

BLUE NILE INC  
Form 4  
June 04, 2010

**FORM 4**

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

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
**GASTON DWIGHT**

(Last) (First) (Middle)

**C/O BLUE NILE, INC., 705 FIFTH AVENUE S, STE 900**

(Street)

**SEATTLE, WA 98104**

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
**BLUE NILE INC [NILE]**

3. Date of Earliest Transaction (Month/Day/Year)  
**06/02/2010**

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

\_\_\_\_ Director \_\_\_\_\_ 10% Owner  
 Officer (give title below) \_\_\_\_\_ Other (specify below)  
**Senior VP**

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
\_\_\_\_ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Common Stock	06/02/2010		M <sup>(1)</sup>		500	A	\$ 8.75 1,207
Common Stock	06/02/2010		S <sup>(1)</sup>		500	D	\$ 46.94 707

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

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**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Pri Deriv Secur (Instr
Stock Options (Right to Buy)	\$ 8.75	06/02/2010	06/02/2010	M	500	(2) 10/09/2013	Common Stock 500	

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GASTON DWIGHT C/O BLUE NILE, INC. 705 FIFTH AVENUE S, STE 900 SEATTLE, WA 98104			Senior VP	

## Signatures

/s/ Diane M. Irvine, Power of Attorney  
06/04/2010

Signature of Reporting Person

Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) This sale was affected pursuant to a Rule 10b5-1 trading plan adopted by the reporting person.
- (2) 25% of the option shares vest on August 26, 2004 and one-forty-eighth of the option shares vest in equal monthly installments over the following thirty-six months.
- (3) Not applicable.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. y Investments. Our ability to achieve our investment objective may be limited to the extent that the net proceeds from the offering, pending full investment, are held in interest bearing deposits or other short-term instruments that produce income at a rate less than our cost of capital.



Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

For the years ended December 31, 2011, 2012, 2013, 2014 and 2015, the ratio of earnings to fixed charges of the Company, computed as set forth below, were as follows:

	<b>For the year ended December 31,</b>				
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Earnings to Fixed Charges <sup>(1)</sup>	3.81	4.02	4.95	3.65	3.79

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) tax provision (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and financing expenses.

- (1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

Excluding net unrealized gains or losses, the earnings to fixed charges ratio would be 0.86, 3.75, 8.08, 1.88 and 4.86 for the years ended December 31, 2011, 2012, 2013, 2014 and 2015, respectively.

Excluding net realized and unrealized gains or losses, the earnings to fixed charges ratio would be 3.11, 3.44, 3.76, 4.15 and 3.85 for the years ended December 2011, 2012, 2013, 2014 and 2015, respectively.

**Table of Contents****PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS**

Our common stock began trading on June 21, 2011 on The NASDAQ Global Market under the symbol FDUS. Effective January 3, 2012, our common stock is included in the Nasdaq Global Select Market. The following table lists the high and low closing sale price for our common stock, and the closing sale price as a percentage of net asset value, or NAV, and the cash distributions per share that we have declared on our common stock for each fiscal quarter during the last two most recently completed fiscal years.

Period	NAV <sup>(1)</sup>	High Closing Sales Price	Low Closing Sales Price	Premium / (Discount) of High Sales Price to NAV <sup>(2)</sup>	Premium / (Discount) of Low Sales Price to NAV <sup>(2)</sup>	Distributions Per Share <sup>(3)</sup>
<b>Year ended December 31, 2015</b>						
First Quarter	\$ 15.18	\$ 17.02	\$ 14.40	12.1%	(5.1)%	\$ 0.38
Second Quarter	15.18	16.90	14.90	11.3	(1.8)	0.40
Third Quarter	15.12	15.51	13.65	2.6	(9.7)	0.39
Fourth Quarter	15.17	14.80	13.11	(2.4)	(13.6)	0.43
<b>Year ended December 31, 2014</b>						
First Quarter	15.22	21.99	17.86	44.5	17.3	0.38
Second Quarter	15.09	20.54	16.63	36.1	10.2	0.48
Third Quarter	15.18	20.04	16.51	32.0	8.8	0.38
Fourth Quarter	15.16	17.10	13.71	12.8	(9.6)	0.48

- (1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.
- (2) Calculated as the difference between the respective high or low closing sales price and the quarter end net asset value divided by the quarter end net asset value.
- (3) Represents the regular and special, if applicable, distribution declared in the specified quarter. We have adopted an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, stockholders cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions. See Dividend Reinvestment Plan.

We intend to continue to pay quarterly distributions to our stockholders. Our quarterly distributions, if any, are determined by our board of directors. We have elected to be taxed as a RIC under Subchapter M of the Code. As long as we qualify as a RIC, we will not be taxed on our investment company taxable income or net capital gain, to the extent that such income or gain is distributed, or deemed to be distributed, to stockholders on a timely basis.

In addition, during 2013 we designated approximately \$8.3 million, or \$0.60 per share, of our net long-term capital gains as a deemed distribution to stockholders of record as of December 31, 2013. We incurred approximately \$2.9 million, or \$0.21 per share, of U.S. federal income taxes on behalf of stockholders related to this deemed distribution. Such taxes were paid in January of 2014. There were no deemed distributions during the years 2011, 2012, 2014 or

2015.

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

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our board of directors authorizes,

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

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

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial data of FIC and its subsidiaries, including the Funds, as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, is derived from the consolidated financial statements that have been audited by RSM US LLP, independent registered public accounting firm. Financial information prior to our IPO in June 2011 is that of Fund I. This financial data should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this prospectus and with Management's Discussion and Analysis of Financial Condition and Results of Operations.

	<b>Year Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(Dollars in Thousands)</i>				
<b>Statement of operations data:</b>					
Total investment income	\$ 54,269	\$ 46,116	\$ 41,792	\$ 33,849	\$ 23,387
Interest and financing expenses	9,428	7,507	7,076	6,422	5,488
Management fees, net	7,545	5,899	5,261	4,237	3,182
Incentive fees	6,481	4,857	6,792	4,839	1,609
All other expenses	3,932	4,189	3,121	2,660	1,551
Net investment income before income taxes	27,386	23,664	19,542	15,691	11,557
Income tax provision	390	383	246	4	24
Net investment income	26,493	23,281	19,296	15,687	11,533
Net realized gains (losses) on investments	9,531	(17,029)	30,588	1,975	(12,318)
Net change in unrealized appreciation (depreciation) on investments	(10,086)	13,250	(22,188)	1,749	16,171
Income tax (provision) on realized gains on investments	39	(17)	(493)		
Net increase (decrease) in net assets resulting from operations	\$ 25,977	\$ 19,485	\$ 27,203	\$ 19,411	\$ 15,386
<b>Per share data <sup>(1)</sup>:</b>					
Net asset value (at end of period)	\$ 15.17	\$ 15.16	\$ 15.35	\$ 15.32	\$ 14.90
Net investment income	\$ 1.64	\$ 1.62	\$ 1.43	\$ 1.54	\$ 1.22
Net gain (loss) on investments	\$ (0.04)	\$ (0.26)	\$ 0.58	\$ 0.37	\$ 0.40
Net increase in net assets resulting from operations	\$ 1.60	\$ 1.36	\$ 2.01	\$ 1.91	\$ 1.63
Dividends (post initial public offering)	\$ 1.60	\$ 1.72	\$ 1.94	\$ 1.46	\$ 0.64
<b>Other data:</b>					
Weighted average annual yield on debt investments <sup>(2)</sup>	13.3%	13.4%	14.5%	15.3%	15.3%
Number of portfolio companies at year end	53	42	37	30	23
<b>Expense ratios (as percentage of average net assets):</b>					
Operating expenses	7.3%	6.7%	7.2%	7.4%	4.7%



Interest expense	3.8%	3.4%	3.4%	4.1%	4.0%
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- (1) Per share data and average net assets are presented as if the Formation Transaction and IPO had occurred on January 1, 2011.
- (2) Weighted average yields are computed using the effective interest rates for debt investments at cost as of the period end date, including accretion of original issue discount and loan origination fees, but excluding debt investments on non-accrual status, if any.

