership interests of the Fund '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). The Fund 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.

The Company provides customized debt and equity financing solutions to lower middle-market companies. The Fund commenced operations on May 1, 2007, and on October 22, 2007, was granted a license to operate as a Small Business Investment Company, also called an SBIC, under the authority of the U.S. Small Business Administration (SBA). The SBIC license allows the Fund to obtain leverage by issuing SBA-guaranteed debentures (SBA debentures), subject to the issuance of a leverage commitment by the SBA and other customary procedures. As an SBIC, the Fund is 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 it may invest and the structure of those investments.

On June 20, 2011, FIC acquired 100% of the limited partnership interests in the Fund and 100% of the equity interests in FMCGP, in exchange for 4,056,521 shares of common stock in FIC (the Formation Transactions). The Fund became FIC 's wholly-owned subsidiary, retained its SBIC license, and continues to hold its existing investments and make new investments. The IPO consisted of the sale of 5,370,500 shares of the Company 's common stock 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.

On February 8, 2013, the Company issued 1,725,000 shares in a follow-on public offering, including shares purchased by the underwriters pursuant to their exercise of the over-allotment option, at an offering price of \$17.60 per share resulting in net proceeds to the Company of \$28,857, after deducting underwriting fees and commissions and offering costs totaling \$1,504. As of March 31, 2013 and December 31, 2012, the Company had 13,699,348 and 11,953,847 shares of common stock outstanding, respectively.

On March 29, 2013, the Company commenced operations of a new wholly-owned subsidiary, Fidus Mezzanine Capital II, L.P. (Fund II). The Company, on behalf of Fund II, has submitted an application for a second SBIC License. However, we can make no assurances that the application process will be completed successfully or that the SBA will approve such application.

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 U.S. of America (GAAP), as established by the Financial Accounting Standards Board (FASB). These consolidated financial statements reflect the guidance in the Accounting Standards Codification (ASC), which is the single source of authoritative GAAP recognized by the FASB. In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. Certain prior period amounts have been reclassified to conform to the current period presentation. The current period 's results of operation are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2012.

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.

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

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FIDUS INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (unaudited)

(In thousands, except shares and per share data)

Fair value of financial instruments: The Company applies fair value 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 it is exposed to any significant credit risk.

Deferred financing costs: Deferred financing costs include SBA debenture commitment and leverage fees that have been capitalized and are amortized on a straight-line basis into interest expense over the term of the debenture agreement (10 years). Deferred financing costs also include costs related to the Company's previous revolving credit facility. These costs have been capitalized and amortized into interest expense over the term of the credit facility.

Revenue recognition: The Company's revenue recognition policies are as follows:

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

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 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 when 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 income or a return of capital.

The Company has investments in its portfolio that contain a payment-in-kind income provision, which represents contractual interest or dividends that are added to the principal balance and recorded as income. The Company stops accruing payment-in-kind income when it is determined that payment-in-kind income is no longer collectible. To maintain RIC tax treatment, and to avoid corporate tax, substantially all of this income must be paid out to stockholders in the form of distributions, even though the Company has not yet collected the cash.

In connection with the Company's debt investments, the Company will sometimes receive warrants or other equity-related securities (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 based on the effective interest method over the life of the debt security.

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All transaction fees received in connection with the Company's investments are recognized as 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 received. Fee income from structuring and advisory services, amendments and prepayment penalties for the three months ended March 31, 2013 and 2012 totaled \$406 and \$425, respectively.

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 offset against investment cost basis on our statement of assets and liabilities and amortized as additional interest income over the life of the investment. Upfront loan origination and closing fees received for the three months ended March 31, 2013 and 2012 totaled \$134 and \$168, respectively.

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FIDUS INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (unaudited)

(In thousands, except shares and per share data)

Non-accrual. 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. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal, interest or dividends are paid and, in management's judgment, are likely to remain current.

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 balance sheet and the proceeds recorded as a secured borrowing until the definition is met.

Income taxes: The Company has elected to be treated as a RIC under Subchapter M of the Code and, among other things, intends to make the required distributions to its stockholders as specified therein which will generally relieve the Company from U.S. federal income taxes with respect to all income distributed to stockholders. In order to qualify as a RIC, the Company is required to timely distribute to its stockholders at least 90.0% of investment company taxable income, as defined by 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 and pay a 4.0% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to the later of the filing of 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 the future, pursuant to SBA guidelines, the Fund may be limited by provisions of the SBA Act, and SBA regulations governing SBICs, from making certain distributions to FIC that may be necessary to enable FIC to make the minimum required distributions to its stockholders and qualify as a RIC.

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

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 sustained by the applicable tax authority. 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 expense. There were no material uncertain income tax positions at March 31, 2013 and December 31, 2012. The 2009 through 2011 tax years remain subject to examination by U.S. federal and most state tax authorities.

Dividends: Dividends and distributions to common stockholders are recorded on the record date. The amount, if any, to be paid as a dividend, is determined by the Board each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, will 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, based upon its taxable income for the full year and distributions paid 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 attributes for dividends will generally include both

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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

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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.

Recent accounting pronouncements: In November 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210)* (ASU 2011-11), containing new guidance that requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This guidance is effective for annual and interim periods beginning on or after January 1, 2013. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company adopted ASU 2011-11 as of January 1, 2013. The adoption of ASU 2011-11 did not have a material impact on the Company's consolidated financial position or disclosures.

