

FIDUS INVESTMENT Corp  
Form 10-Q  
August 02, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2012

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  
Incorporation or Organization)

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

**1603 Orrington Avenue, Suite 820**

**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 August 2, 2012, the Registrant had outstanding 9,427,021 shares of common stock, \$0.001 par value.



**Table of Contents**

**FIDUS INVESTMENT CORPORATION**

**TABLE OF CONTENTS**

**QUARTERLY REPORT ON FORM 10-Q**

**PART I FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements.</u>	3
	<u>Consolidated Statements of Assets and Liabilities June 30, 2012 (unaudited) and December 31, 2011</u>	3
	<u>Consolidated Statements of Operations Three and Six Months Ended June 30, 2012 (unaudited) and 2011 (unaudited)</u>	4
	<u>Consolidated Statements of Changes in Net Assets Three and Six Months Ended June 30, 2012 (unaudited) and 2011 (unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows Three and Six Months Ended June 30, 2012 (unaudited) and 2011 (unaudited)</u>	6
	<u>Consolidated Schedule of Investments June 30, 2012 (unaudited) and December 31, 2011</u>	7
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	13
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	25
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	37
Item 4.	<u>Controls and Procedures.</u>	37

**PART II OTHER INFORMATION**

Item 1.	<u>Legal Proceedings.</u>	38
Item 1A.	<u>Risk Factors.</u>	38
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	42
Item 3.	<u>Defaults Upon Senior Securities.</u>	42
Item 4.	<u>Mine Safety Disclosures.</u>	42
Item 5.	<u>Other Information.</u>	42
Item 6.	<u>Exhibits.</u>	43
	<u>Signatures</u>	44
	<u>Exhibit Index</u>	45

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****FIDUS INVESTMENT CORPORATION****Consolidated Statements of Assets and Liabilities**

	June 30, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Investments, at fair value		
Control investments (cost: \$20,420,177 and \$19,916,617, respectively)	\$ 29,844,891	\$ 28,598,962
Affiliate investments (cost: \$51,531,946 and \$49,913,338, respectively)	50,132,504	50,058,243
Non-control/non-affiliate investments (cost: \$149,151,373 and \$122,709,976, respectively)	154,077,960	126,088,167
Total investments, at fair value (cost: \$221,103,496 and \$192,539,931, respectively)	234,055,355	204,745,372
Cash and cash equivalents	27,630,427	39,058,516
Interest receivable	2,057,290	1,686,851
Deferred financing costs (net of accumulated amortization of \$1,346,073 and \$1,134,767, respectively)	3,094,240	2,687,233
Prepaid expenses and other assets	667,818	465,171
<b>Total assets</b>	<b>267,505,130</b>	<b>248,643,143</b>
<b>LIABILITIES</b>		
SBA debentures	121,250,000	104,000,000
Accrued interest payable	1,918,767	1,718,989
Due to affiliates	2,441,474	2,162,160
Accounts payable and other liabilities	293,671	279,849
<b>Total liabilities</b>	<b>125,903,912</b>	<b>108,160,998</b>
<b>Net assets</b>	<b>\$ 141,601,218</b>	<b>\$ 140,482,145</b>
<b>ANALYSIS OF NET ASSETS</b>		
Common stock, \$0.001 par value (100,000,000 shares authorized, 9,427,021 shares issued and outstanding)	\$ 9,427	\$ 9,427
Additional paid-in capital	138,648,226	138,648,226
Undistributed net investment income	794,702	422,049
Accumulated net realized loss on investments	(481,937)	(481,937)
Accumulated net unrealized appreciation on investments	2,630,800	1,884,380
<b>Total net assets</b>	<b>\$ 141,601,218</b>	<b>\$ 140,482,145</b>
<b>Net asset value per share</b>	<b>\$ 15.02</b>	<b>\$ 14.90</b>

*See Notes to Consolidated Financial Statements (unaudited).*

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Investment income:</b>				
Interest and fee income				
Control investments	\$ 729,586	\$ 853,890	\$ 1,449,614	\$ 1,673,388
Affiliate investments	1,779,768	1,057,828	3,561,344	1,924,688
Non-control/non-affiliate investments	4,903,174	3,271,050	9,819,658	6,246,134
<b>Total interest and fee income</b>	<b>7,412,528</b>	<b>5,182,768</b>	<b>14,830,616</b>	<b>9,844,210</b>
Dividend income				
Control investments		120,300		236,376
Affiliate investments	30,454		60,858	
Non-control/non-affiliate investments	151,426		271,928	
<b>Total dividend income</b>	<b>181,880</b>	<b>120,300</b>	<b>332,786</b>	<b>236,376</b>
Interest on idle funds and other income	34,130	16,219	61,617	32,464
<b>Total investment income</b>	<b>7,628,538</b>	<b>5,319,287</b>	<b>15,225,019</b>	<b>10,113,050</b>
<b>Expenses:</b>				
Interest expense	1,569,250	1,394,767	3,011,864	2,719,052
Base management fee	1,005,306	999,190	1,944,714	2,035,403
Less: management fee offset		(430,208)		(430,208)
Incentive fee	1,045,933		1,923,416	
Administrative service expenses	223,766	22,173	453,142	22,173
Professional fees	156,121	90,677	413,152	170,350
Other general and administrative expenses	285,454	82,759	501,817	106,121
<b>Total expenses</b>	<b>4,285,830</b>	<b>2,159,358</b>	<b>8,248,105</b>	<b>4,622,891</b>
<b>Net investment income before income taxes</b>	<b>3,342,708</b>	<b>3,159,929</b>	<b>6,976,914</b>	<b>5,490,159</b>
Income tax expense (benefit)	(8,275)		5,346	
<b>Net investment income</b>	<b>3,350,983</b>	<b>3,159,929</b>	<b>6,971,568</b>	<b>5,490,159</b>
Net realized and unrealized gains (losses) on investments:				
Realized loss on non-control/non-affiliate investments				(7,935,430)
Net change in unrealized appreciation on investments	848,374	1,437,313	746,420	10,385,661
<b>Net gain on investments</b>	<b>848,374</b>	<b>1,437,313</b>	<b>746,420</b>	<b>2,450,231</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 4,199,357</b>	<b>\$ 4,597,242</b>	<b>\$ 7,717,988</b>	<b>\$ 7,940,390</b>
<b>Per common share data:<sup>(1)</sup></b>				
Net investment income per share-basic and diluted	\$ 0.36	\$ 0.33	\$ 0.74	\$ 0.58
Net increase in net assets resulting from operations per share-basic and diluted	\$ 0.45	\$ 0.49	\$ 0.82	\$ 0.84

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Dividends paid per share	\$	0.36	n/a	\$	0.70	n/a
Weighted average number of shares outstanding	basic and diluted	9,427,021	9,427,021	9,427,021	9,427,021	9,427,021

- (1) The weighted average shares outstanding for the three and six months ended June 30, 2011, are based on the assumption that the number of shares issued in the Formation Transactions and Offering (including the over-allotment) in June and July 2011 (9,427,021 shares of common stock) had been issued on January 1, 2011.

*See Notes to Consolidated Financial Statements (unaudited).*

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

	Common Stock				Undistributed Net Investment Income	Accumulated Net Realized Loss on Investments	Accumulated Net Unrealized Appreciation on Investments	Total Net Assets
	Partners Capital	Number of Shares	Par Value	Additional Paid in Capital				
<b>Balances at December 31, 2010</b>	\$ 52,004,664		\$	\$	\$	\$	\$	\$ 52,004,664
Capital contributions	7,000,000							7,000,000
Capital distributions	(1,500,000)							(1,500,000)
Net investment income through June 20, 2011	5,077,597							5,077,597
Realized loss on investments through June 20, 2011	(7,935,430)							(7,935,430)
Net change in unrealized appreciation on investments through June 20, 2011	10,385,661							10,385,661
Formation transactions	(65,032,492)	4,056,521	4,057	65,028,435				
Public offering of common stock, net of expenses		4,670,000	4,670	63,909,505				63,914,175
Net investment income June 21 to June 30, 2011					412,562			412,562
<b>Balances at June 30, 2011</b>	\$	8,726,521	\$ 8,727	\$ 128,937,940	\$ 412,562	\$	\$	\$ 129,359,229
<b>Balances at December 31, 2011</b>	\$	9,427,021	\$ 9,427	\$ 138,648,226	\$ 422,049	\$ (481,937)	\$ 1,884,380	\$ 140,482,145
Net increase in net assets resulting from operations					6,971,568		746,420	7,717,988
Dividends paid					(6,598,915)			(6,598,915)
<b>Balances at June 30, 2012</b>	\$	9,427,021	\$ 9,427	\$ 138,648,226	\$ 794,702	\$ (481,937)	\$ 2,630,800	\$ 141,601,218

*See Notes to Consolidated Financial Statements (unaudited).*



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

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities</b>		
Net increase in net assets resulting from operations	\$ 7,717,988	\$ 7,940,390
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	(746,420)	(10,385,661)
Realized loss on investments		7,935,430
Interest and dividend income paid-in-kind	(2,269,572)	(2,084,385)
Accretion of original issue discount	(548,425)	(304,877)
Accretion of origination fees	(49,844)	
Amortization of deferred financing costs	211,306	180,339
Purchase of investments	(33,368,812)	(19,591,858)
Principal payments received on debt securities	7,397,526	5,035,791
Proceeds from loan origination fees	275,564	31,250
Changes in operating assets and liabilities:		
Interest receivable	(370,439)	(1,326,255)
Prepaid expenses and other assets	(202,647)	(290,222)
Accrued interest payable	199,778	52,098
Due to affiliates	279,314	91,683
Accounts payable and other liabilities	13,822	627,167
Net cash used in operating activities	(21,460,861)	(12,089,110)
<b>Cash Flows from Financing Activities</b>		
Proceeds from initial public offering, net of expenses		63,914,175
Proceeds received from SBA debentures	17,250,000	3,250,000
Payment of deferred financing costs	(618,313)	(78,813)
Capital contributions		7,000,000
Capital distributions		(1,500,000)
Dividends paid to shareholders	(6,598,915)	
Net cash provided by financing activities	10,032,772	72,585,362
Net (decrease) increase in cash and cash equivalents	(11,428,089)	60,496,252
Cash and cash equivalents:		
Beginning of period	39,058,516	1,757,139
End of period	\$ 27,630,427	\$ 62,253,391
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 2,600,780	\$ 2,486,616