	<b>As of December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(Dollars in Thousands)</i>				
<b>Statement of assets and liabilities data:</b>					
Total investments at fair value	\$ 443,269	\$ 396,355	\$ 306,981	\$ 274,249	\$ 204,745
Total assets	485,540	435,587	367,262	333,849	248,643
Borrowings	229,000	183,500	144,500	144,500	104,000
Total net assets	247,362	243,263	211,125	183,091	140,482

**Table of Contents****SELECTED QUARTERLY FINANCIAL DATA**

The following tables set forth certain quarterly financial information for each of the twelve quarters ending with the quarter ended December 31, 2015. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

	<b>March 31, 2015</b>	<b>June 30, 2015</b>	<b>September 30, 2015</b>	<b>December 31, 2015</b>
Total investment income	\$ 12,838	\$ 12,799	\$ 13,557	\$ 15,075
Net investment income	6,229	6,039	7,050	7,175
Net increase in net assets from operations	6,409	6,246	5,487	7,835
Net investment income per share	0.39	0.37	0.43	0.44
Net increase in net assets from operations per share	0.40	0.39	0.34	0.48
Net asset value per share at end of period	15.18	15.18	15.12	15.17

	<b>March 31, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>December 31, 2014</b>
Total investment income	\$ 10,559	\$ 10,581	\$ 11,324	\$ 13,652
Net investment income	5,444	5,509	5,627	6,701
Net increase in net assets from operations	3,378	3,428	5,301	7,378
Net investment income per share	0.40	0.40	0.41	0.42
Net increase in net assets from operations per share	0.25	0.25	0.38	0.46
Net asset value per share at end of period	15.22	15.09	15.18	15.16

	<b>March 31, 2013</b>	<b>June 30, 2013</b>	<b>September 30, 2013</b>	<b>December 31, 2013</b>
Total investment income	\$ 9,813	\$ 10,476	\$ 10,263	\$ 11,240
Net investment income	4,923	3,164	5,274	5,935
Net increase in net assets from operations	4,637	13,420	4,537	4,609
Net investment income per share	0.38	0.23	0.38	0.43
Net increase in net assets from operations per share	0.36	0.98	0.33	0.34
Net asset value per share at end of period	15.46	16.06	15.98	15.35

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Selected Consolidated Financial Data, Fidus Investment Corporation's consolidated financial statements and related notes appearing elsewhere in this prospectus. The information in this section contains forward-looking statements that involve risks and uncertainties. Please see Risk Factors and Special Note Regarding Forward-Looking Statements for a discussion of the uncertainties, risks and assumptions associated with these statements.*

**Overview**

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

Fidus Investment Corporation was formed as a Maryland corporation on February 14, 2011. We completed our initial public offering, or IPO, in June 2011, and completed additional underwritten public offerings of our common stock in September 2012, February 2013 and September 2014 providing approximately \$174.1 million in net proceeds after deducting underwriting fees and offering costs.

On June 20, 2011, Fidus Investment Corporation acquired all of the limited partnership interests of Fidus Mezzanine Capital, L.P., or Fund I, 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 Fund I becoming our wholly-owned SBIC subsidiary. Immediately following the Formation Transactions, we and Fund I elected to be treated as business development companies, or BDCs, under the 1940 Act and our investment activities have been managed by Fidus Investment Advisors, LLC, our investment advisor, and supervised by our board of directors, a majority of whom are independent of us. On March 29, 2013, we commenced operations of a second wholly-owned subsidiary, Fund II. Fund I and Fund II are collectively referred to as the Funds.

Fund I received its SBIC license on October 22, 2007 and Fund II received its SBIC license on May 28, 2013. We plan to continue to operate the Funds as SBICs, subject to SBA approval, and to utilize the proceeds of the sale of SBA-guaranteed debentures to enhance returns to our stockholders. We have also made, and continue to make, investments directly through FIC. We believe that utilizing FIC and the Funds as investment vehicles provides us with access to a broader array of investment opportunities. Based on the current capitalization of the Funds, we have approximately \$11.5 million of remaining borrowing capacity under the SBIC Debenture Program and intend to fully utilize such capacity over the ensuing 3-6 months.

**Portfolio Composition, Investment Activity and Yield**

During the year ended December 31, 2015, we invested \$136.4 million in debt and equity investments, including 13 new portfolio companies. These investments consisted of subordinated notes (\$98.1 million, or 72.0%), senior secured

loans (\$28.3 million, or 20.7%), equity securities (\$9.5 million, or 7.0%), warrants (\$0.2 million, or 0.1%) and royalty rights (\$0.3 million, or 0.2%). During the year ended December 31, 2015 we received proceeds from sales or repayments, including principal, return of capital dividends and net realized gains (losses), of \$94.7 million. During year ended December 31, 2014, we invested \$149.8 million in debt and equity investments, including 12 new portfolio companies. These investments consisted of subordinated notes

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(\$103.7 million, or 69.2%), senior secured loans (\$33.1 million, or 22.1%), equity securities (\$12.2 million, or 8.1%), and warrants (\$0.8 million, or 0.6%). During the year ended December 31, 2014 we received proceeds from sales or repayments, including principal, return of capital dividends and net realized gains (losses), of \$62.6 million. During the year ended December 31, 2013, we invested \$149.1 million in debt and equity investments, including nine new portfolio companies. These investments consisted of subordinated notes (\$111.5 million, or 74.8%), senior secured loans (\$22.7 million, or 15.2%), equity securities (\$14.7 million, or 9.9%) and warrants (\$0.2 million, or 0.1%). During the year ended December 31, 2013 we received proceeds from repayments of principal, including return of capital dividends and realized gains, of \$131.2 million.

As of December 31, 2015, the fair value of our investment portfolio totaled \$443.3 million and consisted of 53 portfolio companies. As of December 31, 2015, one debt investment bore interest at a variable rate, which represented \$8.9 million of our portfolio on a fair value basis, and the remainder of our debt portfolio was comprised of fixed rate investments. Overall, the portfolio had net unrealized depreciation of \$5.1 million as of December 31, 2015. As of December 31, 2015, our average portfolio company investment at amortized cost was \$9.0 million (which excludes three investments in portfolio companies that sold their operations and are in the process of winding down).

As of December 31, 2014, the fair value of our investment portfolio totaled \$396.4 million and consisted of 42 portfolio companies. As of December 31, 2014, our debt portfolio was entirely comprised of fixed rate investments. Overall, the portfolio had net unrealized appreciation of \$5.0 million as of December 31, 2014. Our average portfolio company investment at amortized cost was \$9.3 million as of December 31, 2014.

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

The weighted average yields on debt investments at December 31, 2015, 2014 and 2013 were 13.3%, 13.4% and 14.5%, respectively. The weighted average yields were computed using the effective interest rates for debt investments at cost as of December 31, 2015, 2014 and 2013, respectively, including the accretion of original issue discount and loan origination fees, but excluding investments on non-accrual status, if any.

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

	December 31, 2015		Fair Value December 31, 2014		December 31, 2013	
			<i>(dollars in thousands)</i>			
Subordinated notes	\$ 300,467	67.8%	\$ 273,711	69.1%	\$ 214,400	69.8%
Senior secured loans	88,485	20.0	74,286	18.7	53,387	17.4
Equity	44,899	10.1	42,886	10.8	32,560	10.6
Warrants	9,233	2.1	5,472	1.4	6,634	2.2
Royalty rights	185					
Total	\$ 443,269	100.0%	\$ 396,355	100.0%	\$ 306,981	100.0%

	<b>December 31, 2015</b>		<b>Cost December 31, 2014</b>		<b>December 31, 2013</b>	
	<i>(dollars in thousands)</i>					
Subordinated notes	\$ 309,899	69.2%	\$ 273,347	69.8%	\$ 220,372	69.9%
Senior secured loans	88,505	19.7	74,486	19.0	52,903	16.8
Equity	42,651	9.5	36,623	9.4	34,982	11.1
Warrants	7,098	1.6	6,882	1.8	6,657	2.2
Royalty rights	185					
Total	\$ 448,338	100.0%	\$ 391,338	100.0%	\$ 315,214	100.0%

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The following table shows portfolio composition by geographic region at fair value and cost and as a percentage of total investments. The geographic composition is determined by the location of the corporate headquarters of the portfolio company, which may not be indicative of the primary source of the portfolio company's business:

	December 31, 2015		Fair Value December 31, 2014		December 31, 2013	
	<i>(dollars in thousands)</i>					
Midwest	\$ 119,291	26.8%	\$ 94,572	23.9%	\$ 67,287	21.9%
Southeast	107,975	24.4	113,516	28.6	54,885	17.9
Northeast	93,430	21.1	66,900	16.9	59,500	19.4
West	84,648	19.1	78,904	19.9	76,361	24.9
Southwest	37,925	8.6	42,463	10.7	48,948	15.9
Total	\$ 443,269	100.0%	\$ 396,355	100.0%	\$ 306,981	100.0%

	December 31, 2015		Cost December 31, 2014		December 31, 2013	
	<i>(dollars in thousands)</i>					
Midwest	\$ 116,015	25.9%	\$ 92,721	23.7%	\$ 74,430	23.6%
Southeast	113,430	25.3	113,725	29.0	55,855	17.7
Northeast	92,492	20.6	65,248	16.7	59,611	18.9
West	77,028	17.2	71,975	18.4	75,488	24.0
Southwest	49,373	11.0	47,669	12.2	49,830	15.8
Total	\$ 448,338	100.0%	\$ 391,338	100.0%	\$ 315,214	100.0%