Note 3. Portfolio Company Investments

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

As of March 31, 2013, the Company had debt and equity investments in 32 portfolio companies with an aggregate fair value of \$294,203 and a weighted average effective yield on its debt investments of 15.2%. At March 31, 2013, the Company held equity ownership in 90.6% of its portfolio companies and the average fully diluted equity ownership in those portfolio companies was 8.8%. As of December 31, 2012, the Company had debt and equity investments in 30 portfolio companies with an aggregate fair value of \$274,249 and a weighted average effective yield on its debt investments of 15.3%. At December 31, 2012, the Company held equity ownership in 93.3% of its portfolio companies and the average fully diluted equity ownership in those portfolio companies was 8.4%. The weighted average yields were computed using the effective interest rates for all debt investments at cost as of March 31, 2013 and December 31, 2012, including accretion of original issue discount but excluding any debt investments on non-accrual status.

Purchases of debt and equity investments for the three months ended March 31, 2013 and 2012 totaled \$22,022 and \$16,945, respectively. Repayments, including a dividend classified as return of capital, of portfolio investments for the three months ended March 31, 2013 and 2012 totaled \$3,208 and \$5,788, respectively.

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

| | March 31, 2013 | | December 31, 2012 | |
|----------------------|----------------|-------|-------------------|-------|
| Cost: | | | | |
| Senior secured loans | \$ 32,225 | 11.5% | \$ 32,140 | 12.4% |
| Subordinated notes | 211,660 | 75.5 | 192,358 | 73.9 |
| Equity | 28,991 | 10.3 | 28,138 | 10.8 |
| Warrants | 7,658 | 2.7 | 7,658 | 2.9 |

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| | | | | |
|----------------------|------------|--------|------------|--------|
| Total | \$ 280,534 | 100.0% | \$ 260,294 | 100.0% |
| Fair value: | | | | |
| Senior secured loans | \$ 32,719 | 11.1% | \$ 32,736 | 11.9% |
| Subordinated notes | 212,321 | 72.2 | 193,691 | 70.6 |
| Equity | 27,364 | 9.3 | 26,430 | 9.7 |
| Warrants | 21,799 | 7.4 | 21,392 | 7.8 |
| Total | \$ 294,203 | 100.0% | \$ 274,249 | 100.0% |

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All investments made by the Company as of March 31, 2013 and December 31, 2012 were made in portfolio companies located in the U.S. The following tables show portfolio composition by geographic region at cost and fair value 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.

| | March 31, 2013 | | December 31, 2012 | |
|--------------------|-------------------|---------------|-------------------|---------------|
| Cost: | | | | |
| Midwest | \$ 67,219 | 23.9% | \$ 62,707 | 24.1% |
| Southwest | 49,103 | 17.5 | 48,820 | 18.8 |
| Northeast | 57,992 | 20.7 | 43,261 | 16.6 |
| Southeast | 56,066 | 20.0 | 55,689 | 21.4 |
| West | 50,154 | 17.9 | 49,817 | 19.1 |
| Total | \$ 280,534 | 100.0% | \$ 260,294 | 100.0% |
| Fair value: | | | | |
| Midwest | \$ 64,124 | 21.8% | \$ 60,576 | 22.1% |
| Southwest | 61,048 | 20.7 | 59,650 | 21.8 |
| Northeast | 55,956 | 19.0 | 41,369 | 15.1 |
| Southeast | 56,993 | 19.4 | 56,885 | 20.7 |
| West | 56,082 | 19.1 | 55,769 | 20.3 |
| Total | \$ 294,203 | 100.0% | \$ 274,249 | 100.0% |

At March 31, 2013 and December 31, 2012, the Company had one portfolio company investment that represented more than 10% of the total investment portfolio. Such investment represented 10.8% and 11.2% of the fair value of the portfolio and 7.4% and 8.0% of cost as of March 31, 2013 and December 31, 2012, respectively. As of March 31, 2013 and December 31, 2012, there were no investments on non-accrual status.

Note 4. Fair Value Measurements*Investments*

The Company has established and documented processes and methodologies for determining the fair values of portfolio company investments on a recurring basis in accordance with ASC Topic 820. Fair value is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 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.

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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 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. Accordingly, the degree of judgment exercised by the Board in determining fair value is greatest for investments classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the Board's estimate of fair value 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 gains or losses ultimately realized on these investments to be materially different than the valuations currently assigned.

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With respect to investments for which market quotations are not readily available, the Company's 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 Company's Investment Advisor responsible for the portfolio investment;

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

the Board also engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of our investments for which market quotations are not readily available. The Company will consult with independent valuation firm(s) relative to each portfolio company at least once in every calendar year, and for new portfolio companies, at least once in the twelve-month period subsequent to the initial investment. The Board consulted with the independent valuation firm in arriving at the Company's determination of fair value on 13 and 12 of its portfolio company investments representing 45.6% and 44.1% of the total portfolio investments at fair value as of March 31, 2013 and December 31, 2012, respectfully.

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

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

In making the good faith determination of the value of portfolio investments, the Company starts with the cost basis of the security, which includes the amortized OID and payment-in-kind income, if any. The transaction price is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit values.

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

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

For the Company's debt investments, including senior secured loans and subordinated notes, the primary valuation technique used to estimate the fair value is the discounted cash flow method. However, if there is deterioration in credit quality or a debt investment is in workout status, the Company may consider other methods in determining the fair value, including the value attributable to the debt investment from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The Company's discounted cash flow models

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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; 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.

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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 three months ended March 31, 2013 and 2012.