*See Notes to Consolidated Financial Statements (unaudited).*

**Table of Contents**

**Fidus Investment Corporation**  
**Consolidated Schedule of Investments**  
**June 30, 2012 (unaudited)**

**Portfolio Company / Type of**

<b>Investment<sup>(1)(2)(3)</sup></b>	<b>Industry</b>	<b>Rate<sup>(4)</sup> Cash/PIK</b>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Control Investments<sup>(5)</sup></b>							
<i>Worldwide Express Operations, LLC</i>	Transportation Services						
Subordinated Note		11.0%/3.0%	2/1/2014	\$ 8,813,159	\$ 8,813,159	\$ 8,813,159	
Subordinated Note		10.0%/4.0%	2/1/2014	11,518,332	11,336,628	11,518,332	
Warrant (213,381 units) <sup>(7)</sup>						8,065,400	
Common Units (51,946 units) <sup>(7)</sup>					270,390	1,448,000	
<b>Sub Total</b>					20,420,177	29,844,891	21%
<b>Total Control Investments</b>					20,420,177	29,844,891	21%
<b>Affiliate Investments<sup>(5)</sup></b>							
<i>Avrio Technology Group, LLC</i>	Electronic Control Supplier						
Subordinated Note		9.0%/7.5%	10/15/2015	8,883,175	8,883,175	7,345,285	
Common Units (1,000 units) <sup>(7)</sup>					1,000,000		
<b>Sub Total</b>					9,883,175	7,345,285	5%
<i>Malabar International</i>	Aerospace & Defense Manufacturing						
Subordinated Note		12.5%/2.5%	5/21/2017	4,924,793	4,892,428	4,924,793	
Preferred Equity (1,494 shares) <sup>(6)</sup>		6.0%/0.0%			1,986,516	2,637,900	
<b>Sub Total</b>					6,878,944	7,562,693	5%
<i>Medsurant Holdings, LLC</i>	Healthcare Services						
Subordinated Note		14.0%/0.0%	4/12/2016	7,250,000	5,840,681	7,250,000	
Preferred Units (60,977 units) <sup>(7)</sup>					698,804	793,400	
Warrant (222,224 units) <sup>(7)</sup>					2,182,466	2,871,600	
<b>Sub Total</b>					8,721,951	10,915,000	8%
<i>Paramount Building Solutions, LLC</i>	Retail Cleaning						
Subordinated Note		12.0%/4.0%	2/15/2014	6,367,931	6,367,931	6,367,931	
Common Units (107,143 units) <sup>(7)</sup>					1,500,000	631,600	
<b>Sub Total</b>					7,867,931	6,999,531	5%
<i>Trantech Radiator Products, Inc.</i>	Utility Equipment Manufacturer						
Subordinated Note		12.0%/1.8%	5/4/2017	9,105,401	9,065,163	9,105,401	
Common Shares (6,875 shares)					687,500	850,400	
<b>Sub Total</b>					9,752,663	9,955,801	7%
<i>Westminster Cracker Company, Inc.</i>	Specialty Cracker Manufacturer						

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Subordinated Note	14.0%/4.0%	11/17/2014	7,219,085	7,219,085	6,999,994	
Common Units (1,208,197 units)				1,208,197	354,200	
Sub Total				8,427,282	7,354,194	5%
<b>Total Affiliate Investments</b>				<b>51,531,946</b>	<b>50,132,504</b>	<b>35%</b>
<b>Non-Control/Non-Affiliate Investments<sup>(5)</sup></b>						
<i>Acentia, LLC (f/k/a ITSolutions)</i>						
IT Services						
Common Units (499 units)			500,000	500,000	322,600	0%
<i>ACFP Management, Inc.</i>						
Restaurants						
Subordinated Note	12.0%/2.0%	6/29/2017	7,475,838	7,442,194	7,475,838	5%
<i>Brook &amp; Whittle Limited</i>						
Specialty Printing						
Subordinated Note	12.0%/4.8%	8/9/2016	6,469,456	6,469,456	6,469,456	
Subordinated Note	12.0%/2.0%	8/9/2016	2,140,135	2,043,639	2,003,484	
Warrant (1,051 shares)				285,000	478,100	
Common Shares (148 shares)				110,374	67,300	
Sub Total				8,908,469	9,018,340	6%

**Table of Contents****Fidus Investment Corporation****Consolidated Schedule of Investments****June 30, 2012 (continued) (unaudited)****Portfolio Company / Type of**

<b>Investment<sup>(1)(2)(3)</sup></b>	<b>Industry</b>	<b>Rate<sup>(4)</sup> Cash/PIK</b>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<i>Brook Furniture Rental, Inc.</i>	Furniture Rental						
Subordinated Note		12.0%/1.5%	9/30/2016	\$ 7,687,208	\$ 7,240,462	\$ 7,687,208	
Warrants (2.5%)					485,188	502,600	
<b>Sub Total</b>					7,725,650	8,189,808	6%
<i>Caldwell &amp; Gregory, LLC</i>	Laundry Services						
Subordinated Note		12.5%/1.5%	4/23/2016	1,875,838	1,875,838	1,875,838	
Preferred Units (11,628 units) <sup>(7)</sup>					1,162,786	1,472,700	
Common Units (4,464 units) <sup>(7)</sup>					4,464	228,600	
<b>Sub Total</b>					3,043,088	3,577,138	3%
<i>Connect-Air International, Inc.</i>	Specialty Distribution						
Subordinated Note		12.5%/3.0%	12/31/2014	4,213,879	4,213,879	4,213,879	
Preferred Interest <sup>(6)</sup>		0.0%/10.0%	12/31/2014		5,362,648	5,741,298	
<b>Sub Total</b>					9,576,527	9,955,177	7%
<i>Continental Anesthesia Management, LLC</i>	Healthcare Services						
Senior Secured Loan		13.5%/0.0%	11/10/2014	10,200,000	10,068,425	10,200,000	
Warrant (263 shares)					276,070	161,300	
<b>Sub Total</b>					10,344,495	10,361,300	7%
<i>Convergent Resources, Inc.</i>	Debt Collection Services						
Subordinated Note		13.0%/3.0%	12/27/2017	5,501,833	5,446,916	5,446,916	4%
<i>FutureTech Holding Company</i>	IT Services						
Subordinated Note		13.5%/5.5%	2/29/2016	7,657,981	7,589,855	7,589,855	5%
<i>Goodrich Quality Theaters, Inc.</i>	Movie Theaters						
Subordinated Note		12.8%/0.0%	3/31/2015	12,500,000	12,081,762	12,500,000	
Warrant (71 shares)					750,000	2,293,600	
<b>Sub Total</b>					12,831,762	14,793,600	10%
<i>Innovative Product Achievement, LLC</i>	Healthcare Products						
Subordinated Note		13.0%/2.5%	12/21/2016	6,334,073	6,308,635	6,334,073	4%
<i>Jacob Ash Holdings, Inc.</i>	Apparel Distribution						
Subordinated Note		13.0%/4.0%	8/11/2016	3,500,000	3,485,595	3,500,000	
Subordinated Note		13.0%/0.0%	8/11/2016	1,750,000	1,715,587	1,750,000	
Preferred Equity (500 shares) <sup>(6)</sup>		0.0%/15.0%	8/11/2016		539,026	567,500	
Warrant (129,630 shares)					67,408	67,408	
<b>Sub Total</b>					5,807,616	5,884,908	4%
<i>Jan-Pro Holdings, LLC</i>	Commercial Cleaning						
Subordinated Note		12.5%/3.5%	3/18/2017	7,479,909	7,479,909	7,479,909	

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Preferred Equity (1,054,619 shares)				832,124	416,000	
<b>Sub Total</b>				<b>8,312,033</b>	<b>7,895,909</b>	<b>6%</b>
<i>K2 Industrial Services, Inc.</i>	Industrial Cleaning & Coatings					
Subordinated Note		11.8%/2.0%	5/23/2017	12,147,904	12,094,465	12,147,904
Preferred Equity (1,200 shares)					1,200,000	1,024,200
<b>Sub Total</b>					<b>13,294,465</b>	<b>13,172,104</b>
<i>Lightning Diversion Systems, Inc.</i>	Aerospace & Defense Manufacturing					
Revolving Loan (\$1,000,000 commitment)		12.0%/0.0%	6/17/2017	200,000	195,033	195,033
Senior Secured Loan		12.0%/0.0%	6/17/2017	7,412,742	7,375,924	7,375,924
Common Units (600,000 units)					600,000	600,000
<b>Sub Total</b>					<b>8,170,957</b>	<b>8,170,957</b>

**Table of Contents****Fidus Investment Corporation****Consolidated Schedule of Investments****June 30, 2012 (continued) (unaudited)****Portfolio Company / Type of**

<b>Investment<sup>(1)(2)(3)</sup></b>	<b>Industry</b>	<b>Rate<sup>(4)</sup> Cash/PIK</b>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<i>Nobles Manufacturing, Inc.</i>	Aerospace & Defense Manufacturing						
Subordinated Note		13.0%/3.0%	4/6/2016	\$ 6,825,000	\$ 6,825,000	\$ 6,825,000	
Preferred Equity (1,300,000 shares)					1,300,000	1,928,600	
Common Equity (1,300,000 shares)							
<b>Sub Total</b>					8,125,000	8,753,600	6%
<i>Restoration Holdco, LLC</i>	Restoration & Mitigation Services						
Senior Secured Loan		13.0%/1.0%	8/11/2016	4,764,812	4,606,888	4,600,808	
Warrant (11 units)					141,701	39,700	
<b>Sub Total</b>					4,748,589	4,640,508	3%
<i>Simplex Manufacturing Co.</i>	Aerospace & Defense Manufacturing						
Subordinated Note		13.0%/0.0%	10/31/2013	4,550,000	4,372,104	4,550,000	
Warrant (24 shares)					710,000	991,700	
<b>Sub Total</b>					5,082,104	5,541,700	4%
<i>Tulsa Inspection Resources, Inc.</i>	Oil & Gas Services						
Subordinated Note		14.0%/0.0%	3/12/2014	4,000,000	3,933,154	4,000,000	
Subordinated Note		17.5%/0.0%	3/12/2014	648,471	648,471	648,471	
Warrant (6 shares)					193,435	1,187,200	
Common Equity (1 share)					94,500	94,500	
<b>Sub Total</b>					4,869,560	5,930,171	4%
<i>United Biologics, LLC</i>	Healthcare Services						
Senior Secured Loan		12.0%/2.0%	3/5/2017	10,065,717	9,185,341	9,185,341	
Common Equity (88,968 units) <sup>(7)</sup>					1,000,000	1,000,000	
Warrant (78,148 units)					838,117	838,117	
<b>Sub Total</b>					11,023,458	11,023,458	8%
<b>Total Non-Control/Non-Affiliate Investments</b>					149,151,373	154,077,960	109%
<b>Total Investments</b>					\$ 221,103,496	\$ 234,055,355	165%

(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.