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

	Fair Value			Cost		
	As of December 31,			As of December 31,		
	2015	2014	2013	2015	2014	2013
Healthcare products	11.4%	11.2%	8.8%	10.4%	10.6%	8.5%
Healthcare services	11.1	10.3	10.6	11.2	10.8	10.1
Aerospace & defense manufacturing	10.5	9.4	11.2	8.7	8.6	9.6
Transportation services	8.1	4.0	4.9	7.6	3.9	4.7
Specialty distribution	8.0	10.3	4.3	7.7	9.3	3.6
Business services	5.4	3.1	2.4	5.7	3.2	2.4
Consumer products	5.1	5.6	3.7	5.0	5.6	3.5
Utility equipment manufacturing	4.6	2.6	3.5	4.6	2.6	3.2
Building products manufacturing	4.0	3.6		3.6	3.7	
Industrial cleaning & coatings	3.9	4.1	5.1	4.1	4.2	5.1
Component manufacturing	3.8	4.3	2.6	4.0	4.6	2.5
Oil & gas services	3.7	8.6	4.6	4.5	8.8	4.5
Financial services	3.1	3.7	4.8	2.8	3.4	4.5
Information technology services	3.0	2.3	2.6	3.2	2.5	3.1
Safety products manufacturing	2.4	2.7	3.5	2.4	2.7	3.4
Printing services	2.2	2.4	3.1	2.3	2.6	3.0
Restaurants	2.0	1.7	1.9	2.0	1.6	3.4
Specialty chemicals	1.7	2.2		1.9	2.2	
Laundry services	1.5	1.5	1.8	1.4	1.4	1.6
Telecommunication services	1.4			1.3		
Apparel distribution	1.3	1.5	1.6	1.3	1.5	1.7
Vending equipment manufacturing	0.8			0.9		
Electronic components supplier	0.4	0.4	3.6	0.3	0.4	6.2
Retail	0.3	2.7	3.3	0.2	2.6	3.2
Commercial cleaning	0.2	0.2	2.7	0.2	0.2	2.7
Retail cleaning	0.1	1.1	2.3	2.7	2.7	2.8
Specialty cracker manufacturing		0.5	0.4		0.3	0.4
Debt collection services			1.9			1.8
Industrial products			2.0			1.9
Furniture rental			2.8			2.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**Portfolio Asset Quality**

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



Investment Rating 1 is used for investments that involve the least amount of risk in our portfolio. The portfolio company is performing above expectations and the trends and risk factors are favorable, and may include an expected capital gain.

Investment Rating 2 is used for investments that involve a level of risk similar to the risk at the time of origination. The portfolio company is performing substantially within our expectations and the risk factors are neutral or favorable. Each new portfolio investment enters our portfolio with Investment Rating 2.



For the year ended December 31, 2015, total investment income was \$54.3 million, an increase of \$8.2 million, or 17.7%, over the \$46.1 million of total investment income for the year ended December 31, 2014. The increase was primarily attributable to a \$10.3 million increase in interest income resulting largely from higher average levels of debt investments outstanding, which was partially offset by a \$1.1 million decrease in dividend income due to lower average levels of income producing equity investments outstanding and a \$1.1 million decrease in fee income resulting from lower levels of investment activity for the year ended December 31, 2015, as compared to the year ended December 31, 2014.

**Table of Contents***Expenses*

For the year ended December 31, 2015, total expenses, including income tax provision, were \$27.8 million, an increase of \$4.9 million or 21.6%, over the \$22.8 million of total expenses, including income tax provision, for the year ended December 31, 2014. Interest and financing expenses for the year ended December 31, 2015 were \$9.4 million, an increase of \$1.9 million or 25.6%, compared to \$7.5 million for the year ended December 31, 2014 as a result of higher average balances of SBA debentures outstanding during 2015 and interest and commitment fees related to the Credit Facility. The base management fee increased \$1.6 million, or 27.9%, to \$7.5 million for the year ended December 31, 2015 due to higher average total assets less cash and cash equivalents for the year ended December 31, 2015 than the fiscal year 2014. The incentive fee for the year ended December 31, 2015 was \$6.5 million, a \$1.6 million, or 33.4%, increase from the \$4.9 million incentive fee for the year ended December 31, 2014 which was the result of a \$1.0 million increase in the income incentive fee to \$6.6 million and the reversal of previously accrued capital gains incentive fees totaling \$0.1 million during the year ended December 31, 2015 compared to a capital gains incentive fee reversal of \$0.7 million during the fiscal year 2014. The administrative service fee, professional fees and other general and administrative expenses totaled \$3.9 million for the year December 31, 2015 compared to a total of \$4.2 million for the year ended December 31, 2014.

*Net Investment Income*

Net investment income for the year ended December 31, 2015 was \$26.5 million, which was an increase of \$3.2 million, or 13.8%, compared to net investment income of \$23.3 million during the year ended December 31, 2014 as a result of the \$8.2 million increase in total investment income and the \$4.9 million increase in total expenses, including income tax provision.

*Net Increase in Net Assets Resulting From Operations*

For the year ended December 31, 2015, the total net realized gain on investments was \$9.5 million. Significant realized gains for the year ended December 31, 2015 are summarized below:

<b>Portfolio Company</b>	<b>Realization Event</b>	<b>Realized Gains (Losses) (in millions)</b>
Connect-Air International, Inc.	Exit of portfolio company	\$ 5.5
ACFP Acquisition Company, Inc.	Distribution related to sale of operations	2.3
Westminster Cracker Company, Inc.	Distribution related to sale of operations	1.5
Acentia, LLC	Exit of portfolio company	<(0.1)
Other		0.2
Total		\$ 9.5

For the year ended December 31, 2014, the total net realized loss on investments was \$17.0 million and was comprised of \$3.3 million in gross realized gains and \$20.3 million in gross realized losses. Significant realized gains and (losses) are summarized below:

<b>Portfolio Company</b>	<b>Realization Event</b>	<b>Net Realized Gains (Losses) (in millions)</b>
Nobles Manufacturing, Inc.	Exit of portfolio company	\$ 1.7
Brook Furniture Rental, Inc.	Exit of portfolio company	0.9
Apex Microtechnology, Inc.	Repayment of debt in full	0.2
S.B. Restaurant Co. (dba Elephant Bar)	Exit of portfolio company	(8.0)
Avrio Technology Group, LLC	Exit of portfolio company	(12.3)
Other		0.5
<b>Total</b>		<b>\$ (17.0)</b>

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During the year ended December 31, 2015, we recorded a net change in unrealized depreciation on investments of \$10.1 million attributable to (i) the reversal of net unrealized appreciation on investments of \$4.7 million related to the exit or sale of investments, resulting in unrealized depreciation, (ii) net unrealized depreciation of \$9.3 million on debt investments and (iii) net unrealized appreciation of \$3.9 million on equity investments. During the year ended December 31, 2014, we recorded a net change in unrealized appreciation on investments of \$13.3 million attributable to (i) the reversal of net unrealized depreciation on investments of \$11.0 million related to the exit or sale of investments, resulting in unrealized appreciation, (ii) net unrealized depreciation of \$0.8 million on debt investments and (iii) net unrealized appreciation of \$3.1 million on equity investments.

As a result of these events, our net increase in net assets resulting from operations during the year ended December 31, 2015 was \$26.0 million, or an increase of \$6.5 million, or 33.3%, compared to a net increase in net assets resulting from operations of \$19.5 million during the prior year period.

***Comparison of years ended December 31, 2014 and December 31, 2013******Investment Income***

For the year ended December 31, 2014, total investment income was \$46.1 million, an increase of \$4.3 million, or 10.3%, over the \$41.8 million of total investment income for the year ended December 31, 2013. The increase was primarily attributable to a \$2.6 million increase in interest income resulting largely from higher average levels of debt investments outstanding and a \$1.5 million increase in fee income from investments during the year ended December 31, 2014, as compared to the year ended December 31, 2013.

***Expenses***

For the year ended December 31, 2014, total expenses, including income tax provision, were \$22.8 million, an increase of \$0.3 million or 1.5%, over the \$22.5 million of total expenses, including income tax provision, for the year ended December 31, 2013. Interest and financing expenses for the year ended December 31, 2014 were \$7.5 million, an increase of \$0.4 million or 6.1%, compared to \$7.1 million for the year ended December 31, 2013 as a result of higher average balances of SBA debentures outstanding during 2014 and interest and commitment fees related to the Credit Facility. The base management fee increased \$0.6 million, or 12.1%, to \$5.9 million for the year ended December 31, 2014 due to higher average total assets less cash and cash equivalents for the year ended December 31, 2014 than the comparable period in 2013. The incentive fee for the year ended December 31, 2014 was \$4.9 million, a \$1.9 million, or 28.5%, decrease from the \$6.8 million incentive fee for the year ended December 31, 2013 which was primarily the result of a capital gains incentive fee reversal of \$0.7 million during the 2014 period compared to a capital gains incentive fee accrual of \$1.6 million during the same period in 2013, which was partially offset by a \$0.4 million increase in the income incentive fee. The administrative service fee, professional fees and other general and administrative expenses increased \$1.1 million, or 34.2%, to \$4.2 million primarily due to increased personnel costs and professional fees.

***Net Investment Income***

Net investment income for the year ended December 31, 2014 was \$23.3 million, which was an increase of \$4.0 million, or 20.7%, compared to net investment income of \$19.3 million during the year ended December 31, 2013 as a result of the \$4.3 million increase in total investment income and the \$0.3 million increase in total expenses, including income tax provision.