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 three months ended March 31, 2013 and 2012:

| | Senior Secured Loans | Subordinated Notes | Equity | Warrants | Total |
|--|----------------------------|-----------------------|-----------|-----------|------------|
| Balance, December 31, 2011 | \$ 14,992 | \$ 157,098 | \$ 18,852 | \$ 13,803 | \$ 204,745 |
| Net change in unrealized appreciation on investments | (160) | (47) | (678) | 783 | (102) |
| Purchase of investments | 9,497 | 6,500 | 95 | 853 | 16,945 |
| Proceeds from repayments and sales of investments | (550) | (5,238) | | | (5,788) |
| Interest and dividend income paid-in-kind | 18 | 992 | 118 | | 1,128 |
| Loan origination fees received | (104) | (64) | | | (168) |
| Accretion of loan origination fees | 3 | 18 | 1 | | 22 |
| Accretion of original issue discount | 31 | 226 | 2 | | 259 |
| Balance, March 31, 2012 | \$ 23,727 | \$ 159,485 | \$ 18,390 | \$ 15,439 | \$ 217,041 |
| Balance, December 31, 2012 | \$ 32,736 | \$ 193,691 | \$ 26,430 | \$ 21,392 | \$ 274,249 |
| Net change in unrealized appreciation on investments | (101) | (672) | 80 | 407 | (286) |
| Purchase of investments | | 20,900 | 1,122 | | 22,022 |
| Payments from repayments and sales of investments | | (2,775) | (433) | | (3,208) |
| Interest and dividend income paid-in-kind | 34 | 1,013 | 162 | | 1,209 |
| Proceeds from loan origination fees | | (134) | | | (134) |
| Accretion of loan origination fees | 9 | 37 | 1 | | 47 |
| Accretion of original issue discount | 41 | 261 | 2 | | 304 |
| Balance, March 31, 2013 | \$ 32,719 | \$ 212,321 | \$ 27,364 | \$ 21,799 | \$ 294,203 |

The total change in unrealized appreciation included in the consolidated statements of operations attributable to Level 3 investments still held at March 31, 2013 and 2012, was \$(286) and \$(102), respectively.

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The following table presents quantitative information about the significant unobservable inputs of the Company's Level 3 debt and equity investments as of March 31, 2013:

| Quantitative Information about Level 3 Fair Value Measurements | | | | |
|---|------------------------------------|---|--|--|
| | Fair Value at March 31, 2013 | Valuation Techniques | Unobservable Inputs | Range (weighted average) |
| Debt investments: | | | | |
| Senior secured loans | \$ 32,719 | Market comparable companies Discounted cash flow | EBITDA multiples Weighted average cost of capital | 5.0x - 7.5x (6.1x) 12.6% - 16.4% (15.2%) |
| Subordinated notes | 212,321 | Market comparable companies Discounted cash flow | EBITDA multiples Weighted average cost of capital | 4.5x - 11.6x (6.6x) 13.4% - 26.8% (16.1%) |
| Equity investments: | | | | |
| Equity | 27,364 | Market comparable companies | EBITDA multiples | 4.5x - 11.6x (6.4x) |
| Warrants | 21,799 | Market comparable companies | EBITDA multiples | 4.5x - 8.5x (7.2x) |

The significant unobservable inputs used in the fair value measurement of the Company's debt investments, including senior secured loans and subordinated notes, are weighted average cost of capital and EBITDA multiples. Significant increases (or decreases) in either of these inputs in isolation could have a significant impact on estimated fair values, with the fair value of a debt investment susceptible to change in inverse relation to a change in the discount rate. Often, a change in the assumption used for the EBITDA multiple is accompanied by an inversely related change in the weighted average cost of capital.

The significant unobservable inputs used in the fair value measurement of the Company's equity investments, including equity and warrants, are EBITDA multiples. Significant increases (or decreases) in this input could result in a significantly higher (or lower) estimate of fair value.

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 both March 31, 2013 and December 31, 2012, the fair value of the Company's SBA debentures using Level 3 inputs is estimated at \$144,500, 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. 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. Up to and including the first full calendar quarter of the Company's operations, the base management fee was calculated based on the initial value of the Company's total assets (other than cash or cash equivalents but including assets purchased with borrowed amounts) at the closing of the Formation Transactions. The base management fee under the Investment Advisory Agreement for the three months ended March 31, 2013 and 2012 totaled \$1,259 and \$939,

respectively.

The incentive fee has two parts. One 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 payment-in-kind 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 actually receives.

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Pre-incentive fee net investment income does not include any 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 receives 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 realized and unrealized capital losses.

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

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

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

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

20.0% of the amount of the Company's pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter. The sum of the calculations above equals the income incentive fee. The income incentive fee is appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the calendar quarter. The income incentive fee for the three months ended March 31, 2013 and 2012 totaled \$1,214 and \$897, 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 realized 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. For this purpose, cumulative aggregate realized capital gains, if any, equal the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment. Aggregate unrealized capital depreciation equals the sum of the difference, if negative, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. 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

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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. 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 months ended March 31, 2013 and 2012, the Company recognized a reversal of accrued capital gains incentive fee totaling \$57 and \$20, respectively.

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

Unless terminated earlier as described below, the Investment Advisory Agreement will continue in effect for a period of two years from its effective date. It will remain in effect from year to year thereafter if approved annually by the Board or by the

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

Administration Agreement: Concurrent with the Formation Transactions, the Company also entered into an administration agreement (the Administration Agreement) with the Investment Advisor. Under the Administration Agreement, the Investment Advisor furnishes the Company with office facilities and equipment, provides it clerical, bookkeeping and record keeping services at such facilities and provides the Company with other administrative services necessary to conduct its day-to-day operations. The Company reimburses the Investment Advisor for the allocable portion of overhead expenses incurred in performing its obligations under the Administration Agreement, including rent and the Company's allocable portion of the cost of its chief financial officer and chief compliance officer and their respective staffs. Under the Administration Agreement, the Investment Advisor also provides managerial assistance to those portfolio companies to which the Company is required to provide such assistance. Under the Administration Agreement, administrative expenses for services provided for the three months ended March 31, 2013 and 2012 totaled \$245 and \$229, respectively.