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(7) Investment is held by a wholly-owned subsidiary of the Company.

**Table of Contents**

**Fidus Investment Corporation**  
**Consolidated Schedule of Investments**  
**December 31, 2011**

**Portfolio Company / Type of**

<b>Investment<sup>(1)(2)(3)</sup></b>	<b>Industry</b>	<b>Rate<sup>(4)</sup> Cash/PIK</b>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Control Investments<sup>(5)</sup></b>							
<i>Worldwide Express Operations, LLC</i>	Transportation Services						
Subordinated Note		11.0%/3.0%	2/1/2014	\$ 8,683,141	\$ 8,683,141	\$ 8,683,141	
Subordinated Note		0.0%/14.0%	2/1/2014	11,200,821	10,963,086	11,200,821	
Warrant (213,381 units) <sup>(7)</sup>						7,386,100	
Common Units (51,946 units) <sup>(7)</sup>					270,390	1,328,900	
<b>Sub Total</b>					19,916,617	28,598,962	20%
<b>Total Control Investments</b>					19,916,617	28,598,962	20%
<b>Affiliate Investments<sup>(5)</sup></b>							
<i>Avrio Technology Group, LLC</i>	Electronic Control Supplier						
Subordinated Note		9.0%/7.5%	10/15/2015	8,560,918	8,560,918	8,061,600	
Common Units (1,000 units) <sup>(7)</sup>					1,000,000	372,200	
<b>Sub Total</b>					9,560,918	8,433,800	6%
<i>Malabar International</i>	Aerospace & Defense Manufacturing						
Subordinated Note		12.5%/2.5%	5/21/2017	4,863,472	4,827,896	4,827,896	
Preferred Equity (1,494 shares) <sup>(6)</sup>					1,985,329	1,985,329	
<b>Sub Total</b>					6,813,225	6,813,225	5%
<i>Medsurant Holdings, LLC</i>	Healthcare Services						
Subordinated Note		14.0%/0.0%	4/12/2016	7,250,000	5,676,797	7,250,000	
Preferred Units (40,750 units) <sup>(7)</sup>					500,000	500,000	
Warrant (166,970 units) <sup>(7)</sup>					1,669,700	1,989,900	
<b>Sub Total</b>					7,846,497	9,739,900	7%
<i>Paramount Building Solutions, LLC</i>	Retail Cleaning						
Subordinated Note		12.0%/4.0%	2/15/2014	6,240,663	6,240,663	6,240,663	
Common Units (107,143 units) <sup>(7)</sup>					1,500,000	1,745,400	
<b>Sub Total</b>					7,740,663	7,986,063	6%
<i>Trantech Radiator Products, Inc.</i>	Utility Equipment Manufacturer						
Subordinated Note		12.0%/1.8%	5/4/2017	9,025,375	8,981,055	8,981,055	
Common Shares (6,875 shares)					687,500	687,500	
<b>Sub Total</b>					9,668,555	9,668,555	7%
<i>Westminster Cracker Company, Inc.</i>	Specialty Cracker Manufacturer						



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Subordinated Note	14.0%/4.0%	11/17/2014	7,075,283	7,075,283	6,901,700	
Common Units (1,208,197 units)				1,208,197	515,000	
Sub Total				8,283,480	7,416,700	5%
<b>Total Affiliate Investments</b>				49,913,338	50,058,243	36%

**Table of Contents****Fidus Investment Corporation****Consolidated Schedule of Investments****December 31, 2011 (continued)****Portfolio Company / Type of**

<b>Investment<sup>(1)(2)(3)</sup></b>	<b>Industry</b>	<b>Rate<sup>(4)</sup> Cash/PIK</b>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Non-Control/Non-Affiliate Investments<sup>(5)</sup></b>							
<i>ACFP Acquisition Company, Inc.</i>	Restaurants						
Subordinated Note		12.0%/2.0%	6/29/2017	\$ 7,400,822	\$ 7,363,840	\$ 7,363,840	5%
<i>Brook &amp; Whittle Limited</i>	Specialty Printing						
Subordinated Note		12.0%/4.8%	8/9/2016	6,316,340	6,316,340	6,316,340	
Subordinated Note		12.0%/2.0%	8/9/2016	2,118,858	1,993,369	2,038,896	
Warrant (1,051 shares)					285,000	550,200	
Common Shares (148 Shares)					110,374	77,500	
Sub Total					8,705,083	8,982,936	6%
<i>Brook Furniture Rental, Inc.</i>	Furniture Rental						
Subordinated Note		12.0%/1.5%	9/30/2016	7,629,171	7,131,385	7,131,385	
Warrants (2.5%)					485,188	485,188	
Sub Total					7,616,573	7,616,573	5%
<i>Caldwell &amp; Gregory, LLC</i>	Laundry Services						
Subordinated Note		12.5%/1.5%	4/23/2016	3,465,874	3,465,874	3,465,874	
Preferred Units (11,628 units) <sup>(7)</sup>					1,162,786	1,424,485	
Common Units (4,464 units) <sup>(7)</sup>					4,464	166,700	
Sub Total					4,633,124	5,057,059	4%
<i>Connect-Air International, Inc.</i>	Specialty Distribution						
Subordinated Note		12.5%/3.0%	12/31/2014	4,213,879	4,213,879	4,213,879	
Preferred Interest <sup>(6)</sup>		0.0%/10.0%	12/31/2014		5,131,979	5,131,979	
Sub Total					9,345,858	9,345,858	7%
<i>Goodrich Quality Theaters, Inc.</i>	Movie Theaters						
Subordinated Note		12.8%/0.0%	3/31/2015	12,500,000	12,007,236	12,500,000	
Warrant (71 shares)					750,000	2,080,300	
Sub Total					12,757,236	14,580,300	10%
<i>Innovative Product Achievement, LLC</i>	Healthcare Products						
Subordinated Note		13.0%/2.5%	12/21/2016	6,334,073	6,305,809	6,305,809	4%
<i>Interactive Technology Solutions, LLC</i>	Government IT Services						
Subordinated Note		12.0%/3.0%	12/31/2015	5,182,173	5,182,173	5,182,173	
Common Units (499 units)					500,000	371,000	
Sub Total					5,682,173	5,553,173	4%

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<i>Jacob Ash Holdings, Inc.</i>	Apparel Distribution					
Subordinated Note	13.0%/4.0%	8/11/2016	3,555,421	3,539,273	3,539,273	
Subordinated Note	13.0%/0.0%	8/11/2016	1,750,000	1,711,444	1,711,444	
Preferred Equity (500 shares) <sup>(6)</sup>	0.0%/15.0%	8/11/2016		497,768	497,768	
Warrant (129,630 shares)				67,408	67,408	
 Sub Total				5,815,893	5,815,893	4%

**Table of Contents**

**Fidus Investment Corporation**  
**Consolidated Schedule of Investments**  
**December 31, 2011 (continued)**

**Portfolio Company /Type of**

<b>Investment<sup>(1)(2)(3)</sup></b>	<b>Industry</b>	<b>Rate<sup>(4)</sup> Cash/PIK</b>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<i>Jan-Pro Holdings, LLC</i>	Commercial Cleaning						
Subordinated Note		12.5%/3.5%	3/18/2017	\$ 7,350,713	\$ 7,350,713	\$ 7,350,713	
Preferred Equity (1,054,619 shares)					832,124	420,200	
Sub Total					8,182,837	7,770,913	6%
<i>K2 Industrial Services, Inc.</i>	Industrial Cleaning & Coatings						
Subordinated Note		11.8%/2.0%	5/23/2017	12,026,000	11,967,141	11,967,141	
Preferred Equity (1,200 shares)					1,200,000	1,200,000	
Sub Total					13,167,141	13,167,141	9%
<i>Nobles Manufacturing, Inc.</i>	Aerospace & Defense Manufacturing						
Subordinated Note		13.0%/3.0%	4/6/2016	6,825,000	6,825,000	6,825,000	
Preferred Equity (1,300,000 shares)					1,300,000	2,428,300	
Common Equity (1,300,000 shares)							
Sub Total					8,125,000	9,253,300	7%
<i>Restoration Holdco, LLC</i>	Restoration & Mitigation Services						
Senior Secured Note		13.0%/0.0%	8/11/2016	4,400,000	4,241,962	4,241,962	
Warrant (9.5 units)					127,139	127,139	
Sub Total					4,369,101	4,369,101	3%
<i>Simplex Manufacturing Co.</i>	Aerospace & Defense Manufacturing						
Subordinated Note		13.0%/0.0%	10/31/2013	4,550,000	4,307,693	4,437,900	
Warrant (24 shares)					710,000	406,900	
Sub Total					5,017,693	4,844,800	3%
<i>TBG Anesthesia Management, LLC</i>	Healthcare Services						
Senior Secured Loan		13.5%/0.0%	11/10/2014	10,750,000	10,590,891	10,750,000	
Warrant (263 shares)					276,070	290,600	
Sub Total					10,866,961	11,040,600	8%
<i>Tulsa Inspection Resources, Inc.</i>	Oil & Gas Services						
Subordinated Note		14.0%/0.0%	3/12/2014	4,000,000	3,913,748	3,953,400	
Subordinated Note		17.5%/0.0%	3/12/2014	648,471	648,471	648,471	
Warrant (6 shares)					193,435	419,000	
Sub Total					4,755,654	5,020,871	4%
					122,709,976	126,088,167	90%

**Total Non-Control/Non-Affiliate  
Investments**

<b>Total Investments</b>	\$ 192,539,931	\$ 204,745,372	146%
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- (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)****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 Offering ) 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 intends to elect 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 United States 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 Offering consisted of the sale of 4,670,000 shares of the Company's common stock at a price of \$15.00 per share resulting in net proceeds of \$63,853,186, after deducting underwriting fees and commissions totaling \$4,532,010 and transaction costs associated with the offering totaling \$1,664,804. The transaction costs were primarily for accounting, legal and other professional services and were recorded as a reduction to additional paid-in capital. On July 14, 2011, the Company's underwriters purchased 700,500 shares of the Company's common stock at the public offering price of \$15.00 per share to cover over-allotments resulting in proceeds to the Company of \$9,771,975, net of underwriting fees of \$735,525. As of June 30, 2012, the Company had 9,427,021 shares of common stock outstanding.