**Table of Contents***Net Increase in Net Assets Resulting From Operations*

For the year ended December 31, 2014, the total net realized loss on investments was \$17.0 million and was comprised of \$3.3 million in gross realized gains and \$20.3 million in gross realized losses. Significant realized gains and (losses) are summarized below:

<b>Portfolio Company</b>	<b>Realization Event</b>	<b>Net Realized Gains (Losses) (in millions)</b>
Nobles Manufacturing, Inc.	Exit of portfolio company	\$ 1.7
Brook Furniture Rental, Inc.	Exit of portfolio company	0.9
Apex Microtechnology, Inc.	Repayment of debt in full	0.2
S.B. Restaurant Co. (dba Elephant Bar)	Exit of portfolio company	(8.0)
Avrio Technology Group, LLC	Exit of portfolio company	(12.3)
Other		0.5
<b>Total</b>		<b>\$ (17.0)</b>

For the year ended December 31, 2013, the total realized gain on investments was \$30.6 million. Significant realized gains and (losses) for the year ended December 31, 2013 are summarized below:

<b>Portfolio Company</b>	<b>Realization Event</b>	<b>Net Realized Gains (Losses) (in millions)</b>
Worldwide Express Operations, LLC	Restructuring	\$ 22.2
Tulsa Inspection Resources, Inc.	Exit of portfolio company	3.9
Goodrich Quality Theaters, Inc.	Exit of portfolio company	2.6
Caldwell & Gregory, LLC	Restructuring	1.4
Other		0.5
<b>Total</b>		<b>\$ 30.6</b>

During the year ended December 31, 2014, we recorded a net change in unrealized appreciation on investments of \$13.3 million attributable to (i) the reversal of net unrealized depreciation on investments of \$11.0 million related to the exit or sale of investments, resulting in unrealized appreciation, (ii) net unrealized depreciation of \$0.8 million on debt investments and (iii) net unrealized appreciation of \$3.1 million on equity investments. During the year ended December 31, 2013, we recorded net unrealized depreciation of \$22.2 million attributable to (i) the reversal of net unrealized appreciation on investments of \$14.6 million related to the exit or sale of investments, resulting in unrealized depreciation, (ii) net unrealized depreciation of \$6.8 million on debt investments and (iii) net unrealized depreciation of \$0.8 million on equity investments.

As a result of these events, our net increase in net assets resulting from operations during the year ended December 31, 2014 was \$19.5 million, or a decrease of \$7.7 million, or 28.4%, compared to a net increase in net assets resulting from operations of \$27.2 million during the prior year period.



***Liquidity and Capital Resources***

As of December 31, 2015, we had \$31.7 million in cash and cash equivalents and our net assets totaled \$247.4 million. We believe that our current cash and cash equivalents on hand, our continued access to SBA-guaranteed debentures, our Credit Facility and our anticipated cash flows from operations will provide adequate capital resources with which to operate and finance our investment business and make distributions to our stockholders for at least the next 12 months. We intend to generate additional cash primarily from the future offerings of securities (including the ATM Program) and future borrowings, as well as cash flows from operations, including income earned from investments in our portfolio companies. On both a short-term and long-term basis, our primary use of funds will be investments in portfolio companies and cash distributions to our stockholders.

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**Table of Contents***Cash Flows*

For the year ended December 31, 2015, we experienced a net increase in cash and cash equivalents in the amount of \$2.3 million. During that period, we used \$19.5 million of cash for operating activities, primarily for the funding of \$136.4 million of investments, which was partially offset by the proceeds from sales and repayments of investments of \$94.7 million. During the same period, we received \$21.8 million for financing activities resulting from proceeds received from stock offerings, net of expenses, of \$3.2 million, proceeds from the issuance of SBA debentures of \$40.0 million and net borrowings under the Credit Facility of \$5.5 million, which were partially offset by cash dividends paid to stockholders of \$25.0 million and the payment of deferred financing costs totaling \$1.8 million.

For the year ended December 31, 2014, we experienced a net decrease in cash and cash equivalents in the amount of \$24.1 million. During that period, we used \$71.3 million of cash for operating activities, primarily for the funding of \$149.8 million of investments, which was partially offset by the proceeds from sales and repayments of investments of \$62.6 million. During the same period, we generated \$47.2 million from financing activities resulting from proceeds received from stock offerings, net of expenses, of \$36.5 million, proceeds from the issuance of SBA debentures of \$29.0 million and borrowings under the Credit Facility of \$10.0 million, which were partially offset by cash dividends paid to stockholders of \$23.9 million, a \$2.9 million payment for taxes paid on behalf of the stockholders related to the 2013 deemed distribution and payments of financing costs totaling \$1.6 million.

*Capital Resources*

We anticipate that we will continue to fund our investment activities on a long-term basis through a combination of additional debt and equity capital.

The Funds are licensed SBICs, and have the ability to issue debentures guaranteed by the SBA at favorable interest rates. Under the Small Business Investment Act and the SBA rules applicable to SBICs, an SBIC can have outstanding at any time debentures guaranteed by the SBA in an amount up to twice its regulatory capital. The SBA regulations currently limit the amount that is available to be borrowed by any SBIC and guaranteed by the SBA to 200.0% of an SBIC's regulatory capital or \$150.0 million, whichever is less. For three or more SBICs under common control, the maximum amount of outstanding SBA debentures cannot exceed \$350.0 million. SBA debentures have fixed interest rates that approximate prevailing 10-year Treasury Note rates plus a spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the SBA debentures is not required to be paid before maturity but may be pre-paid at any time. As of December 31, 2015, Fund I had \$150.0 million of outstanding SBA debentures and cannot issue additional SBA debentures. As of December 31, 2015, Fund II had \$63.5 million of outstanding SBA debentures. Based on its \$37.5 million of regulatory capital as of December 31, 2015, Fund II has the current capacity to issue up to an additional \$11.5 million of SBA debentures. Subject to SBA regulatory requirements and approval, we may access up to \$125.0 million of additional SBA debentures under the SBIC Debenture Program. For more information on the SBA debentures, please see Note 6 to our consolidated financial statements.

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

On December 19, 2014, we amended the Credit Facility to (i) increase the commitment from \$30.0 million to \$50.0 million (ii) allow FIC to buy-back up to \$10.0 million of our common stock subject to the satisfaction of specified financial covenants and conditions. The Credit Facility continues to have an accordion feature which allows for an

increase in the total commitment up to \$75.0 million.

Amounts available to borrow under the Credit Facility are subject to a minimum borrowing/collateral base that applies an advance rate to certain portfolio investments. We are subject to limitations with respect to the investments securing the Credit Facility, including, but not limited to, restrictions on sector concentrations, loan

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size, payment frequency and status and collateral interests, as well as restrictions on portfolio company leverage, which may also affect the borrowing base and therefore amounts available to borrow.

Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) the alternate base rate plus 2.5% or (ii) the applicable London Interbank Offered Rate, or LIBOR, which varies depending on the period of the borrowing under the Credit Facility, plus 3.5%. The alternate base rate is equal to the greater of (i) prime rate, (ii) the federal funds rate plus 0.5% or (iii) the three-month LIBOR plus 1.0%. We pay a commitment fee ranging from 0.5% to 1.0% per annum based on the size of the unused portion of the Credit Facility.

We have made customary representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities. These covenants are subject to important limitations and exceptions that are described in the documents governing the Credit Facility. As of December 31, 2015, we were in compliance with all covenants of the Credit Facility and there was \$15.5 million outstanding under the Credit Facility.

As of December 31, 2015, the weighted average interest rate for all SBA debentures and borrowings outstanding under the Credit Facility was 4.0%.

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

As a BDC, we are generally not permitted to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our board of directors, including Independent Directors, determines that such sale is in the best interests of us and our stockholders, and if our stockholders approve such sale. On June 3, 2015, 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 3, 2016 or the date of our 2016 Annual Meeting of Stockholders. We expect to present to our stockholders a similar proposal at our 2016 Annual Meeting of Stockholders. Our stockholders specified that the cumulative number of shares sold in each offering during the one-year period ending on the earlier of June 3, 2016 or the date of our 2016 Annual Meeting of Stockholders may not exceed 25.0% of our outstanding common stock immediately prior to each such sale.

## **Critical Accounting Policies and Use of Estimates**

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

## ***Valuation of Portfolio Investments***

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

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

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

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

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

our board of directors engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of our portfolio investments for which market quotations are not readily available. Each portfolio company investment is generally appraised by the valuation firm(s) at least once every calendar year and each new portfolio company investment is appraised at least once in the twelve-month period following the initial investment. In certain instances, we may determine that it is not cost-effective, and as a result it is not in our stockholders' best interest, to request the independent appraisal of certain portfolio company investments. Such instances include, but are not limited to, situations where we determine that the fair value of the portfolio company investment is relatively insignificant to the fair value of the total portfolio. Our board of directors consulted with the independent valuation firm(s) in arriving at our determination of fair value for 16 and 9 of our portfolio company investments representing 43.0% and 20.7% of the total portfolio investments at fair value (exclusive of new portfolio company investments made during the three months ended December 31, 2015 and 2014, respectively) as of December 31, 2015 and 2014, respectively;

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

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

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

expected exit values.

Consistent with the policies and methodologies adopted by our board of directors, we perform detailed valuations of our debt and equity investments, including an analysis of the Company's unfunded loan commitments, using both the market and income approaches as appropriate. Under the market approach, we typically use the enterprise value methodology to determine the fair value of an investment. There is no one methodology to estimate enterprise value and, in fact, for any one portfolio company, enterprise value is generally best expressed as a range of values, from which we derive a single estimate of enterprise value. Under the income approach, we typically prepare and analyze discounted cash flow models to estimate the present value of future cash flows of either an individual debt investment or of the underlying portfolio company itself.