Note 6. Debt

SBA debentures: The Company uses debenture leverage provided through the SBA to fund a portion of its investment purchases. The SBA has made commitments to issue \$150,000 in the form of debenture securities to the Company on or before December 31, 2016. Unused commitments as of March 31, 2013 were \$5,500. 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 March 31, 2013 and December 31, 2012, the Company's issued and outstanding SBA debentures mature as follows:

| Pooling Date(1) | Maturity Date | Fixed Interest Rate | March 31, 2013 | December 31, 2012 |
|------------------------|----------------------|----------------------------|-----------------------|--------------------------|
| 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 | 4,000 |
| 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 |
| | | | \$ 144,500 | \$ 144,500 |

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(1) The SBA has two scheduled pooling dates for debentures (in March and in September). Certain debentures drawn during the reporting periods may not be pooled until the subsequent pooling date.

Interest on SBA debentures is payable semi-annually on March 1 and September 1. For the three months ended March 31, 2013 and 2012, interest and fee amortization expense on outstanding SBA debentures amounted to \$1,735 and \$1,443, respectively. As of March 31, 2013 and December 31, 2012, accrued interest payable totaled \$552 and \$2,137, respectively. The weighted average fixed interest rate for all SBA debentures as of March 31, 2013 and December 31, 2012 was 4.6% and 4.5%, respectively.

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Deferred financing costs as of March 31, 2013 and December 31, 2012, are as follows:

| | March 31, 2013 | December 31, 2012 |
|-------------------------------------|-------------------|----------------------|
| SBA debenture commitment fees | \$ 1,500 | \$ 1,500 |
| SBA debenture leverage fees | 3,504 | 3,504 |
| Subtotal | 5,004 | 5,004 |
| Accumulated amortization | (1,715) | (1,590) |
| Net deferred financing costs | \$ 3,289 | \$ 3,414 |

Note 7. Commitments and Contingencies

Commitments: As of March 31, 2013, the Company had two outstanding loan commitments to portfolio companies totaling \$3,200 that were unfunded. As of December 31, 2012, the Company had one outstanding revolving loan commitment to a portfolio company for \$1,000 that was unfunded. The commitments are generally subject to the borrowers meeting certain criteria such as compliance with financial and nonfinancial covenants.

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

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

Note 8. Financial Highlights

The following is a schedule of financial highlights for the three months ended March 31, 2013 and 2012:

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2013 | 2012 |
| Per share data: | | |
| Net asset value at beginning of period | \$ 15.32 | \$ 14.90 |
| Net investment income ⁽¹⁾ | 0.38 | 0.38 |
| Change in net unrealized appreciation on investments ⁽¹⁾ | (0.02) | (0.01) |
| Total increase from investment operations⁽¹⁾ | 0.36 | 0.37 |
| Accretive effect of share issuance above NAV | 0.16 | |
| Dividends to stockholders | (0.38) | (0.34) |

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| | | |
|---|------------|------------|
| Other ⁽²⁾ | | 0.01 |
| Net asset value at end of period | \$ 15.46 | \$ 14.94 |
| Market value at end of period | \$ 19.15 | \$ 14.01 |
| Shares outstanding at end of period | 13,699,348 | 9,427,021 |
| Weighted average shares outstanding during the period | 12,932,030 | 9,427,021 |
| Ratios to average net assets (annualized): | | |
| Expenses other than incentive fee | 7.5% | 8.8% |
| Incentive fee | 2.3% | 2.5% |
| Total expenses | 9.8% | 11.3% |
| Net investment income | 10.0% | 10.3% |
| Total return ⁽³⁾ | 18.7% | 10.6% |
| Net assets at end of period | \$ 211,763 | \$ 140,796 |
| Average debt outstanding | \$ 144,500 | \$ 111,500 |
| Average debt per share ⁽¹⁾ | \$ 11.17 | \$ 11.83 |
| Portfolio turnover ratio (annualized) | 4.5% | 11.0% |

(1) Weighted average per share data.

(2) Represents the impact of different share amounts used in calculating per share data as a result of calculating certain per share data based on weighted average shares outstanding during the period and certain per share data based on shares outstanding as of a period end or transaction date.

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

- (3) The total return for the three months ended March 31, 2013 and 2012 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 Company's dividend declaration and distribution during the three months ended March 31, 2013 and 2012.

| Date Declared | Record Date | Payment Date | Amount Per Share | Cash Distribution | DRIP Shares Issued | DRIP Shares Value |
|---|--------------------|---------------------|-------------------------|--------------------------|---------------------------|--------------------------|
| Fiscal Three Months Ended March 31, 2012 | | | | | | |
| 2/10/2012 | 3/14/2012 | 3/28/2012 | \$ 0.34 | \$ 3,205 | | \$ |
| Fiscal Three Months Ended March 31, 2013 | | | | | | |
| 2/22/2013 | 3/14/2013 | 3/28/2013 | \$ 0.38 | \$ 4,822 | 20,501 | \$ 376 |

For the three months ended March 31, 2013, \$376 of the total \$5,198 paid to stockholders represented DRIP participation. During this period, the Company satisfied the DRIP participation requirements with the issuance of 20,501 shares at an average value of \$18.36 per share at the date of issuance. For the three months ended March 31, 2012, \$591 of the total \$3,205 paid to stockholders represented DRIP participation which the Company satisfied with the purchase of 43,029 shares of common stock in the open market at an average price of \$13.73 per share.

Note 10. Subsequent Events

In April 2013, the Company received \$7,482 from Westminster Cracker Company, Inc. in full repayment of its subordinated loan, including accrued interest.

In April 2013, the Company invested \$11,100 in subordinated notes and equity of World Wide Packaging, LLC, a leading designer and manufacturer of primary packaging for the cosmetics and skin care industries.

On May 1, 2013, the Board declared a quarterly dividend of \$0.38 per share payable on June 26, 2013 to stockholders of record as of June 12, 2013.