The management agreement between the Fund and Fidus Capital, LLC (the Fund's former investment advisor) was terminated in conjunction with the Formation Transactions. For all periods subsequent to the consummation of the Formation Transactions and the Offering, the Company pays a quarterly base management fee and an incentive fee to Fidus Investment Advisors, LLC (the Investment Advisor ) under an investment advisory agreement (the Investment Advisory Agreement ). The investment professionals of the Investment Advisor are the same as those of Fidus Capital, LLC.

**Note 2. Significant Accounting Policies**

*Basis of presentation:* The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ), as established by the Financial Accounting Standards Board ( FASB ). These consolidated financial statements reflect the guidance in the Accounting Standards Codification ( ASC ), which is the single source of authoritative GAAP recognized by the FASB. In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. Certain prior period amounts have been reclassified to conform to the current period presentation. The current period's results of operation are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the period ended December 31, 2011.

*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 and Fidus Investment GP, LLC, the Fund's general partner. All significant intercompany balances and transactions have been eliminated.

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## **Table of Contents**

*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. The Company measures its portfolio investments at fair value (Level 3). The Company believes that the carrying amounts of other assets and liabilities approximate the fair values of such items due to their short maturity or comparable interest rates, including cash and cash equivalents (Level 1) and SBA debentures (Level 3). 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 are 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 cost basis of the investment. 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.

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. Prior to the Formation





**Table of Contents**

Transactions, and in accordance with the prior limited partnership agreement, the Company historically recorded transaction fees provided in connection with the Company's investments as a direct offset to management fee expense (See Note 5 to the consolidated financial statements). Fee income from structuring and advisory services, amendments and prepayment penalties for the three months ended June 30, 2012 and 2011 totaled \$191,191 and \$140,417, respectively. Fee income from structuring and advisory services, amendments and prepayment penalties for the six months ended June 30, 2012 and 2011 totaled \$616,228 and \$140,417, 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 investments 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 in the three months ended June 30, 2012 and 2011 totaled \$107,064 and \$31,250, respectively. Upfront loan origination and closing fees received in the six months ended June 30, 2012 and 2011 totaled \$275,564 and \$31,250, respectively.

**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.

**Income taxes:** The Company intends to elect and to qualify 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. 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 the final tax return related to the year in which the Company generated such taxable income or the 15<sup>th</sup> day of the 9<sup>th</sup> month following the close of such taxable year.

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 June 30, 2012 and December 31, 2011. The 2008 through 2010 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, are 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 (currently applicable through 2012) 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 ordinary income and capital gains but may also include qualified dividends or return of capital.

The Company has adopted a dividend reinvestment plan (DRIP) that provides for the reinvestment of dividends on behalf of its stockholders, unless a stockholder has elected to receive dividends in cash. As a result, if the Company declares a cash dividend, the Company's stockholders who have not opted out of the DRIP at least three days prior to the dividend payment date will have their cash dividend automatically reinvested into additional shares of the Company's common stock. The Company has the option to satisfy the share requirements of the DRIP through the issuance of new shares of common stock or through open market purchases of common stock by the DRIP plan administrator. Newly issued

shares will be valued based upon the final closing price of the

**Table of Contents**

Company's common stock on a date determined by the Board. Shares purchased in the open market to satisfy the DRIP requirements will be valued based upon the average price of the applicable shares purchased by the DRIP plan administrator, before any associated brokerage or other costs. See Note 9 to the consolidated financial statements regarding dividend declarations and distributions.

*Earnings and net asset value per share:* The earnings per share and weighted average shares outstanding calculations for the three and six months ended June 30, 2011, are based on the assumption that the number of shares issued in the Formation Transactions and the Offering (including the over-allotment) in June and July 2011 (9,427,021 shares of common stock) had been issued on January 1, 2011.

*Recent accounting pronouncements:* In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs)* (ASU 2011-04). ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board (IASB) (collectively, the Standards Boards) on fair value measurement. The collective efforts of the Standards Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value and enhanced disclosure requirements for investments that do not have readily determinable fair values. The Standards Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRSs. The amendments to the FASB Codification in ASU 2011-04 are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The Company adopted the amendments of ASU 2011-04 as of January 1, 2012. See Note 4 to the consolidated financial statements for the related disclosures. The adoption of ASU 2011-04 did not have a material impact on the Company's consolidated financial statements.

In November 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210)* 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's effective date is January 1, 2013. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial position.

**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 June 30, 2012, the Company had debt and equity investments in 27 portfolio companies with an aggregate fair value of \$234,055,355 and a weighted average effective yield on its debt investments of 15.5%. At June 30, 2012, the Company held equity ownership in 88.9% of its portfolio companies and the average fully diluted equity ownership in those portfolio companies was 8.9%. As of December 31, 2011, the Company had debt and equity investments in 23 portfolio companies with an aggregate fair value of \$204,745,372 and a weighted average effective yield on its debt investments of 15.3%. At December 31, 2011, the Company held equity ownership in 91.3% of its portfolio companies and the average fully diluted equity ownership in those portfolio companies was 9.0%. The weighted average yields were computed using the effective interest rates for all debt investments at cost as of June 30, 2012 and December 31, 2011, including accretion of original issue discount but excluding any debt investments on non-accrual status.

Purchases of debt and equity investments for the six months ended June 30, 2012 and 2011 totaled \$33,368,812 and \$19,591,858, respectively. Repayments of portfolio investments for the six months ended June 30, 2012 and 2011 totaled \$7,397,526 and \$5,035,791, respectively.

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

	June 30, 2012		December 31, 2011	
<b>Cost:</b>				
Senior secured loans	\$ 31,431,611	14.2%	\$ 14,832,853	7.7%

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Subordinated notes	163,685,171	74.0	155,252,227	80.6
Equity	20,057,329	9.1	17,890,911	9.3
Warrants	5,929,385	2.7	4,563,940	2.4
Total	\$ 221,103,496	100.0%	\$ 192,539,931	100.0%

**Table of Contents**

<b>Fair value:</b>				
Senior secured loans	\$ 31,557,106	13.5%	\$ 14,991,962	7.3%
Subordinated notes	164,822,726	70.4	157,098,414	76.7
Equity	20,178,798	8.6	18,852,261	9.3
Warrants	17,496,725	7.5	13,802,735	6.7
<b>Total</b>	<b>\$ 234,055,355</b>	<b>100.0%</b>	<b>\$ 204,745,372</b>	<b>100.0%</b>

All investments made by the Company as of June 30, 2012 and December 31, 2011 were made in portfolio companies located in the United States. 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.

	<b>June 30, 2012</b>		<b>December 31, 2011</b>	
<b>Cost:</b>				
Midwest	\$ 66,953,136	30.2%	\$ 66,462,930	34.5%
Southwest	44,181,126	20.0	32,412,934	16.8
Northeast	23,643,367	10.7	28,486,629	14.8
Southeast	47,895,384	21.7	36,154,165	18.8
West	38,430,483	17.4	29,023,273	15.1
<b>Total</b>	<b>\$ 221,103,496</b>	<b>100.0%</b>	<b>\$ 192,539,931</b>	<b>100.0%</b>

<b>Fair value:</b>				
Midwest	\$ 67,256,205	28.8%	\$ 68,460,815	33.4%
Southwest	53,798,051	23.0	41,605,896	20.3
Northeast	22,580,042	9.6	27,768,702	13.6
Southeast	48,275,530	20.6	36,166,177	17.7
West	42,145,527	18.0	30,743,782	15.0
<b>Total</b>	<b>\$ 234,055,355</b>	<b>100.0%</b>	<b>\$ 204,745,372</b>	<b>100.0%</b>

At June 30, 2012, the Company had one portfolio company investment that represented more than 10% of the total investment portfolio. Such investment represented 12.8% of the fair value of the portfolio and 9.2% of cost as of June 30, 2012. At December 31, 2011, the Company had one portfolio company investment that represented more than 10% of the total investment portfolio. Such investment represented 14.0% of the fair value of the portfolio and 10.3% of cost as of December 31, 2011.

As of June 30, 2012 and December 31, 2011, there were no investments on non-accrual status.

**Note 4. Fair Value Measurements**

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.

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

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's investment portfolio is comprised 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

## **Table of Contents**

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.

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 nine of its portfolio company investments representing 45.4% of the total portfolio investments at fair value as of June 30, 2012. The Board consulted with the independent valuation firm in arriving at the Company's determination of fair value on ten of its portfolio company investments representing 51.3% of the total portfolio investments at fair value as of December 31, 2011;

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 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



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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.

**Table of Contents**

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

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

The Company's debt and equity investments are subject to market risk. Market risk is the potential for changes in the value of investments due to market changes. Market risk is directly impacted by the volatility and liquidity in the markets in which the investments are traded.

The Company reviews the fair value hierarchy classifications on a quarterly basis. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur. There were no transfers among Levels 1, 2, and 3 during the six months ended June 30, 2012 and 2011.

The following tables present a reconciliation of the beginning and ending balances for fair valued investments measured using significant unobservable inputs (Level 3) for the six months ended June 30, 2011 and 2012:

	<b>Senior Secured Loans</b>	<b>Subordinated Notes</b>	<b>Equity</b>	<b>Warrants</b>	<b>Total</b>
<b>Balance, December 31, 2010</b>	\$ 16,302,829	\$ 106,323,193	\$ 13,622,546	\$ 5,092,910	\$ 141,341,478
Realized loss on investments			(6,627,973)	(1,307,457)	(7,935,430)
Net change in unrealized appreciation on investments	(770,207)	(266,981)	6,177,467	5,245,382	10,385,661
Purchase of investments	3,399,500	13,075,000	2,016,858	1,100,500	19,591,858
Principal payments received on debt securities	(250,000)	(4,785,791)			(5,035,791)
Interest and dividend income paid-in-kind		1,848,010	236,375		2,084,385
Loan origination fees received		(31,250)			(31,250)
Accretion of original issue discount	130,390	174,487			304,877
<b>Balance, June 30, 2011</b>	\$ 18,812,512	\$ 116,336,668	\$ 15,425,273	\$ 10,131,335	\$ 160,705,788
<b>Balance, December 31, 2011</b>	\$ 14,991,962	\$ 157,098,414	\$ 18,852,261	\$ 13,802,735	\$ 204,745,372
Net change in unrealized appreciation on investments	(33,615)	(708,630)	(839,880)	2,328,545	746,420
Purchase of investments	17,110,063	13,000,000	1,893,304	1,365,445	33,368,812
Principal payments received on debt securities	(550,000)	(6,847,526)			(7,397,526)
Interest and dividend income paid-in-kind	80,529	1,920,458	268,585		2,269,572
Proceeds from loan origination fees	(145,564)	(130,000)			(275,564)
Accretion of loan origination fees	11,258	37,400	1,186		49,844
Accretion of original issue discount	92,473	452,610	3,342		548,425
<b>Balance, June 30, 2012</b>	\$ 31,557,106	\$ 164,822,726	\$ 20,178,798	\$ 17,496,725	\$ 234,055,355

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The total change in unrealized appreciation included in the consolidated statements of operations attributable to Level 3 investments still held at June 30, 2012 and 2011, was \$746,420 and \$2,456,717, respectively.