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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 and other fees; estimated remaining life; the nature and realizable value of any collateral securing such debt investment; and changes in the interest rate environment and the credit markets that generally may affect the price at which similar investments may be made. We estimate the remaining life of our debt investments to generally be the legal maturity date of the instrument, as we generally intend to hold 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, net income, revenues, or in limited cases, book value. In estimating the enterprise value of a portfolio company, we analyze various factors consistent with industry practice, including but not limited to original transaction multiples, the portfolio company's historical and projected financial results, applicable market trading and transaction comparables, applicable market yields and leverage levels, the nature and realizable value of any collateral, the markets in which the portfolio company does business, and comparisons of financial ratios of peer companies that are public. Where applicable, we consider our ability to influence the capital structure of the portfolio company, as well as the timing of a potential exit.

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

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



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

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**Table of Contents*****Revenue Recognition***

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

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

*Payment-in-kind interest.* Certain of our investments contain a PIK income provision. The PIK income, computed at the contractual rate specified in the applicable investment agreement, is added to the principal balance of the investment, rather than being paid in cash, and recorded as interest or dividend income, as applicable, on the consolidated statements of operations. We stop accruing PIK income when there is reasonable doubt that PIK income will be collected. PIK income is included in our taxable income and, therefore, affects the amount we are required to pay to our stockholders in the form of dividends in order to maintain our tax treatment as a RIC and to avoid paying corporate federal income tax, even though we have not yet collected the cash.

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

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

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

We also typically receive loan origination or closing fees in connection with investments. Such loan origination and closing fees are capitalized as unearned income and offset against investment cost basis on our consolidated

statements of assets and liabilities and accreted into income over the life of the investment.

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In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis, which amends the criteria for determining which entities are considered variable interest entities ( VIEs ), amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2015 and early adoption is permitted. We are currently evaluating the impact this ASU will have on our consolidated financial position or disclosures.

In April 2015, FASB issued ASU 2015-03, *Interest Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This guidance is effective for annual and interim periods beginning after December 15, 2015 and early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. We are currently evaluating the impact this ASU will have on our consolidated financial position or disclosures.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605). Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017 and early application is permitted only for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the impact this ASU will have on our consolidated financial position or disclosures.

**Off-Balance Sheet Arrangements**

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of December 31, 2015, we had off-balance sheet arrangements consisting of six unfunded revolving loan commitments totaling \$4.7 million to portfolio companies and three unfunded loan commitments totaling \$5.4 million to portfolio companies. As of December 31, 2014, we had off-balance sheet arrangements consisting of five unfunded revolving loan commitments totaling \$4.1 million to portfolio companies and two unfunded loan commitment totaling \$5.4 million to a portfolio company. As of December 31, 2013, we had off-balance sheet arrangements consisting of two unfunded revolving loan commitments totaling \$1.5 million, two unfunded loan commitments totaling \$4.6 million to portfolio companies, and one unfunded capital commitment of \$0.3 million related to a portfolio company.

**Contractual Obligations**

As of December 31, 2015 our future fixed commitments for cash payments are as follows:

<b>Total</b>	<b>Less Than 1 Year</b>	<b>1 3 Years</b>	<b>3 5 Years</b>	<b>More than 5 Years</b>
	<i>(Dollars in thousands)</i>			

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SBA debentures	\$ 213,500	\$	\$ 36,700	\$ 55,250	\$ 121,550
Interest due on SBA debentures	42,472	8,254	15,490	9,274	9,454
Credit Facility borrowings	15,500		15,500		
Interest and fees due on Credit Facility <sup>(1)</sup>	1,451	667	784		
<b>Total</b>	<b>\$ 272,923</b>	<b>\$ 8,921</b>	<b>\$ 68,474</b>	<b>\$ 64,524</b>	<b>\$ 131,004</b>

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(1) Amounts represent (i) commitment fees on the unused portion of Credit Facility calculated at a rate of 1.0% of the unused amount as of December 31, 2015, which was \$34.5 million, (ii) interest expense calculated at a weighted average interest rate of 3.9% of outstanding borrowings under the Credit Facility as of December 31, 2015, which were \$15.5 million and (iii) annual agency fees due to the Credit Facility administrative agent.

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

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

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

**Quantitative and Qualitative Disclosure 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 December 31, 2015, one debt investment bore interest at a variable rate, which represented \$8.9 million of our portfolio on a fair value basis, and the remainder of our debt portfolio was comprised entirely of fixed rate investments. As of December 31, 2014, our debt portfolio was comprised entirely of fixed rate investments. Assuming that the consolidated statements of assets and liabilities as of December 31, 2015 and 2014 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. Our pooled SBA debentures bear interest at fixed rates. Our Credit Facility bears interest, subject to our election, on a per annum basis equal to (i) the alternate base rate plus 2.5% or (ii) the applicable LIBOR, which varies depending on the period of the borrowing under the Credit Facility, plus 3.5%. The alternate base rate is equal to the greater of (i) prime rate, (ii) the federal funds rate plus 0.5% or (iii) the three-month LIBOR plus 1.0%.

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



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### **Recent Developments**

On January 15, 2016, we invested \$10.5 million in the subordinated notes and common equity of OMC Investors, LLC, doing business as Ohio Medical Corporation, a manufacturer and distributor of medical suction and oxygen therapy products and source equipment.

On January 27, 2016, we filed an exemptive application with the SEC to permit us to co-invest with funds or entities managed by our investment adviser in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act. Any such order, if granted by the SEC, will be subject to certain terms and conditions. Furthermore, there is no assurance when, or if, this application for exemptive relief will be granted by the SEC.

On January 28, 2016, we announced that our board of directors authorized an open market stock repurchase program (the Program) under which we may acquire up to \$5.0 million of our outstanding common stock. Under the Program, we may, but are not obligated to, repurchase our outstanding common stock in the open market from time to time provided that we comply with the prohibitions under our insider trading policies and the requirements of Rule 10b-18 of the Exchange Act, including certain price, market volume and timing constraints. The timing, manner, price and amount of any share repurchases will be determined by the Company's management, in its discretion, based upon the evaluation of economic and market conditions, stock price, capital availability, applicable legal and regulatory requirements and other corporate considerations. Unless extended by our board of directors, we expect that the Program will be in effect until January 22, 2017, or until the approved dollar amount has been used to repurchase shares. The program does not require us to repurchase any specific number of shares and Fidus cannot assure that any shares will be repurchased under the program. The program may be suspended, extended, modified or discontinued at any time.

On January 29, 2016, we exited our debt and warrant investments in Continental Anesthesia Management, LLC in connection with the sale of the portfolio company. We received payment in full on our subordinated notes and recognized a loss of approximately \$0.3 million on our warrant investment.

On February 1, 2016, we exited our debt and equity investments in X5 Opco LLC. We received payment in full on our senior secured loan, including a prepayment penalty, and sold our equity at a price approximating cost.

On February 16, 2016, we exited our debt investment in Stagnito Partners, LLC. We received payment in full on our senior secured loan, including a prepayment penalty.

On February 16, 2016, the board of directors declared a regular quarterly dividend of \$0.39 per share, which is payable on March 25, 2016 to stockholders of record as of March 11, 2016.

On March 14, 2016, we invested \$13.9 million in the subordinated notes and common equity of Thermoforming Technology Group, LLC, a designer and manufacturer of thermoforming equipment, tooling and aftermarket parts.

On March 23, 2016, we invested \$12.1 million in the subordinated notes and common equity of Hub Acquisition Sub, LLC, doing business as Hub Pen, a supplier and decorator of promotional writing instruments.



**Table of Contents****SENIOR SECURITIES**

Information about our senior securities is shown in the following table for the years indicated in the table, unless otherwise noted. RSM US LLP's report on the senior securities table as of December 31, 2015, is attached as an exhibit to the registration statement of which this prospectus is a part.

<b>Class and Year</b>	<b>Total Amount Outstanding Exclusive of Treasury Securities (1)</b> <i>(dollars in thousands)</i>	<b>Asset Coverage per Unit (2)</b>	<b>Involuntary liquidation Preference per Unit (3)</b>	<b>Average Market Value per Unit (4)</b>
<b>SBA debentures</b>				
2007	\$	\$		N/A
2008	46,450	1,701		N/A
2009	79,450	1,610		N/A
2010	93,500	1,556		N/A
2011	104,000	2,351		N/A
2012	144,500	2,267		N/A
2013	144,500	2,461		N/A
2014	173,500	2,460		N/A
2015	213,500	2,231		N/A
<b>Credit Facility</b>				
2007	\$ 15,520	\$ 2,285		N/A
2008				N/A
2009				N/A
2010				N/A
2011				N/A
2012				N/A
2013				N/A
2014	10,000	42,676		N/A
2015	15,500	30,733		N/A

- (1) Total amount of each class of senior securities outstanding at the end of the period presented.
- (2) Asset coverage per unit is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.
- (4) Not applicable because senior securities are not registered for public trading.



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**THE COMPANY**

**General**

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

We invest in companies that possess some or all of the following attributes: predictable revenues; positive cash flows; defensible and/or leading market positions; diversified customer and supplier bases; and proven management teams with strong operating discipline. We target companies in the lower middle-market with annual earnings, before interest, taxes, depreciation and amortization, or EBITDA, between \$3.0 million and \$20.0 million; however, we may from time to time opportunistically make investments in larger or smaller companies. Our investments typically range between \$5.0 million and \$25.0 million per portfolio company.