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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, 2012, filed with the U.S. Securities and Exchange Commission (SEC) on March 7, 2013. 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, and our refer to Fidus Mezzanine Capital, L.P. and its consolidated subsidiaries for periods prior to the Formation Transactions on June 20, 2011, and refer to Fidus Investment Corporation and its consolidated subsidiaries for periods after the Formation Transactions.

Forward Looking Statements

Some of the statements in this quarterly report on Form 10-Q contain forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as anticipates, expects, intends, plans, 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 inexperience operating a BDC;

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

our ability to maintain or develop referral relationships;

our ability to manage our business effectively;

our ability to receive a second SBIC license

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;

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potential divergent interests of our investment advisor and our stockholders arising from our management and incentive fee structure;

constraint on investment due to access to material nonpublic information;

other potential conflicts of interest;

SBA regulations affecting our wholly-owned SBIC subsidiary;

changes in interest rates;

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

fluctuations in our quarterly operating results;

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 issuing shares below our current net asset value;

possible resignation of our investment advisor;

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;

our ability to invest in qualifying assets; and

our ability to identify and timely close on investment opportunities.

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, 2012, filed with the SEC on March 7, 2013. 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. The forward-looking

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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.

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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. Fidus Investment Corporation was formed as a Maryland corporation on February 14, 2011. On June 20, 2011, Fidus Investment Corporation acquired all of the limited partnership interests of Fidus Mezzanine Capital, L.P., or the Fund, and membership interests of Fidus Mezzanine Capital GP, LLC, its general partner, through the Formation Transactions (as defined in Note 1 to the consolidated financial statements), resulting in the Fund becoming our wholly-owned SBIC subsidiary. Immediately following the Formation Transactions, we and the Fund elected to be treated as business development companies, or BDCs, under the Investment Company Act of 1940, as amended, or 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, 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 \$38.0 million after deducting underwriting fees and offering costs totaling \$1.9 million. Additionally, in February 2013, the Company issued 1,725,000 shares of common stock in a follow-on public offering, including shares purchased by the underwriters pursuant to their exercise of the over-allotment option, at an offering price of \$17.60 per share resulting in net proceeds of approximately \$28.9 million after deducting underwriting commissions and offering costs totaling approximately \$1.5 million. Our shares are listed on The Nasdaq Global Select Market under the symbol **FDUS**.

The Fund is licensed by the U.S. Small Business Administration, or the SBA, as a Small Business Investment Company, or SBIC, and we plan to continue to operate the Fund as an SBIC, 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 Fidus Investment Corporation. We believe that utilizing both entities 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 Fund. On March 29, 2013, the Company commenced operations of a new wholly-owned subsidiary, Fidus Mezzanine Capital II, L.P., or Fund II. The Company, on behalf of Fund II, has submitted an application for a second SBIC license. However, we can make no assurances that the application process will be completed successfully or that the SBA will approve such application. As of March 31, 2013, we had investments in 32 portfolio companies with an aggregate fair value of \$294.2 million and cost of \$280.5 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 a term of three 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 date. 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 paid-in-kind 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 as interest income. We record prepayment premiums on loans as fee income. Interest and dividend income is recorded on the accrual basis to the extent that the Company expects to collect such amounts. 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 income 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.

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Expenses: All investment professionals of our investment advisor and/or its affiliates, when and to the extent engaged in providing investment advisory and management services to us, and the compensation and routine overhead expenses of personnel allocable to these services to us, are provided and paid for by our investment advisor and not by us. We bear all other out-of-pocket costs and expenses of our operations and transactions, 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;

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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 three months ended March 31, 2013, we invested \$22.0 million in two new and two existing portfolio companies. The new investments consisted of subordinated notes (\$20.9 million, or 94.9%) and equity securities (\$1.1 million, or 5.1%). During the three months ended March 31, 2013 we received proceeds from repayments of principal, including a dividend classified as return of capital, of \$3.2 million. During the three months ended March 31, 2012, we invested \$16.9 million in two new and two existing portfolio companies. The new investments consisted of subordinated notes (\$6.5 million, or 38.4%), senior secured loans (\$9.5 million, or 56.0%), warrants (\$0.9 million, or 5.0%) and equity securities (\$0.1 million, or 0.6%). During the three months ended March 31, 2012 we received proceeds from repayments of principal of \$5.8 million.

As of March 31, 2013, our investment portfolio totaled \$294.2 million and consisted of 32 portfolio companies. As of March 31, 2013, our debt portfolio was comprised entirely of fixed rate investments. Overall, the portfolio had a net unrealized appreciation of \$13.7 million as of March 31, 2013. Our average portfolio company investment at amortized cost was \$8.8 million as of March 31, 2013.

As of December 31, 2012, our investment portfolio totaled \$274.2 million and consisted of 30 portfolio companies. As of December 31, 2012, our debt portfolio was comprised entirely of fixed rate investments. Overall, the portfolio had a net unrealized appreciation of \$14.0 million as of December 31, 2012. Our average portfolio company investment at amortized cost was \$8.7 million as of December 31, 2012.

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The weighted average yield on debt investments at their cost basis at March 31, 2013 and December 31, 2012 was 15.2% and 15.3%, respectively. Yields are computed using interest rates as of the balance sheet date and include amortization of original issue discount. Yields do not include any debt investments that were on non-accrual status as of the balance sheet date.