**Table of Contents**

The following table presents quantitative information about the significant unobservable inputs of the Company's Level 3 debt and equity investments as of June 30, 2012:

Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value at June 30, 2012	Valuation Techniques	Unobservable Inputs	Range (weighted average)
Debt investments:				
Senior secured loans	\$ 31,557,106	Market comparable companies Discounted cash flow	EBITDA multiples Weighted average cost of capital	4.5x - 11.6x (7.0x) 13.1% - 18.1% (15.3%)
Subordinated notes	164,822,726	Market comparable companies Discounted cash flow	EBITDA multiples Weighted average cost of capital	5.0x - 9.0x (6.6x) 13.4% - 25.5% (16.3%)
Equity investments:				
Equity	\$ 20,178,798	Market comparable companies	EBITDA multiples	5.0x - 11.6x (6.6x)
Warrants	17,496,725	Market comparable companies	EBITDA multiples	4.5x - 11.6x (7.6x)

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.

**Note 5. Related Party Transactions**

*Prior management agreement:* Prior to the consummation of the Formation Transactions, the Fund had entered into a management agreement with Fidus Capital, LLC, our Investment Advisor's predecessor, to manage the day-to-day operational and investment activities of the Fund. The Fund paid Fidus Capital, LLC, each fiscal quarter in advance, 0.5% of the sum of (i) the Fund's Regulatory Capital (as defined in the SBIC Act), (ii) any Permitted Distribution as defined by the previous partnership agreement, and (iii) an assumed two tiers (two times) of outstanding SBA debenture leverage on the sum of clauses (i) and (ii) up to the maximum amount as determined by the SBA, currently \$150.0 million. Under the previous agreement, gross management fees for the three and six months ended June 30, 2011 were \$922,542 and \$1,958,755, respectively, and were partially offset by the management fee offset (transaction fees received in connection with the Fund's investments) of \$430,208 and \$430,208, respectively.

*New management and incentive fee 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 and six months ended June 30, 2012 totaled \$1,005,306 and \$1,944,714, respectively. The base management fee under the Investment Advisory Agreement totaled \$76,648 for the period June 21, 2011 through June 30, 2011.

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

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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.

**Table of Contents**

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 and six months ended June 30, 2012 totaled \$876,258 and \$1,774,132, respectively. The Investment Advisor waived the income incentive fee of \$82,512 for the period June 21, 2011 through June 30, 2011 resulting in income incentive fees for the three and six months ended June 30, 2011 of \$0.

The second part of the incentive fee is a capital gains incentive fee that is determined and payable 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 payable 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 payable equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate unrealized capital depreciation, with respect to the Company's portfolio of investments. If this number is positive at the end of such year, then the capital gains incentive fee payable for such year equals 20.0% of such amount, less the aggregate amount of any capital gains incentive fees paid in all prior years. The Company will accrue the capital gains incentive fee if, on a cumulative basis, the sum of net realized gains/(losses) plus net unrealized appreciation/(depreciation) is positive. If, on a cumulative basis, the sum of net realized gains/(losses) plus net unrealized appreciation/(depreciation) decreases during a period, the Company will reverse any excess capital gains incentive fee previously accrued such that the amount of capital gains incentive fee accrued is no more than 20.0% of the sum of net realized gains/(losses) plus net unrealized appreciation/(depreciation). During the three and six months ended June 30, 2012, as a result of an increase in net unrealized appreciation, the Company recognized accrued capital gains incentive fees totaling \$169,675 and \$149,284, respectively. No accrued capital gains incentive fees

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were recognized during the three and six months ended June 30, 2011. The accrued capital gains incentive fee is recorded in the due to affiliates line in the consolidated statement of assets and liabilities.

**Table of Contents**

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.

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 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 and six months ended June 30, 2012 totaled \$223,766 and \$453,142, respectively. Accrued administrative expenses for services provided for the period June 21, 2011 through June 30, 2011 totaled \$22,173.

**Note 6. Debt**

*Credit facility:* The Fund previously had a \$5,000,000 unsecured line of credit with American Bank & Trust. On June 27, 2011, the Fund repaid the line of credit in full and terminated the agreement. Interest accrued monthly at an annual rate of 6%. There were no principal borrowings outstanding on the unsecured line of credit as of December 31, 2011. For the three and six months ended June 30, 2011, interest and fee amortization expense on the unsecured line of credit included in interest expense on the consolidated statement of operations amounted to \$35,322 and \$39,572, respectively.

*SBA debentures:* The Company uses debenture leverage provided through the SBA to fund a portion of its investment portfolio. The SBA has made commitments to issue \$150,000,000 in the form of debenture securities to the Company on or before September 30, 2016. Unused commitments as of June 30, 2012 were \$28,750,000. The SBA may limit the amount that may be drawn each year under these commitments, and each issuance of leverage is conditioned on the Company's full compliance, as determined by the SBA, with the terms and conditions set forth in the SBIC Act.

As of June 30, 2012 and December 31, 2011, the Company's issued and outstanding SBA debentures mature as follows:

Pooling Date <sup>(1)</sup>	Maturity Date	Fixed Interest Rate	June 30, 2012	December 31, 2011
3/26/2008	3/1/2018	6.188%	\$ 24,750,000	\$ 24,750,000
9/24/2008	9/1/2018	6.442	11,950,000	11,950,000
3/25/2009	3/1/2019	5.337	19,750,000	19,750,000
9/23/2009	9/1/2019	4.950	10,000,000	10,000,000
3/24/2010	3/1/2020	4.825	13,000,000	13,000,000
9/22/2010	9/1/2020	3.932	12,500,000	12,500,000
3/29/2011	3/1/2021	4.801	1,550,000	1,550,000
9/21/2011	9/1/2021	3.594	3,250,000	3,250,000
3/21/2012	3/1/2022	3.483	3,250,000	3,250,000
3/21/2012	3/1/2022	3.051	19,000,000	4,000,000
(2)	(2)	(2)	2,250,000	
			\$ 121,250,000	\$ 104,000,000



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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.
- (2) In June 2012, the Company issued \$2,250,000 in SBA debentures which will pool in September 2012, at which time we expect the current short-term interest rate will reset to a higher long-term fixed rate.

**Table of Contents**

Interest on SBA debentures is payable semi-annually on March 1 and September 1. For the three months ended June 30, 2012 and 2011, interest and fee amortization expense on outstanding SBA debentures amounted to \$1,569,250 and \$1,359,445. For the six months ended June 30, 2012 and 2011, interest and fee amortization expense on outstanding SBA debentures amounted to \$3,011,864 and \$2,679,480 respectively. As of June 30, 2012 and December 31, 2011, accrued interest payable totaled \$1,918,767 and \$1,718,989, respectively. The weighted average fixed interest rate for all SBA debentures as of June 30, 2012 and December 31, 2011 was 4.8% and 5.1%, respectively.

Deferred financing costs as of June 30, 2012 and December 31, 2011, are as follows:

	June 30, 2012	December 31, 2011
SBA debenture commitment fees	\$ 1,500,000	\$ 1,300,000
SBA debenture leverage fees	2,940,313	2,522,000
<b>Subtotal</b>	<b>4,440,313</b>	<b>3,822,000</b>
Accumulated amortization	(1,346,073)	(1,134,767)
<b>Net deferred financing costs</b>	<b>\$ 3,094,240</b>	<b>\$ 2,687,233</b>

**Note 7. Commitments and Contingencies**

*Commitments:* As of June 30, 2012 the Company had one outstanding conditional revolving loan commitment to a portfolio company for \$1,000,000 of which \$800,000 was unfunded. As of December 31, 2011, the Company had no off-balance sheet arrangements or unfunded commitments.

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

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

**Note 8. Financial Highlights**

The following is a schedule of financial highlights for the six months ended June 30, 2012 and 2011:

	Six Months Ended June 30,	
	2012	2011 <sup>(1)</sup>
<b>Per share data:</b>		
Net asset value at beginning of period	\$ 14.90	\$ 13.33
Net investment income	0.74	0.58
Net realized loss on investments		(0.84)
Net unrealized appreciation on investments	0.08	1.10
Total increase from investment operations	0.82	0.84
Capital contributions from partners prior to formation transactions		0.74
Capital distributions to partners prior to formation transactions		(0.16)
Dividends to stockholders	(0.70)	
Net asset value at end of period	\$ 15.02	\$ 14.75

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Market value at end of period	\$ 15.17	\$ 14.81
Shares outstanding at end of period	9,427,021	9,427,021
Weighted average shares outstanding during the period	9,427,021	9,427,021
Ratios to average net assets (annualized):		
Expenses other than incentive fee	9.0%	6.9%
Incentive fee <sup>(2)</sup>	2.7%	
Total expenses	11.7%	6.9%
Net investment income	9.9%	8.2%
Total return <sup>(3)</sup>	22.4%	(1.3%)
Net assets at end of period	\$ 141,601,218	\$ 129,359,229
Average debt outstanding	\$ 114,750,000	\$ 94,583,333
Average debt per share	\$ 12.17	\$ 10.03
Portfolio turnover ratio (annualized)	6.8%	6.8%

**Table of Contents**

- (1) Per share data, shares outstanding and ratios to average net assets for the six months ended June 30, 2011 are presented as if the Offering (including the over-allotment) and Formation Transactions had occurred on January 1, 2011.
- (2) The Investment Advisor voluntarily waived \$82,512 of incentive fees for the period June 21, 2011 through June 30, 2011.
- (3) The total return for the six months ended June 30, 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. Total return for the six months ended June 30, 2011 equals the change in the ending market value of the Company's common stock from the Offering price of \$15.00 per share plus any dividends paid per share during the period, divided by the Offering 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 six months ended June 30, 2012.

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
2/10/2012	3/14/2012	3/28/2012	\$ 0.34	\$ 3,205,187		\$
4/30/2012	6/13/2012	6/27/2012	0.36	3,393,728		
			\$ 0.70	\$ 6,598,915		

For the six months ended June 30, 2012, \$1,191,051 of the total \$6,598,915 paid to stockholders represented DRIP participation. During this period, the Company satisfied the DRIP participation requirements with the purchase of 83,225 shares of common stock in the open market at an average price of \$14.31 per share.