As of December 31, 2015, we had debt and equity investments in 53 portfolio companies with an aggregate fair value of \$443.3 million. The weighted average yield on our debt investments as of December 31, 2015 was 13.3%. The weighted average yield was computed using the effective interest rates as of December 31, 2015, including accretion of original issue discount and loan origination fees, but excluding investments on non-accrual status, if any. There can be no assurance that the weighted average yield will remain at its current level.

**Market Opportunity**

We believe that the limited amount of capital available to lower middle-market companies, coupled with the desire of these companies for flexible and partnership-oriented sources of capital, creates an attractive investment environment for us. We believe the following factors will continue to provide us with opportunities to grow and deliver attractive returns to stockholders.

*The lower middle-market represents a large, underserved market.* We believe that lower middle-market companies, most of which are privately-held, are relatively underserved by traditional capital providers such as commercial banks, finance companies, hedge funds and collateralized loan obligation funds. Further, we believe that companies of this size generally possess conservative capital structures with significant enterprise value cushions, as compared to larger companies with more financing options.

*Current credit market dislocation for lower middle-market companies has created an opportunity for attractive risk-adjusted returns.* In this market, we believe traditional capital sources, such as commercial banks, finance companies, hedge funds and collateralized loan obligation funds have reduced lending and investing in the lower middle-market, which has resulted in increased opportunities for alternative funding sources. In addition, we believe that there continues to be less competition in the lower middle-market and an increased opportunity for attractive risk-adjusted returns. The remaining lenders and investors in the current environment are requiring lower amounts of senior and total leverage, increased equity commitments and more comprehensive covenant packages than was customary in the years leading up to the credit crisis.

*Large pools of uninvested private equity capital should drive future transaction velocity.* We believe there is a large pool of uninvested private equity capital, and we expect that private equity firms will remain active investors in lower middle-market companies. Private equity funds generally seek to leverage their investments by combining their equity capital with senior secured loans and/or mezzanine debt provided by other sources, and our relationships with private equity firms position us to partner with private equity investors.

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*Future refinancing activity is expected to create additional investment opportunities.* A high volume of financings completed will mature in the coming years. Additionally, we believe that demand for debt financing from lower middle-market companies will remain strong because these companies will continue to require credit to refinance existing debt, to support growth initiatives and to finance acquisitions. We believe this supply of opportunities coupled with limited financing providers focused on lower middle-market companies will continue to offer investment opportunities with attractive risk-adjusted returns.

**About Our Advisor**

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

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

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

Fidus Investment Advisors, LLC is a Delaware limited liability company that is registered as an investment advisor under the Investment Advisers Act of 1940, as amended, or the Advisers Act. In addition, Fidus Investment Advisors,

LLC serves as our administrator and provides us with office space, equipment and clerical, book-keeping and record-keeping services pursuant to an administration agreement, which we refer to as the Administration Agreement.

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### **Business Strategy**

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

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

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

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

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

*Actively Managing our Portfolio.* We believe that our investment advisor's initial and ongoing portfolio review process allows us to effectively monitor the performance and prospects of our portfolio companies. We seek to obtain board

observation rights or board seats with respect to our portfolio companies and we conduct monthly financial reviews and regular discussions with portfolio company management. We structure our investments with a comprehensive set of financial maintenance, affirmative and negative covenants. We believe that active monitoring of our portfolio companies compliance with covenants provides us with an early warning of any financial difficulty and enhances our ability to protect our invested capital.



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

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

## **Investments**

We seek to create a diversified investment portfolio that primarily includes mezzanine loans and equity securities. Our investments typically range between \$5.0 million to \$25.0 million per portfolio company, although this investment size may vary proportionately with the size of our capital base. Our investment objective is to provide attractive risk-adjusted returns by generating both current income from our debt investments and capital appreciation from our equity related investments. We may invest in the equity securities of our portfolio companies, such as preferred stock, common stock, warrants and other equity interests, either directly or in conjunction with our debt investments.

*Mezzanine Debt Investments.* We typically invest in mezzanine debt, which includes senior subordinated notes and junior secured loans. These loans typically have higher fixed interest rates (often representing a combination of cash pay and payment-in-kind interest), prepayment penalties and amortization of principal deferred to maturity, as well as origination and other fees. Subordinated loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. Subordinated investments are generally more volatile than secured loans and may involve a greater risk of loss of principal. In certain situations where we are able to structure an investment as a junior secured loan, we will obtain a junior security interest in the assets of these portfolio companies that will serve as collateral in support of the repayment of such loan. This collateral may take the form of second-priority liens on the assets of a portfolio company.

*Senior Secured Loans.* We also opportunistically structure some of our debt investments as senior secured or unitranche loans. Senior secured loans typically provide for a fixed interest rate and may contain some minimum principal amortization, excess cash flow sweep features and prepayment penalties. Senior secured loans are secured by a first or second priority lien on all existing and future assets of the borrower and may take the form of term loans or revolving lines of credit. Unitranche debt financing involves issuing one debt security that blends the risk and return profiles of both secured and subordinated debt and typically involves a first priority lien on all existing and future assets of the borrower. We believe that unitranche debt can be attractive for many lower middle-market companies given their size in order to reduce structural complexity and potential conflicts among creditors.

*Equity Securities.* Our equity securities typically consist of either a direct minority equity investment in common or preferred stock or membership/partnership interests of a portfolio company, or we may receive warrants to buy a minority equity interest in a portfolio company in connection with a debt investment. Warrants we receive with our debt investments typically require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. Our equity investments are typically not

control-oriented investments, and in many cases, we acquire equity securities as

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part of a group of private equity investors in which we are not the lead investor. We may structure such equity investments to include provisions protecting our rights as a minority-interest holder, as well as a put, or right to sell such securities back to the issuer, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights. Our equity investments typically are made in connection with debt investments to the same portfolio companies.

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

business services;

industrial products and services;

value-added distribution;

healthcare products and services;

consumer products and services (including retail, food and beverage);  
niche manufacturing;

defense and aerospace;

transportation and logistics;

information technology services; and

energy services.

As of December 31, 2015, we had investments in 53 portfolio companies with an aggregate fair value of \$443.3 million. As of December 31, 2014, we had investments in 42 portfolio companies with an aggregate fair value of \$396.4 million. As of December 31, 2013, we had investments in 37 portfolio companies with an aggregate fair value of \$307.0 million.

**Investment Criteria/Guidelines**

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

*Value Orientation / Positive Cash Flow.* Our investment advisor places a premium on analysis of business fundamentals from an investor's perspective and has a distinct value orientation. We focus on companies with proven business models in which we can invest at relatively low multiples of operating cash flow. We also typically invest in portfolio companies with a history of profitability and minimum trailing twelve month EBITDA of \$3.0 million. We do not invest in start-up companies, turn-around situations or companies that we believe have unproven business plans.

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

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

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

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

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

## **Investment Committee**

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

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

## **Investment Process Overview**

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

Investment Generation/Origination;

Initial Evaluation;

Due Diligence and Underwriting;

Documentation and Closing; and

Active Portfolio Management.

Each of the phases is described in more detail below.

*Investment Generation/Origination.* Our investment origination efforts are focused on leveraging our investment advisor's extensive network of long-standing relationships with private equity firms, middle-market senior lenders, junior-capital partners, financial intermediaries, service providers and management teams of

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privately owned businesses. We believe that our investment advisor's investment professionals have reputations as reliable, responsive and value-added partners for lower middle-market companies. Our investment advisor's focus and reputation as a valued-added partner generates a balanced mix of proprietary deal flow and a steady stream of new deal opportunities.

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

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

A comprehensive financial model based on quantitative analysis of historical financial performance, projections and pro forma adjustments to determine a range of estimated internal rates of return.

An initial call or meeting with the management team, owner, private equity sponsor or other deal partner.

A brief industry and market analysis, leveraging direct industry expertise from other investment professionals of our investment advisor.

Preliminary qualitative analysis of the management team's competencies and backgrounds.

Potential investment structures and pricing terms.

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

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

Initial or additional site visits and facility tours with management and key personnel.

Review of the business history, operations and strategy.

In depth review of industry and competition.

Analysis of key customers and suppliers, including review of any concentrations and key contracts.

Detailed review of historical and projected financial statements, including a review of at least three years of performance (annual and monthly), key financial ratios, revenue, expense and profitability drivers and sensitivities to management's financial projections.

Detailed evaluation of company management, including background checks.

Third party reviews of accounting, environmental, legal, insurance, interviews with customers and suppliers, material contracts, competition, industry and market studies (each as appropriate).

Financial sponsor diligence, if applicable, including portfolio company and other reference checks.



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

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

Targeting an optimal total return on our investments (including a combination of current and deferred interest, prepayment penalties and equity participation) that compensates us for credit risk.

Negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, yet consistent with preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either board observation or rights to a seat on the board under some circumstances.

Structuring financial covenants and terms in our debt investments that require a portfolio company to reduce leverage over time, thereby mitigating the risk of loss and increasing the likelihood of achieving targeted returns on investment. These methods may include, among others: leverage covenants requiring a decreasing ratio of debt to cash flow; cash flow covenants requiring an increasing ratio of cash flow to interest expense and possibly other cash expenses such as capital expenditures, cash taxes and mandatory principal payments; and debt incurrence prohibitions, or limiting a company's ability to relevel its balance sheet. In addition, limitations on asset sales and capital expenditures prevent a company from changing the nature of its business or capitalization without our consent.