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

| | As of March 31, 2013 | As of December 31, 2012 |
|------------------------------|-------------------------|----------------------------|
| <u>Cost</u> | | |
| Senior secured loans | 11.5% | 12.4% |
| Subordinated notes | 75.5 | 73.9 |
| Equity | 10.3 | 10.8 |
| Warrants | 2.7 | 2.9 |
| | | |
| Total | 100.0% | 100.0% |
| <u>Fair Value</u> | | |
| Senior secured loans | 11.1% | 11.9% |
| Subordinated notes | 72.2 | 70.6 |
| Equity | 9.3 | 9.7 |
| Warrants | 7.4 | 7.8 |
| | | |
| Total | 100.0% | 100.0% |

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

| | As of March 31, 2013 | As of December 31, 2012 |
|------------------------------|-------------------------|----------------------------|
| <u>Cost</u> | | |
| Midwest | 23.9% | 24.1% |
| Southwest | 17.5 | 18.8 |
| Northeast | 20.7 | 16.6 |
| Southeast | 20.0 | 21.4 |
| West | 17.9 | 19.1 |
| | | |
| Total | 100.0% | 100.0% |
| <u>Fair Value</u> | | |
| Midwest | 21.8% | 22.1% |
| Southwest | 20.7 | 21.8 |
| Northeast | 19.0 | 15.1 |
| Southeast | 19.4 | 20.7 |
| West | 19.1 | 20.3 |
| | | |
| Total | 100.0% | 100.0% |

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

| | As of March 31, 2013 | As of December 31, 2012 |
|-----------------------------------|-------------------------|----------------------------|
| Cost | | |
| Healthcare services | 11.3% | 12.0% |
| Transportation services | 7.4 | 8.0 |
| Aerospace & defense manufacturing | 9.0 | 10.6 |
| Oil & gas services | 6.2 | 6.6 |
| Restaurants | 5.8 | 6.2 |
| Business Services | 5.3 | |
| Movie theaters | 4.6 | 5.0 |
| Industrial cleaning & coatings | 4.8 | 5.2 |
| Electronic components supplier | 6.4 | 6.8 |
| Utility equipment manufacturing | 3.5 | 3.8 |
| Specialty distribution | 3.4 | 3.6 |
| Retail | 3.5 | 3.7 |
| Financial Services | 3.3 | 3.6 |
| Printing services | 3.3 | 3.5 |
| Commercial cleaning | 3.0 | 3.2 |
| Furniture rental | 2.8 | 3.0 |
| Information technology services | 3.0 | 3.2 |
| Specialty cracker manufacturer | 3.1 | 3.3 |
| Healthcare products | 2.4 | |
| Retail cleaning | 2.9 | 3.1 |
| Debt collection services | 2.0 | 2.1 |
| Apparel distribution | 1.9 | 2.3 |
| Laundry services | 1.1 | 1.2 |
| Total | 100.0% | 100.0% |

| | As of March 31, 2013 | As of December 31, 2012 |
|-----------------------------------|-------------------------|----------------------------|
| Fair Value | | |
| Healthcare services | 11.9% | 12.8% |
| Transportation services | 10.8 | 11.2 |
| Aerospace & defense manufacturing | 9.3 | 11.0 |
| Oil & gas services | 6.5 | 6.9 |
| Restaurants | 5.6 | 5.9 |
| Business services | 5.1 | |
| Movie theaters | 5.0 | 5.4 |
| Industrial cleaning & coatings | 4.6 | 4.9 |
| Electronic components supplier | 4.3 | 4.6 |
| Utility equipment manufacturing | 3.5 | 3.8 |
| Specialty distribution | 3.5 | 3.6 |
| Retail | 3.3 | 3.5 |
| Financial Services | 3.2 | 3.4 |
| Printing services | 2.9 | 3.3 |
| Commercial cleaning | 2.8 | 3.0 |
| Furniture rental | 2.8 | 3.0 |
| Information technology services | 2.7 | 3.0 |
| Specialty cracker manufacturer | 2.6 | 2.7 |

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| | | |
|--------------------------|--------|--------|
| Healthcare products | 2.3 | |
| Retail cleaning | 2.3 | 2.6 |
| Debt collection services | 1.9 | 2.0 |
| Apparel distribution | 1.7 | 2.0 |
| Laundry services | 1.4 | 1.4 |
| Total | 100.0% | 100.0% |

Table of Contents**Portfolio Asset Quality**

We utilize an internally developed investment rating system for our portfolio of investments. Investment Rating 1 is used for investments that involve the least amount of risk in our portfolio and the portfolio company is performing above expectations. Investment Rating 2 is used for investments that are performing substantially within our expectations and the portfolio company's 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 require closer monitoring, but with respect to which we expect a full return of original capital invested and collection of all interest. Investment Rating 4 is used for investments performing materially below expectations, and have the potential for some loss of investment return. Investment Rating 5 is used for investments performing substantially below our expectations and where we expect a 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 March 31, 2013 and December 31, 2012:

| Investment Rating | March 31, 2013 | | December 31, 2012 | |
|-------------------|-------------------------------|----------------------------------|---------------------------------|----------------------------------|
| | Investments at Fair Value | Percent of Total Portfolio | Investments at Fair Value | Percent of Total Portfolio |
| | <i>(Dollars in thousands)</i> | | | |
| 1 | \$ 26,685 | 9.1% | \$ 25,480 | 9.3% |
| 2 | 236,510 | 80.4 | 225,086 | 82.1 |
| 3 | 31,008 | 10.5 | 23,683 | 8.6 |
| 4 | | | | |
| 5 | | | | |
| Totals | \$ 294,203 | 100.0% | \$ 274,249 | 100.0% |

Based upon our investment rating system, the weighted average rating of our portfolio as of both March 31, 2013 and December 31, 2012 was 2.0. As of March 31, 2013 and December 31, 2012, we had no investments on non-accrual status.

Discussion and Analysis of Results of Operations**Comparison of three months ended March 31, 2013 and March 31, 2012***Investment Income*

For the three months ended March 31, 2013, total investment income was \$9.8 million, an increase of \$2.2 million, or 29.2%, over the \$7.6 million of total investment income for the three months ended March 31, 2012. The increase was primarily attributable to a \$2.0 million increase in interest and fee income from investments due to higher average levels of outstanding debt investments in the three months ended March 31, 2013 compared to the prior year period, as well as a \$0.2 million increase in dividend income from a portfolio equity investment in March 2013.