**Note 10. Subsequent Events**

On July 6, 2012, the Company issued an additional \$5,500,000 in SBA debentures.

On July 10, 2012, the Company purchased \$7,500,000 of subordinated notes and warrants of S.B. Restaurant Co., doing business as Elephant Bar Restaurants, a California-based owner and operator of full service, casual dining restaurants.

On July 24, 2012, the Company sold a portion of its senior secured loan and warrants of United Biologics, LLC for \$3,291,324 at amortized cost.

On July 31, 2012, the Board declared a quarterly dividend of \$0.38 per share payable on September 25, 2012 to stockholders of record as of September 11, 2012.

## **Table of Contents**

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Fidus Investment Corporation's consolidated financial statements and related notes appearing in our annual report on Form 10-K for the year ended December 31, 2011, filed with the U.S. Securities and Exchange Commission (SEC) on March 8, 2012. 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 business development company;

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;

uncertain valuations of our portfolio investments, including, but not limited to, the fair value of investments;

competition for investment opportunities;

potential divergent interests of our Investment Advisor and our stockholders arising from our management and incentive fee structure;

actual and potential conflicts of interest with our Investment Advisor;

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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 qualify and maintain our qualification as a RIC and as a business development company;

risks associated with the timing, form and amount of any dividends or distributions;

changes in laws or regulations applicable to us;

possible resignation of our Investment Advisor or Administrator;

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

risks associated with investing in lower middle-market companies;

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

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, 2011, filed with the SEC on March 8, 2012. 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 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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## **Table of Contents**

### **Organization**

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. (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 (BDC) under the 1940 Act and our investment activities have been managed by Fidus Investment Advisors, LLC (our Investment Advisor) and supervised by our Board, a majority of whom are independent of us.

In June 2011, we closed our initial public offering, 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 totaling \$5.3 million and transaction costs associated with the offering totaling \$1.7 million. Our shares are listed on The NASDAQ Global Select Market under the symbol FDUS.

The Fund is licensed by the United States Small Business Administration (SBA) as a Small Business Investment Company (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. As of June 30, 2012, we had investments in 27 portfolio companies with an aggregate fair value of \$234.1 million and cost of \$221.1 million.

### **Business 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.

*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 PIK interest. The principal amount of loans and any accrued but unpaid interest generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, amendment, or structuring fees and fees for providing managerial assistance. Loan origination fees, original issue discount and market discount or premium, if any, are capitalized, and we accrete or amortize such amounts 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.

*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:





**Table of Contents**

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 chief compliance officer, our chief financial officer, and their respective staffs);

transfer agent, dividend agent and custodial fees and expenses;

federal and state registration fees;

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

U.S. federal, state and local taxes;

independent directors' fees and expenses;

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

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

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

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

proxy voting expenses; and

all other expenses reasonably incurred by us or our Investment Advisor in connection with administering our business.

### **Portfolio Composition, Investment Activity and Yield**

During the six months ended June 30, 2012, we invested \$33.4 million in four new and five existing portfolio companies. The additional investments consisted primarily of subordinated notes (\$13.0 million, or 39.0%), senior secured loans (\$17.1 million, or 51.2%), warrants (\$1.4 million, or 4.1%) and equity securities (\$1.9 million, or 5.7%). During the six months ended June 30, 2012 we received proceeds from repayments of principal of \$7.4 million. During the year ended December 31, 2011, we invested \$78.0 million in nine new and five existing portfolio companies. The new investments consisted primarily of subordinated notes (\$64.2 million, or 82.4%), senior secured loans (\$4.8 million, or 6.2%), warrants (\$2.4 million, or 3.0%) and equity securities (\$6.6 million, or 8.4%). During the year ended December 31, 2011 we received proceeds from repayments of principal of \$23.3 million.

As of June 30, 2012, our investment portfolio totaled \$234.1 million and consisted of 27 portfolio companies. As of June 30, 2012, our debt portfolio was comprised entirely of fixed rate investments. Overall, the portfolio had a net unrealized appreciation of \$12.9 million as of June 30, 2012. Our average portfolio company investment at amortized cost was \$8.2 million as of June 30, 2012.

As of December 31, 2011, our investment portfolio totaled \$204.7 million and consisted of 23 portfolio companies. As of December 31, 2011, our debt portfolio was comprised entirely of fixed rate investments. Overall, the portfolio had a net unrealized appreciation of \$12.2 million as of December 31, 2011. Our average portfolio company investment at amortized cost was \$8.4 million as of December 31, 2011.

**Table of Contents**

The weighted average yield on debt investments at their cost basis at June 30, 2012 and December 31, 2011 was 15.5% 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 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 June 30, 2012	As of December 31, 2011
<b><u>Cost</u></b>		
Senior secured loans	14.2%	7.7%
Subordinated notes	74.0	80.6
Equity	9.1	9.3
Warrants	2.7	2.4
Total	100.0%	100.0%
<b><u>Fair Value</u></b>		
Senior secured loans	13.5%	7.3%
Subordinated notes	70.4	76.7
Equity	8.6	9.3
Warrants	7.5	6.7
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 June 30, 2012	As of December 31, 2011
<b><u>Cost</u></b>		
Midwest	30.3%	34.5%
Southwest	20.0	16.8
Northeast	10.7	14.8
Southeast	21.7	18.8
West	17.4	15.1
Total	100.0%	100.0%
<b><u>Fair Value</u></b>		
Midwest	28.8%	33.4%
Southwest	23.0	20.3
Northeast	9.6	13.6
Southeast	20.6	17.7
West	18.0	15.0
Total	100.0%	100.0%

**Table of Contents**

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

	As of June 30, 2012	As of December 31, 2011
<b>Cost</b>		
Healthcare services	13.6%	9.7%
Transportation services	9.2	10.3
Aerospace & defense manufacturing	12.8	10.4
Movie theaters	5.8	6.6
Industrial cleaning & coatings	6.0	6.8
Utility equipment manufacturing	4.4	5.0
Specialty distribution	4.3	4.9
Printing services	4.0	4.5
Electronic components supplier	4.5	5.0
Commercial cleaning	3.8	4.2
Retail cleaning	3.6	4.0
Furniture rental	3.5	4.0
Specialty cracker manufacturer	3.8	4.3
Restaurants	3.4	3.8
Information technology services	3.7	3.0
Healthcare products	2.9	3.3
Apparel distribution	2.6	3.0
Debt collection services	2.5	
Oil & gas services	2.2	2.5
Laundry services	1.4	2.4
Restoration & mitigation services	2.1	2.3
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

	As of June 30, 2012	As of December 31, 2011
<b>Fair Value</b>		
Healthcare services	13.8%	10.1%
Transportation services	12.8	14.0
Aerospace & defense manufacturing	12.8	10.2
Movie theaters	6.3	7.1
Industrial cleaning & coatings	5.6	6.4
Utility equipment manufacturing	4.3	4.8
Specialty distribution	4.3	4.6
Printing services	3.9	4.4
Furniture rental	3.5	3.7
Commercial cleaning	3.4	3.8
Information technology services	3.4	2.7
Restaurants	3.2	3.6
Electronic components supplier	3.1	4.1
Specialty cracker manufacturer	3.1	3.6
Retail cleaning	3.0	3.9
Healthcare products	2.7	3.1
Apparel distribution	2.5	2.8
Oil & gas services	2.5	2.5
Debt collection services	2.3	
Restoration & mitigation services	2.0	2.1

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Laundry services	1.5	2.5
Total	100.0%	100.0%

### 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.

**Table of Contents**

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 June 30, 2012 and December 31, 2011:

Investment Rating	June 30, 2012		December 31, 2011	
	Investments at Fair Value	Percent of Total Portfolio	Investments at Fair Value	Percent of Total Portfolio
	<i>(Dollars in thousands)</i>			
1	\$ 9,513	4.1%	\$ 8,715	4.3%
2	215,311	92.0	180,751	88.2
3	9,231	3.9	15,279	7.5
4				
5				
Totals	\$ 234,055	100.0%	\$ 204,745	100.0%

Based upon our investment rating system, the weighted average rating of our portfolio as of both June 30, 2012 and December 31, 2011 was 2.0. As of June 30, 2012 and December 31, 2011, we had no investments on non-accrual status.

**Discussion and Analysis of Results of Operations****Comparison of three months ended June 30, 2012 and 2011***Investment Income*

For the three months ended June 30, 2012, total investment income was \$7.6 million, an increase of \$2.3 million, or 43.4%, over the \$5.3 million of total investment income for the three months ended June 30, 2011. The increase was primarily attributable to a \$2.2 million increase in interest and fee income from investments. The increase in interest and fee income is primarily due to higher average levels of outstanding debt investments in the three months ended June 30, 2012 compared to the prior year period.

*Expenses*

For the three months ended June 30, 2012, total expenses were \$4.3 million, an increase of \$2.1 million or 98.5%, over the \$2.2 million of total expenses for the three months ended June 30, 2011. The increase in total expenses was attributable to an increase in all expense categories. The base management fee increased \$0.4 million, the incentive fee increased \$1.0 million and administrative service expenses increased \$0.2 million due to the new Investment Advisory and Administration Agreements. The Investment Advisor voluntarily waived the incentive fee of \$0.1 million for the period June 21, 2011 through June 30, 2011. Interest expense increased \$0.2 million as a result of higher average balances of SBA debentures outstanding during the three months ended June 30, 2012 than the comparable period in 2011. Professional fees increased \$0.1 million primarily due to increased legal and accounting costs associated with being a publicly-traded company. Other general and administrative expenses increased \$0.2 million primarily due to increased director fees, insurance costs and other corporate expenses related to being a publicly-traded company.

*Net Investment Income*

As a result of the \$2.3 million increase in total investment income as compared to the \$2.1 million increase in total expenses, net investment income increased \$0.2 million, or 6.0% for the three months ended June 30, 2012 to \$3.4 million compared to net investment income of \$3.2 million during the three months ended June 30, 2011.

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### *Net Increase in Net Assets Resulting From Operations*

For the three months ended June 30, 2012 and 2011, the total realized loss on investments was zero.

During the three months ended June 30, 2012, we recorded net unrealized appreciation of \$0.8 million comprised of \$1.4 million of net unrealized appreciation on equity investments, partially offset by \$0.6 million of net unrealized depreciation on debt



## **Table of Contents**

investments. During the three months ended June 30, 2011, we recorded net unrealized appreciation of \$1.4 million. This consisted of \$2.1 million of net unrealized appreciation on equity investments, partially offset by \$0.6 million of net unrealized depreciation on debt investments.