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

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

As part of the monitoring process, the deal team conducts a comprehensive review of the financial and operating results of each portfolio company that includes a review of the monthly/quarterly financials relative to prior year and budget, a review of the financial projections including cash flow and liquidity needs, meeting with management, attending board meetings and reviewing compliance certificates and covenants. We will maintain an ongoing dialogue with the management and any controlling equity holders of a portfolio company that will include discussions about the

company's business plans and growth opportunities and any changes in industry and competitive dynamics. While we maintain limited involvement in the ordinary course operations of our portfolio companies, we may maintain a higher level of involvement in non-ordinary course financing or strategic activities and any non-performing scenarios. Our investment advisor's portfolio management will also include quarterly portfolio reviews with all investment professionals and investment committee members.

**Table of Contents****Investment Rating System**

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

Investment Rating 1 is used for investments that involve the least amount of risk in our portfolio. The portfolio company is performing above expectations and the trends and risk factors are favorable, and may include an expected capital gain.

Investment Rating 2 is used for investments that involve a level of risk similar to the risk at the time of origination. The portfolio company is performing substantially within our expectations and the risks factors are neutral or favorable. Each new portfolio investment enters our portfolio with Investment Rating 2.

Investment Rating 3 is used for investments performing below expectations and indicates the investment's risk has increased somewhat since origination. The portfolio company requires closer monitoring, but we expect a full return of principal and collection of all interest and/or dividends.

Investment Rating 4 is used for investments performing materially below our expectations and the risk has increased materially since origination. The portfolio company has the potential for some loss of investment return, but we expect no loss of principal.

Investment Rating 5 is used for investments performing substantially below our expectations and the risks have increased substantially since origination. We expect some loss of principal.

The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value as of December 31, 2015, 2014 and 2013.

Investment Rating	As of December 31, 2015		As of December 31, 2014		As of December 31, 2013	
	Investments at Fair Value	Percent of Total Portfolio	Investments at Fair Value	Percent of Total Portfolio	Investments at Fair Value	Percent of Total Portfolio
	<i>(dollars in thousands)</i>					
1	\$ 77,875	17.6%	\$ 49,499	12.5%	\$ 44,572	14.5%
2	268,285	60.4	297,024	74.9	229,113	74.6
3	95,981	21.7	48,814	12.3	30,322	9.9
4	1,128	0.3	1,018	0.3		
5					2,974	1.0

Totals	\$ 443,269	100.0%	\$ 396,355	100.0%	\$ 306,981	100.0%
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Based on our investment rating system, the weighted average rating of our portfolio as of each December 31, 2015, 2014 and 2013 was 2.0 on a fair value basis.

**Determination of Net Asset Value and Valuation Process**

We determine the net asset value per share of our common stock on at least a quarterly basis, and more frequently if we are required to do so in connection with the issuance of shares of our common stock or pursuant to applicable federal laws and regulations. The net asset value per share of common stock is equal to the carrying value of our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding. Our business plan calls for us to invest primarily in illiquid securities issued by private companies. These portfolio investments may be subject to restrictions on resale and will generally have no established trading market. Because there is not a readily available market for substantially all of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board of directors using a documented valuation policy and consistently applied valuation

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process in accordance with authoritative accounting guidelines. See Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Use of Estimates Valuation of Portfolio Investments.

## **Competition**

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

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

## **Employees**

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

## **Properties**

We do not own any real estate or other physical properties materially important to our operation; however, we lease office space for our executive office at 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201. Our investment advisor also maintains additional office space at 227 West Trade Street Suite 1910 Charlotte, NC 28202 and 1140 Avenue of the Americas, Suite 1500, New York, NY 10036. We believe that our current office facilities are adequate for our business as we intend to conduct it.

## **Legal Proceedings**

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While the outcome of any current legal proceedings cannot at this time be predicted with certainty, we do not expect any current matters will materially affect our financial condition or results of operations;

however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on our financial condition or results of operations in any future reporting period.

**Table of Contents****PORTFOLIO COMPANIES**

The following table sets forth certain audited information as of December 31, 2015, for the portfolio companies in which we had a debt or equity investment. Other than these investments, our only formal relationships with our portfolio companies are the managerial assistance ancillary to our investments and the board observer or participation rights we may receive.

<b>Industry</b>	<b>Portfolio Company</b>		<b>Percentage of Class Held</b>	<b>Rate</b>	<b>Maturity</b>	<b>Cost</b>	<b>Fair Value</b>
	<b>Address of Portfolio Company</b>	<b>Investment Type</b>	<b>(a)</b>	<b>Cash/PIK</b>			
<b>Aerospace &amp; Defense Manufacturing</b>	<i>FDS Avionics Corp.</i>	Subordinated Note		12.3%/0.0%	4/1/2020	\$ 5,180	\$ 5,200
	<i>(dba Flight Display Systems)</i>	Common Equity (200 units)	13.2%			2,000	1,468
	6435 Shiloh Road, Suite D Alpharetta, GA 30005					7,180	6,668
	<i>Lightning Diversion Systems, LLC</i>	Senior Secured Loan		9.5%/0.0%	12/20/2018	9,165	9,198
	16572 Burke LN	Revolving Loan (\$1,000 commitment)		9.5%/0.0%	12/20/2018	(1)	(1)
	Huntington Beach, CA 92647	Common Equity (600,000 units)	10.6%				2,429
						9,164	11,626
	<i>Malabar International</i> <sup>(b)</sup>	Subordinated Note		12.5%/2.5%	5/21/2017	7,436	7,450
	220 W. Los Angeles Avenue	Preferred Equity (1,494 shares)	18.9%	6.0%/0.0%	11/21/2017	1,994	4,808
	Simi Valley, CA 93065					9,430	12,258
<i>Simplex Manufacturing Co.</i>	Subordinated Note		14.0%/0.0%	5/1/2016	4,550	4,550	
13340 NE Whitaker Way	Warrant (24 shares)	23.5%			710	3,359	
Portland, OR 97230					5,260	7,909	
<i>Steward Holding LLC</i> <sup>(b)</sup>	Subordinated Note		12.0%/2.3%	5/12/2021	6,987	6,987	
<i>(dba Steward Advanced Materials)</i>	Common Equity (1,000,000 units)	6.0%			1,000	1,000	
1245 E 38th Street Chattanooga, TN 37407					7,987	7,987	

**Apparel Distribution**

<i>Jacob Ash Holdings, Inc.</i>	Subordinated Note		13.0%/4.0%	6/30/2018	3,994	4,000
301 Munson Avenue	Subordinated Note		13.0%/0.0%	6/30/2018	956	963
McKees Rocks, PA 15136	Preferred Equity (66,138 shares)	2.5%	0.0%/15.0%	6/30/2018	924	926
	Warrant (63,492 shares)	2.4%			67	
					5,941	5,889

**Building Products****Manufacturing**

<i>The Wolf Organization, LLC</i>	Common Equity (175 shares)	2.6%			1,750	2,514
20 West Market Street York, PA 17401						
<i>US GreenFiber, LLC</i>	Subordinated Note		12.5%/0.0%	1/2/2019	13,952	14,000
2500 Distribution Street, Suite 200 Charlotte, NC 28203	Common Equity (1,667 units)	2.0%			500	1,170
					14,452	15,170

**Business Services**

<i>Inflexxion, Inc. (b)</i>	Senior Secured Loan		12.5%/0.0%	12/16/2019	3,931	3,470
320 Needham Street, Suite 100 Newton, MA 02464	Revolving Loan (\$1,000 commitment)		12.5%/0.0%	12/16/2019	146	132
	Preferred Equity (1,400 units)	20.6%			1,400	
					5,477	3,602
<i>Plymouth Rock Energy, LLC</i>	Senior Secured Loan		11.8%/0.0%	5/14/2017	5,984	6,000
1074 Broadway Woodmere, NY 11598						
<i>Stagnito Partners, LLC</i> (dba Stagnito Business Information)	Senior Secured Loan		12.0%/0.0%	6/30/2018	6,290	6,361
570 Lake Cook Road, Suite 310 Deerfield, IL 60015						



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<b>Industry</b>	<b>Portfolio Company</b>	<b>Investment Type</b>	<b>Percentage of Class Held (a)</b>	<b>Rate Cash/PIK</b>	<b>Maturity</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Vanguard Dealer Services, LLC</b>	30 Two Bridges Road, Suite 350 Fairfield, NJ 07004	Subordinated Note (\$9,850 commitment)		12.3%/0.0%	1/30/2021	\$ 7,310	\$ 7,310
		Common Equity (6,000 shares)	2.5%			600	600
						7,910	7,910
<b>Commercial Cleaning</b>	Premium Franchise Brands, LLC 520 Northwinds Parkway, Suite 375 Alpharetta, GA 30009	Preferred Equity (1,054,619 shares)	2.1%			832	717
<b>Component Manufacturing</b>	Channel Technologies Group, LLC 879 Ward Drive Santa Barbara, CA 93111	Subordinated Note		11.0%/1.8%	4/10/2019	6,963	6,253
		Preferred Equity (612 units)	1.7%			1,139	548
		Common Equity (612,432 units)	0.0%				
						8,102	6,801
<b>Toledo Molding &amp; Die, Inc.</b>	429 Coining Drive Toledo, OH 43612	Subordinated Note		10.5%/0.0%	12/18/2018	9,889	10,000
<b>Consumer Products</b>	Grindmaster Corporation 1003 Collins Lane Louisville, KY 40245	Subordinated Note		11.5%/0.0%	10/31/2019	10,465	10,500
<b>World Wide Packaging, LLC (b)</b>	5 Vreeland Road, Suite #4 Florham Park, NJ 07932	Subordinated Note		12.0%/1.0%	10/26/2018	10,239	10,277
		Common Equity (1,517,573 units)	4.4%			1,518	2,043
						11,757	12,320
<b>Electronic Components Supplier</b>	Apex Microtechnology, Inc. (b) 6980 N. Shannon Road Tucson, AZ 85741	Warrant (2,293 shares)	2.5%			220	274
		Common Equity (11,690 shares)	12.8%			1,169	1,425
						1,389	1,699
<b>Financial Services</b>	National Truck Protection Co., Inc. 5 Commerce Drive, Suite 200 Cranford, NJ 07016	Senior Secured Loan		13.5%/2.0%	9/13/2018	11,944	11,989
		Common Equity (1,109 shares)	4.7%			758	1,705
						12,702	13,694