Expenses

For the three months ended March 31, 2013, total expenses were \$4.9 million, an increase of \$0.9 million or 22.4%, over the \$4.0 million of total expenses for the three months ended March 31, 2012. The increase in total expenses was primarily attributable to an increase in interest expense, base management fees and incentive fees. Interest expense increased \$0.3 million primarily as a result of higher average balances of SBA debentures outstanding during the three months ended March 31, 2013 than the comparable period in 2012. Base management fee increased \$0.3 million due to a higher average total assets less cash and cash equivalents for the three months ended March 31, 2013 than the comparable period in 2012. Incentive fees increased \$0.3 million due primarily to higher net investment income during the three months ended March 31, 2013 than the comparable period in 2012.

Net Investment Income

As a result of the \$2.2 million increase in total investment income as compared to the \$0.9 million increase in total expenses, net investment income increased \$1.3 million, or 36.0% for the three months ended March 31, 2013 to \$4.9 million compared to net investment income of \$3.6

million during the three months ended March 31, 2012.

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Net Increase in Net Assets Resulting From Operations

During the three months ended March 31, 2013, we recorded net unrealized depreciation of \$0.3 million comprised of \$0.8 million of net unrealized depreciation on debt investments, partially offset by \$0.5 million of net unrealized appreciation on equity investments. During the three months ended March 31, 2012, we recorded net unrealized depreciation of \$0.1 million comprised of \$0.2 million of net unrealized depreciation on debt investments, partially offset by \$0.1 million of net unrealized appreciation on equity investments.

As a result of these events, our net increase in net assets resulting from operations during the three months ended March 31, 2013, was \$4.6 million, or an increase of \$1.1 million compared to a net increase in net assets resulting from operations of \$3.5 million during the three months ended March 31, 2012.

Liquidity and Capital Resources

As of March 31, 2013, we had \$59.0 million in cash and cash equivalents, and our net assets totaled \$211.8 million. We believe that our current cash and cash equivalents on hand, our available SBA leverage and our anticipated cash flows from operations will be adequate to meet our cash needs for our daily operations for at least the next 12 months. We intend to generate additional cash primarily from future offerings of securities, future borrowings as well as cash flows from operations, including income earned from investments in our portfolio companies. On both a short-term and long-term basis, our primary use of funds will be investments in portfolio companies and cash distributions to our stockholders.

Cash Flows

For the three months ended March 31, 2013, we experienced a net increase in cash and cash equivalents in the amount of \$6.9 million. During that period, we used \$17.1 million in cash in operating activities, primarily for the funding of \$22.0 million of investments and \$3.2 million of interest payments, which was partially offset by \$3.2 million of principal repayments received and \$4.9 million of net investment income. During the same period, we generated \$24.0 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 \$4.8 million.

For the three months ended March 31, 2012, we experienced a net increase in cash and cash equivalents in the amount of \$1.5 million. During that period, we used \$9.7 million in cash in operating activities, primarily for the funding of \$16.9 million of investments, partially offset by \$5.8 million of principal repayments received and \$3.6 million of net investment income. During the same period, we generated \$11.2 million from financing activities, consisting primarily of proceeds from SBA debentures of \$15.0 million. These increases were partially offset by cash dividends paid to stockholders in the amount of \$3.2 million and payment of deferred financing fees totaling \$0.6 million.

Capital Resources

We anticipate that we will continue to fund our investment activities on a long-term basis through a combination of debt and additional equity capital. The Fund is a licensed SBIC, and has 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 maximum statutory limit on the dollar amount of outstanding debentures guaranteed by the SBA issued by a single SBIC as of March 31, 2013 was \$150.0 million. Debentures guaranteed by the SBA 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 March 31, 2013, the Fund had \$144.5 million of outstanding SBA debentures, which had a weighted average interest rate of 4.6%. Based on its \$75.0 million of regulatory capital as of March 31, 2013, the Fund has the current capacity to issue up to an additional \$5.5 million of SBA debentures. For more information on the SBA debentures the Fund has issued, please see Note 6 to our consolidated financial statements.

On October 15, 2012, the Company submitted an application to the SBA for a second SBIC license, after receiving a Green Light letter from the SBA on July 30, 2012 allowing the Company to proceed with such an application for a second SBIC license through which we may issue more SBA debentures to fund additional investments. However, we can make no assurances that the application process will be completed successfully or that the SBA will approve such application. If we are approved by the SBA for a second SBIC license, the maximum amount of outstanding SBA debentures for two or more SBICs under common control cannot exceed \$225.0 million. However, 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 Fund from the 200.0% asset coverage requirements, which, in turn, will enable us to fund more investments with debt capital. However, we have not received exemptive relief for any debt that may be incurred under a second SBIC license, if granted.

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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 6, 2012, 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 6, 2013 or the date of our 2013 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 6, 2013 or the date of our 2013 Annual Meeting of Stockholders may not exceed 25.0% of our outstanding common stock immediately prior to each such sale.

Distributions

In order to maintain our RIC status and to avoid corporate level tax on the income we distribute to our stockholders, we are required under the Code to distribute at least 90.0% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Additionally, to avoid a 4.0% nondeductible U.S. federal excise tax, we must distribute at least 98.0% of our net ordinary income and 98.2% of our capital gain net income on an annual basis as well as any net ordinary income and net capital gains for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax. We intend to continue distributing regular quarterly dividends to our stockholders, as determined by our Board. Our most recent quarterly dividend payment to stockholders was for the three months ended March 31, 2013 and totaled \$5.2 million or \$0.38 per share.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of our distributions from time to time. In the future, pursuant to SBA guidelines, the Fund may be limited by provisions of the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to enable us to make the minimum distributions to our stockholders and qualify as a RIC. In addition, we may be limited in our ability to make distributions due to the asset coverage requirements applicable to us as a BDC under the 1940 Act. If we do not make sufficient distributions to our stockholders on an annual basis, we will suffer adverse tax consequences, including the possible loss of our RIC status. We cannot assure stockholders that they will receive any distributions or that we will be able to maintain our RIC status.