As a result of these events, our net increase in net assets resulting from operations during the three months ended June 30, 2012, was \$4.2 million, or a decrease of \$0.4 million compared to a net increase in net assets resulting from operations of \$4.6 million during the three months ended June 30, 2011.

### ***Comparison of six months ended June 30, 2012 and 2011***

#### ***Investment Income***

For the six months ended June 30, 2012, total investment income was \$15.2 million, an increase of \$5.1 million, or 50.5%, over the \$10.1 million of total investment income for the six months ended June 30, 2011. The increase was primarily attributable to a \$5.0 million increase in interest and fee income from investments. The increase in interest and fee income is primarily due to higher average levels of outstanding debt investments and higher fee income of \$0.5 million in the six months ended June 30, 2012 compared to the prior year period.

#### ***Expenses***

For the six months ended June 30, 2012, total expenses were \$8.2 million, an increase of \$3.6 million or 78.4%, over the \$4.6 million of total expenses for the six months ended June 30, 2011. The increase in total expenses was attributable to an increase in all expense categories. The base management fee increased \$0.3 million, the incentive fees increased \$1.9 million and administrative service expenses increased \$0.4 million due to the new Investment Advisory and Administration Agreements. The Investment Advisor voluntarily waived the incentive fee of \$0.1 million for the period June 21, 2011 through June 30, 2011. Interest expense increased \$0.3 million as a result of higher average balances of SBA debentures outstanding during the six months ended June 30, 2012 than the comparable period in 2011. Professional fees increased \$0.2 million primarily due to increased legal and accounting costs associated with being a publicly-traded company. Other general and administrative expenses increased \$0.4 million primarily due to increased director fees, insurance costs and other corporate expenses related to being a publicly-traded company.

#### ***Net Investment Income***

As a result of the \$5.1 million increase in total investment income as compared to the \$3.6 million increase in total expenses, net investment income increased \$1.5 million, or 27.0% for the six months ended June 30, 2012 to \$7.0 million compared to net investment income of \$5.5 million during the six months ended June 30, 2011.

#### ***Net Increase in Net Assets Resulting From Operations***

For the six months ended June 30, 2012, the total realized loss on investments was zero. For the six months ended June 30, 2011, the total realized loss on investments was \$7.9 million, resulting from one non-control/non-affiliate investment.

During the six months ended June 30, 2012, we recorded net unrealized appreciation of \$0.7 million comprised of \$1.5 million of net unrealized depreciation on debt investments, partially offset by \$0.7 million of net unrealized appreciation on equity investments. During the six months ended June 30, 2011, we recorded net unrealized appreciation of \$10.4 million. This consisted of \$3.5 million of net unrealized appreciation on equity investments and \$7.9 million of reclassifications to realized loss on investments (resulting in unrealized appreciation), partially offset by \$1.0 million of net unrealized depreciation on debt investments.

As a result of these events, our net increase in net assets resulting from operations during the six months ended June 30, 2012, was \$7.7 million, or a decrease of \$0.2 million compared to a net increase in net assets resulting from operations of \$7.9 million during the six months ended June 30, 2011.

#### ***Liquidity and Capital Resources***

As of June 30, 2012, we had \$27.6 million in cash and cash equivalents, and our net assets totaled \$141.6 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

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

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**Table of Contents***Cash Flows*

For the six months ended June 30, 2012, we experienced a net decrease in cash and cash equivalents in the amount of \$11.4 million. During that period, we used \$21.5 million in cash in operating activities, primarily for the funding of \$33.4 million of investments, partially offset by \$7.4 million of principal repayments received and \$7.0 million of net investment income. During the same period, we generated \$10.0 million from financing activities, consisting primarily of proceeds from SBA debentures of \$17.3 million. These increases were partially offset by cash dividends paid to stockholders in the amount of \$6.6 million and payment of deferred financing fees totaling \$0.6 million.

For the six months ended June 30, 2011, we experienced a net increase in cash and cash equivalents in the amount of \$60.5 million. During that period, we used \$12.1 million in cash in operating activities, primarily due to new investments in portfolio companies of \$19.6 million, partially offset by \$5.0 million in portfolio company investment repayments. During the same period, we generated \$72.6 million from financing activities, consisting primarily of proceeds from the Offering of \$63.9 million, net of expenses, net borrowings under our credit facility totaling \$3.3 million and capital contributions from the Fund's partners prior to the Formation Transactions of \$7.0 million, partially offset by capital distributions to the Fund's partners prior to the Formation Transactions of \$1.5 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. Our wholly-owned subsidiary, 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 June 30, 2012 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 June 30, 2012, the Fund had \$121.3 million of outstanding SBA debentures, which had a weighted average interest rate of 4.8%. Based on its \$75.0 million of regulatory capital as of June 30, 2012, the Fund has the current capacity to issue up to an additional \$28.8 million of SBA debentures. For more information on the SBA debentures the Fund has issued, please see Note 6 to our consolidated financial statements.

We are in the process of applying 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 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.

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, including independent directors, determines that such sale is in the best interests of us and our stockholders approve such sale. At our June 6, 2012 Annual Meeting, our stockholders voted and authorized us to sell up to 25% of our outstanding shares of common stock at below the then current net asset value per share of our common stock in one or more offerings for a period of one year.

*Distributions*

In order to maintain our RIC status and to avoid corporate level tax on the income we distribute to our stockholders, we will be 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. In the three months ended June 30, 2012, the Company made a quarterly dividend payment to stockholders of \$3.4 million or \$0.36 per share.

## **Table of Contents**

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 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 since the financial crisis, the uncertainty surrounding the United States rapidly increasing national debt, European economic conditions, the automatic federal spending reductions and expiration of tax cuts at year-end, 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 public stock offering in 2011 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 United States requires management to make certain estimates and assumptions affecting amounts reported in the financial statements. We have identified investment valuation and revenue recognition as our most critical accounting estimates. We continuously evaluate our estimates, including those related to the matters described below. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from those estimates under different assumptions or conditions. A discussion of our critical accounting policies follows.

### *Valuation of Portfolio Investments*

We conduct the valuation of our investments, pursuant to which our net asset value is determined, at all times consistent with generally accepted accounting principles in the United States, or 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 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 undertakes a multi-step valuation process each quarter, as described below:

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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 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;

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**Table of Contents**

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

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

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

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



## **Table of Contents**

We classify our investments in accordance with the 1940 Act. See Note 2 to our consolidated financial statements for definitions of Control, Affiliate and Non-Control/Non-Affiliate included elsewhere in this report.

### ***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 cost basis of the investment. Changes in the fair value of investments from the prior period, as determined by our Board 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, fee 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.

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 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.

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

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 interest income over the life of the investment.

**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 May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ( IFRSs )* ( ASU 2011-04 ). ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board ( IASB ) (collectively, the Standards Boards ) on fair value measurement. The collective efforts of the Standards Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value and enhanced disclosure requirements for investments that do not have readily determinable fair values. The Standards Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRSs.



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The amendments to the FASB Codification in ASU 2011-04 are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. We adopted the amendments of ASU 2011-04 as of January 1, 2012. See Note 4 to the consolidated financial statements for the related disclosures. The adoption of ASU 2011-04 did not have a material impact on our consolidated financial statements.

## **Table of Contents**

In November 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210)* 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. Our effective date is January 1, 2013. The adoption of this guidance is not expected to have a material impact on our consolidated financial position.

### **Off-Balance Sheet Arrangements**

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of June 30, 2012, we had one off-balance sheet arrangement with a portfolio company consisting of a \$1.0 million revolving credit facility commitment of which \$0.8 million was unfunded. As of December 31, 2011, we had no off-balance sheet arrangements.

### **Related Party Transactions**

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

Prior to the consummation of the Formation Transactions, the Fund had entered into a management agreement with Fidus Capital, LLC to manage the day-to-day operational and investment activities of the Fund and was paid management fees. See Note 5 to our consolidated financial statements.

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

Edward H. Ross, our Chairman and Chief Executive Officer, 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 Offering 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 Investment Corporation and Fidus Mezzanine Capital, L.P. 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 business development company and its small business investment company 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 that governs the conduct of our and our Investment Advisor's officers, directors and employees. Our officers and directors also remain subject to the duties imposed by both the 1940 Act and the Maryland General Corporation Law.

### **Recent Developments**

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On July 6, 2012, we issued an additional \$5.5 million in SBA debentures.

## **Table of Contents**

On July 10, 2012, we purchased \$7.5 million of subordinated notes and warrants of S.B. Restaurant Co., doing business as Elephant Bar Restaurants, a California-based owner and operator of full service, casual dining restaurants.

On July 24, 2012, we sold a portion of our senior secured loan and warrants of United Biologics, LLC for \$3.3 million at amortized cost.

On July 31, 2012, the Board declared a quarterly dividend of \$0.38 per share payable on September 25, 2012 to stockholders of record as of September 11, 2012.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are subject to financial market risks, including changes in interest rates. Changes in interest rates affect both our cost of funding and the valuation of our investment portfolio. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs. In the future, our investment income may also be affected by changes in various interest rates, including LIBOR and prime rates, to the extent of any debt investments that include floating interest rates. As of June 30, 2012, all of our debt investments bore interest at fixed rates and all of our pooled SBA debentures bore interest at fixed rates. As of June 30, 2012, we also had \$2.3 million in SBA debentures that carry a fixed rate through September 2012 when we expect they will pool at a higher fixed rate. Assuming that the consolidated statements of assets and liabilities as of June 30, 2012 and December 31, 2011 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 second quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

In addition to other information set forth in this report, including the risk factors below, you should carefully consider the Risk Factors discussed in our Form 10-K for the year ended December 31, 2011 and filed with the SEC on March 8, 2012, 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.

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

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

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

As a BDC, we are generally required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings (other than SBA leverage) and any preferred stock we may issue in the future, of at least 200.0%. If this ratio declines below 200.0%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions.

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

**Assumed Return on Our Portfolio****(Net of Expenses)**

	<b>(10.0)%</b>	<b>(5.0)%</b>	<b>0.0%</b>	<b>5.0%</b>	<b>10.0%</b>
Corresponding return to common stockholder <sup>(1)</sup>	(23.0)%	(13.6)%	(4.1)%	5.3%	14.8%

(1) Assumes \$267.5 million in total assets, \$121.3 million in outstanding SBA debentures and \$141.6 million in net assets as of June 30, 2012 and an average cost of funds of 4.8%.

*Funding a portion of our investments with preferred stock would magnify the potential for gain or loss and the risks of investing in us in the same way as our other borrowings.*

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Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the distributions with respect to any preferred stock must be cumulative. Payment of such distributions and repayment of the liquidation preference of such preferred stock must take preference over any distributions or other payments to our common stockholders, and preferred stockholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

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**Table of Contents**

*An extended continuation of the disruption in the capital markets and the credit markets could negatively affect our business.*

As a BDC, it is essential for us to maintain our ability to raise additional capital for investment purposes. Without sufficient access to the capital markets or credit markets, we may be forced to curtail our business operations or we may not be able to pursue new business opportunities. Since the middle of 2007, the capital markets and the credit markets have been experiencing extreme volatility and disruption and, accordingly, there has been and will continue to be uncertainty in the financial markets in general. Ongoing disruptive conditions in the financial industry and the impact of new legislation in response to those conditions could restrict our business operations and could adversely impact our results of operations and financial condition.

From time to time, we may borrow from financial institutions in order to obtain additional capital. Unfavorable economic conditions result in a decision by lenders not to extend credit to us. Our ability to incur indebtedness (including by issuing preferred stock) is limited by applicable regulations such that our asset coverage under the 1940 Act must equal at least 200.0% of total indebtedness immediately after each time we incur indebtedness exclusive of the SBA debentures pursuant to our SEC exemptive relief. Additionally, shrinking portfolio values will negatively impact our ability to borrow additional funds because our net asset value is reduced for purposes of the 200.0% asset leverage test. If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratio stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a BDC and materially impair our business operations. A protracted disruption in the credit markets could also materially decrease demand for our investments.

We will access the capital markets periodically to issue debt or equity securities. Volatility or dislocation in the capital markets may depress our stock price below our net asset value per share and create a challenging environment in which to raise debt and equity capital. As a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. In addition, we are required 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 in order to qualify and maintain our status as a RIC. As a result, earnings that we distribute to our stockholders will not be available to fund new investments. An inability to access the capital markets could limit our ability to grow our business and execute our business strategy fully and could decrease our earnings, if any, which may have an adverse effect on the value of our securities.

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

We intend to pay quarterly distributions to our stockholders out of assets legally available for distribution. We cannot assure stockholders that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be harmed by, among other things, the risk factors described herein and in our Form 10-K for the year ended December 31, 2011 filed with the SEC on March 8, 2012. In addition, the inability to satisfy the asset coverage test applicable to us as a BDC could, in the future, limit our ability to pay distributions. All distributions will be paid at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with applicable BDC regulations, SBA regulations and such other factors as our board of directors may deem relevant from time to time. We cannot assure stockholders that we will pay distributions in the future.

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

When we make quarterly distributions, we will be required to determine the extent to which such distributions are paid out of current or accumulated earnings and profits, recognized capital gain or capital. To the extent there is a return of capital, investors will be required to reduce their basis in our stock for U.S. federal income tax purposes.

*Our stockholders may have a current tax liability on distributions they elect to reinvest in our common stock but would not receive cash from such distributions to pay such tax liability.*

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





**Table of Contents**

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

We intend to elect to be taxed for U.S. federal income tax purposes as a RIC under Subchapter M of the Code commencing with our taxable year ended December 31, 2011. If we meet certain requirements, including source-of-income, asset diversification and distribution requirements, and if we continue to be regulated as a BDC, we will qualify to be taxed as a RIC and therefore will not have to pay U.S. federal corporate income tax on income that we timely distribute to our stockholders, allowing us to substantially reduce or eliminate our corporate-level income tax liability. As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings (other than SBA leverage) and any preferred stock we may issue in the future, of at least 200.0% at the time we issue any debt or preferred stock. This requirement limits the amount of our leverage. Because we will continue to need capital to grow our investment portfolio, this limitation may prevent us from incurring debt or issuing preferred stock and require us to raise additional equity at a time when it may be disadvantageous to do so.

While we expect to be able to borrow and to issue additional debt and equity securities, we cannot assure investors that debt and equity financing will be available to us on favorable terms, or at all. If additional funds are not available to us, we could be forced to curtail or cease new investment activities, and our net asset value could decline. In addition, as a BDC, we generally are not permitted to issue equity securities priced below net asset value without stockholder approval. At our Annual Stockholders Meeting on June 6, 2012, our stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending on the earlier of June 6, 2013 or the date of our 2013 Annual Meeting of Stockholders. The maximum number of shares issuable below net asset value pursuant to the authority granted by our stockholders that could result in such dilution is limited to 25.0% of the Company's then outstanding common stock immediately prior to each such sale. We do not intend to issue shares of our common stock below net asset value unless our board of directors determines that it would be in our stockholders' best interests to do so. For an illustration on the potential dilutive effect of an offering of our common stock at a price below net asset value, please see the illustration below.

*Illustration: Examples of Dilutive Effect of the Issuance of Shares Below Net Asset Value.* The following table illustrates the level of net asset value dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from net asset value per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

Assume that Company XYZ has 1,000,000 common shares outstanding, \$15,000,000 in total assets and \$5,000,000 in total liabilities. The current net asset value and net asset value per share are thus \$10,000,000 and \$10.00, respectively. The table illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 50,000 shares (5.0% of the outstanding shares) at \$9.50 per share after offering expenses and commission (a 5.0% discount from net asset value), (2) an offering of 100,000 shares (10.0% of the outstanding shares) at \$9.00 per share after offering expenses and commissions (a 10.0% discount from net asset value) and (3) an offering of 200,000 shares (20.0% of the outstanding shares) at \$8.00 per share after offering expenses and commissions (a 20.0% discount from net asset value). The acronym NAV stands for net asset value.

In any offering of common stock, we will present the actual dilution to stockholders in tabular form in the prospectus supplement specific to that offering.

	Prior to Sale Below NAV	Example 1 5.0% Offering at 5.0% Discount		Example 2 10.0% Offering at 10.0% Discount		Example 3 20.0% Offering at 20.0% Discount	
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
<b>Offering Price</b>							
Price per Share to Public		\$ 10.00		\$ 9.47		\$ 8.42	
Net Proceeds per Share to Issuer		\$ 9.50		\$ 9.00		\$ 8.00	
<b>Decrease to NAV</b>							
Total Shares Outstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
NAV per Share	\$ 10.00	\$ 9.98	(0.24)%	\$ 9.91	(0.91)%	\$ 9.67	(3.33)%
<b>Dilution to Stockholder</b>							
Shares Held by Stockholder A	10,000	10,000		10,000		10,000	
Percentage Held by Stockholder A	1.0%	0.95%	(4.76)%	0.91%	(9.09)%	0.83%	(16.67)%
<b>Total Asset Values</b>							

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Total NAV Held by Stockholder A	\$ 100,000	\$ 99,762	(0.24)%	\$ 99,091	(0.91)%	\$ 96,667	(3.33)%
Total Investment by Stockholder A (Assumed to Be \$10.00 per Share)	\$ 100,000	\$ 100,000		\$ 100,000		\$ 100,000	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$ (238)		\$ (909)		\$ (3,333)	
<b>Per Share Amounts</b>							
NAV per Share Held by Stockholder A		\$ 9.98		\$ 9.91		\$ 9.67	
Investment per Share Held by Stockholder A (Assumed to be \$10.00 per Share)	\$ 10.00	\$ 10.00		\$ 10.00		\$ 10.00	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.02)		\$ (0.09)		\$ (0.33)	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(0.24)%		(0.91)%		(3.33)%

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## **Table of Contents**

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

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

*Senior Securities.* Currently we, through our SBIC subsidiary, issue debt securities guaranteed by the SBA. In the future, we may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions (including borrowings under our line of credit), which we refer to collectively as senior securities. As a result of issuing senior securities, we will be exposed to additional risks, including, but not limited to, the following:

Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200.0% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our debt at a time when such sales and/or repayments may be disadvantageous. Further, we may not be permitted to declare or make any distribution to stockholders or repurchase shares until such time as we satisfy this test.

Any amounts that we use to service our debt or make payments on preferred stock will not be available for distributions to our common stockholders.

It is likely that any senior securities or other indebtedness we issue will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, some of these securities or other indebtedness may be rated by rating agencies, and in obtaining a rating for such securities and other indebtedness, we may be required to abide by operating and investment guidelines that further restrict operating and financial flexibility.

We and, indirectly, our stockholders will bear the cost of issuing and servicing such securities and other indebtedness.

Preferred stock or any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock, including separate voting rights and could delay or prevent a transaction or a change in control to the detriment of the holders of our common stock.

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

***The impact of recent financial reform legislation on us is uncertain.***

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In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The Dodd-Frank Reform Act became effective on July 21, 2010; however, many provisions of the Dodd-Frank Reform Act have delayed effectiveness or will not become effective until the relevant federal agencies issue new rules to implement the Dodd-Frank Reform Act. Nevertheless, the Dodd-Frank Reform Act may have a material adverse impact on the financial services industry as a whole and on our business, results of operations and financial condition. Accordingly, we cannot predict the effect the Dodd-Frank Reform Act or its implementing regulations will have on our business, results of operations or financial condition.

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

Except in those instances where we have received prior exemptive relief from the SEC, we will be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our independent directors. Any person that owns, directly or indirectly, 5.0% or more of our outstanding voting securities is deemed our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits joint transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. If a person acquires more than 25.0% of our voting securities, we will be prohibited from buying or selling any security from or to such person, or entering into joint transactions with such person, absent the prior approval of the SEC. These restrictions could limit or prohibit us from making certain attractive investments that we might otherwise make absent such restrictions.

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

Pursuant to Section 23(c)(1) of the Investment Company Act of 1940, we intend to purchase our common stock in the open market in order to satisfy our Dividend Reinvestment Plan obligations if, at the time of the distribution of any dividend, our common stock is trading at a price per share below net asset value. During the three months ended June 30, 2012, in connection with our Dividend Reinvestment Plan, the plan administrator purchased 40,196 shares of our common stock for \$600,342 in the open market with respect to our dividend for the second quarter of 2012. The following chart summarizes these purchases of our common stock for the three months ended June 30, 2012.

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1-30, 2012		\$		
May 1-31, 2012				
June 1-30, 2012	40,196	14.94		
Total	40,196	\$ 14.94		

(1) All shares purchased in the open market pursuant to the terms of our Dividend Reinvestment Plan.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.



**Table of Contents**

**Item 6. Exhibits.**

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

**Table of Contents**

**SIGNATURES**

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

**FIDUS INVESTMENT CORPORATION**

Date: August 2, 2012

/s/ EDWARD H. ROSS

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

Date: August 2, 2012

/s/ CARY L. SCHAEFER

Cary L. Schaefer  
Chief Financial Officer

(Principal Financial and Accounting Officer)



**Table of Contents**

**EXHIBIT INDEX**

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