To the extent our distributions for a fiscal year exceed our taxable income for such fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a dividend payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

We have adopted an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders cash distributions will be automatically reinvested in additional shares of our common stock unless a stockholder specifically opts out of our dividend reinvestment plan. If a stockholder opts out, that stockholder will receive cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, stockholders participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes.

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 recent public stock offering and leverage available through the SBIC program, 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 accounting principles generally accepted in the U.S., or 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.

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Valuation of Portfolio Investments

We conduct the valuation of our investments, pursuant to which our net asset value is determined, at all times consistent with 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, which includes the amortized original issue discount and payment-in-kind income, if any. The transaction price is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit values.

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

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

For our debt investments, including senior secured loans and subordinated notes, the primary valuation technique used to estimate the fair value is the discounted cash flow method. However, if there is deterioration in credit quality or a debt investment is in workout status, we may consider other methods in determining the fair value, including the value attributable to the debt investment from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. Our discounted cash flow models estimate a range of fair

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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.

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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 financial statements express the uncertainties with respect to the possible effect of such valuations, and any changes in such valuations, on the financial statements.

Revenue Recognition

The Company's revenue recognition policies are as follows:

Investments and related investment income. Realized gains or losses on portfolio investments are calculated based upon the difference between the net proceeds from the disposition and the amortized cost basis of the investment without regard to unrealized gains and losses 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 changes in unrealized appreciation or depreciation of investments in the consolidated statement 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 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 when 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 income or a return of capital.

Payment-in-kind interest. We have investments in our portfolio that contain a payment-in-kind income provision, which represents contractual interest or dividends that are added to the principal balance and are recorded as income. We stop accruing payment-in-kind income when it is determined that payment-in-kind income is no longer collectible. In addition, to maintain RIC tax treatment, substantially all of this income must be paid out to stockholders in the form of distributions, even though we have not yet collected the cash. We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

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 based on the effective interest method over the life of the debt security.

Fee income. All transaction fees received in connection with our investments are recognized as 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 received. 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 investments on our statement of assets and liabilities and amortized as additional income over

the life of the investment.

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Non-accrual. 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. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal, interest or dividends are paid and, in management's judgment, are likely to remain current.

Recently Issued Accounting Standards

In November 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210)* (*ASU 2011-11*), containing new guidance that requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This guidance is effective for annual and interim periods beginning on or after January 1, 2013. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company adopted ASU 2011-11 as of January 1, 2013. The adoption of ASU 2011-11 did not have a material impact on the Company's consolidated financial position or disclosures.

Off-Balance Sheet Arrangements

We may be 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 March 31, 2013, the Company had outstanding loan commitments to two portfolio companies totaling \$3.2 million that were unfunded. As of December 31, 2012, the Company had one outstanding revolving loan commitment to a portfolio company for \$1.0 million that was unfunded. The commitments are generally subject to the borrowers meeting certain criteria such as compliance with financial and nonfinancial covenants.

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, we entered into the Investment Advisory Agreement with Fidus Investment Advisors, LLC, as our Investment Advisor 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, Cary L. Schaefer, 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.

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 Fidus and the Fund 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 Fidus Mezzanine Capital, L.P. from the 200.0% asset coverage requirements applicable to us.

In addition, we, the Fund 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 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

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subject to the duties imposed by both the 1940 Act and the Maryland General Corporation Law.

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Recent Developments

In April 2013, we received \$7.5 million from Westminster Cracker Company, Inc. in full repayment of its subordinated loan, including accrued interest.

In April 2013, we invested \$11.1 million in subordinated notes and equity of World Wide Packaging, LLC, a leading designer and manufacturer of primary packaging for the cosmetics and skin care industries.

On May 1, 2013, the Board declared a quarterly dividend of \$0.38 per share payable on June 26, 2013 to stockholders of record as of June 12, 2013.

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 March 31, 2013, all of our debt investments bore interest at fixed rates and all of our pooled SBA debentures bore interest at fixed rates. Assuming that the consolidated statements of assets and liabilities as of March 31, 2013 and December 31, 2012 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.

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 first quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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, 2012 and filed with the SEC on March 7, 2013, 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.

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Item 6. Exhibits.

| Number | Exhibit |
|---------------|---|
| 3.1 | Articles of Amendment and Restatement of the Registrant (Filed as Exhibit (a)(1) to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the Securities and Exchange Commission on April 29, 2011 and incorporated herein by reference). |
| 3.2 | Bylaws of the Registrant (Filed as Exhibit (b)(1) to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the Securities and Exchange Commission on April 29, 2011 and incorporated herein by reference). |
| 4.1 | Form of Stock Certificate of the Registrant (Filed as Exhibit (d) to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the Securities and Exchange Commission on April 29, 2011 and incorporated herein by reference). |
| 4.2 | Agreement to Furnish Certain Instruments (Filed as Exhibit (f)(2) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2 (File No. 333-172550) filed with the Securities and Exchange Commission on May 26, 2011 and incorporated herein by reference). |
| 31.1 | Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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SIGNATURES

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

FIDUS INVESTMENT CORPORATION

Date: May 2, 2013

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

Date: May 2, 2013

/s/ CARY L. SCHAEFER
Cary L. Schaefer
Chief Financial Officer

(Principal Financial and Accounting Officer)

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