**Healthcare Products**

<i>Allied 100 Group, Inc.</i>	Subordinated Note		11.5%/0.0%	5/26/2020	12,948	13,000
800 U.S. Highway 51 North	Common Equity (1,250,000 units)	2.2%			1,250	1,223
Woodruff, WI 54568					14,198	14,223
<i>Anatrace Products, LLC</i>	Subordinated Note		13.0%/1.3%	6/23/2021	6,480	6,480
134 W Dussel Dr.	Common Equity (360,000 shares)	9.6%				148
Maumee, OH 43537					6,480	6,628
<i>MedPlast, LLC</i>	Subordinated Note		11.0%/1.5%	3/31/2019	10,294	10,338
105 West Geneva Drive	Preferred Equity (188 shares)	0.3%	0.0%/8.0%	3/31/2019	223	223
Tempe, AZ 85282	Common Equity (3,728 shares)	0.3%			62	103
					10,579	10,664
<i>Pfanstiehl, Inc. (b)</i>	Subordinated Note		12.0%/2.0%	9/29/2018	6,178	6,208
219 Glen Rock Avenue	Common Equity (8,500 units)	18.0%			850	4,280
Waukegan, IL 60085					7,028	10,488
<i>Six Month Smiles Holdings, Inc.</i>	Subordinated Note		12.0%/1.8%	7/31/2020	8,077	8,106
35 Main Street						
Scottsville, NY 14546						
<b>Healthcare Services</b>						
<i>Continental Anesthesia Management, LLC</i>	Senior Secured Loan		10.0%/4.0%	4/15/2016	10,676	10,676
770 First Street, Suite 703	Warrant (263 shares)	1.9%			276	
Highland Park, IL 60035					10,952	10,676

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<b>Industry</b>	<b>Portfolio Company</b>	<b>Investment Type</b>	<b>Percentage of Class Held (a)</b>	<b>Rate Cash/PIK</b>	<b>Maturity</b>	<b>Cost</b>	<b>Fair Value</b>
	<b>Address of Portfolio Company</b>						
	<i>Medsurant Holdings, LLC</i> <sup>(b)</sup>	Subordinated Note		12.3%/0.0%	6/18/2021	\$ 6,211	\$ 6,211
	660 S. Albion Street, Suite 425	Preferred Equity (126,662 units)	3.4%			1,346	1,515
	Denver, CO 80222	Warrant (505,176 units)	13.7%			4,516	5,237
						12,073	12,963
	<i>Microbiology Research Associates, Inc.</i> <sup>(b)</sup>	Senior Secured Loan		6.0%/0.0%	5/13/2020	3,734	3,750
	63 Nagog Park	Revolving Loan (\$500 commitment)		6.0%/0.0%	5/13/2020	(2)	
	Acton, MA 01720	Subordinated Note		12.5%/0.0%	11/13/2020	6,222	6,250
		Common Equity (1,000,000 units)	7.9%			1,000	1,444
						10,954	11,444
	<i>Daktree Medical Centre, P.C. dba Pain Management Associates)</i>	Senior Secured Loan		8.5%/0.0%	1/1/2018	570	589
	200 East Broad Street, Suite 200	Senior Secured Loan		16.0%/0.0%	1/1/2018	5,458	5,454
	Greenville, SC 29601	Revolving Loan (\$500 commitment)		8.5%/0.0%	1/1/2018	257	263
						6,285	6,306
	<i>United Biologics, LLC</i>	Subordinated Note		12.0%/2.0%	3/5/2017	8,360	7,932
	200 NE Loop 410, Suite 200	Preferred Equity (98,377 units)	1.1%			1,069	
	San Antonio, TX 78216	Warrant (57,469 units)	0.6%			566	
						9,995	7,932
	<b>Industrial Cleaning &amp; Coatings</b>						
	<i>K2 Industrial Services, Inc.</i>	Subordinated Note		8.8%/6.4%	5/23/2017	17,086	16,718
	233 Hohman Avenue	Preferred Equity Series A (1,200 shares)	2.8%			1,200	271
	Hammond, IN 46320	Preferred Equity Series B (74 shares)	0.0%			68	78
						18,354	17,067
	<b>Information Technology Services</b>						
	<i>PTH Acquisition Corp. VII</i>	Subordinated Note		13.0%/0.0%	2/28/2017	8,352	8,236
	655 Peachtree Parkway	Preferred Equity (887,122 shares)	0.0%			887	
	Norcross, GA 30092					9,239	8,236
	<i>Anthinc Technology Solutions, Inc.</i>	Subordinated Note (\$5,000 commitment)		12.5%/0.0%	4/24/2020	3,979	3,979
	225 West Lake Park Boulevard, Suite 100	Subordinated Note		0.0%/12.5%	4/24/2020	861	861
	West Valley City, UT 84120	Royalty Rights			4/24/2020	185	185

				5,025	5,025
<b>Laundry Services</b>					
<i>Caldwell &amp; Gregory, LLC</i>	Subordinated Note	11.5%/1.0%	11/30/2018	1,523	1,539
29 Broad Street Road	Subordinated Note	0.0%/12.0%	5/31/2019	3,897	4,072
Manakin-Sabot, VA 23103	Common Equity (500,000 units)	1.3%		500	651
	Warrant (242,121 units)	0.6%		242	316
				6,162	6,578
<b>Oil &amp; Gas Services</b>					
<i>OS Acquisitions, Inc.</i>	Common Equity (2,152 units)	0.6%		109	21
3909 Youngsville Highway 89, P.O. Box 397 Youngsville, LA 70592					
<i>Pinnergy, Ltd.</i>	Subordinated Note	10.5%/1.8%	1/24/2020	19,945	16,440
11 Congress Avenue, Suite 2020 Austin, TX 78701					
<b>Printing Services</b>					
<i>Brook &amp; Whittle Limited</i>	Subordinated Note	12.0%/4.8%	12/31/2016	7,655	7,361
660 Branford Road, P.O. Box 109 North Branford, CT 06471	Subordinated Note	12.0%/2.0%	12/31/2016	2,296	2,151
	Warrant (1,051 shares)	1.2%		285	
	Common Equity Series A (148 shares)	0.2%		110	
	Common Equity Series D (527 shares)	0.0%		53	77
				10,399	9,589

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Industry	Portfolio Company	Investment Type	Percentage of Class Held (a)	Rate Cash/PIK	Maturity	Cost	Fair Value
<b>Restaurants</b>							
	<i>CFP Management, Inc.</i>	Common Equity (1,000,000 units)	2.3%			\$	\$
	10 W. Cypress Creek Road Fort Lauderdale, FL 33309						
	<i>Hardboard Box LLC</i>	Common Equity (521,021 units)	0.5%			521	521
	<i>Ma Anthony's Coal Fired Pizza</i> 10 W. Cypress Creek Road Fort Lauderdale, FL 33309						
	<i>Restaurant Finance Co, LLC</i>	Senior Secured Loan (\$10,500 commitment)		12.0%/4.0%	7/31/2020	8,410	8,440
	100 Carmel Road, Suite 110B Charlotte, NC 28277						
<b>Retail</b>							
	<i>EBL, LLC (EbLens)</i>	Common Equity (750,000 units)	2.4%			750	1,380
	9 Industrial Avenue Harrington, CT 06790						
<b>Retail Cleaning</b>							
	<i>Paramount Building Solutions, LLC (c)</i>	Subordinated Note(d)		0.0%/18.0%	12/31/2017	625	610
	235 S. 51st Street, Suite 185 Phoenix, AZ 85044						
		Subordinated Note(d)		0.0%/15.0%	12/31/2017	275	
		Subordinated Note(d)		0.0%/10.0%	12/31/2017	1,376	
		Subordinated Note(d)		0.0%/14.0%	12/31/2017	2,927	
		Warrant (1,086,035 units)	24.1%				
		Preferred Equity (5,000,000 units)	0.0%			5,339	
		Common Equity (107,143 units)	2.2%			1,500	
						12,042	610
<b>Safety Products</b>							
<b>Manufacturing</b>							
	<i>Safety Products Group, LLC (b)</i>	Subordinated Note		12.0%/1.5%	12/30/2018	9,974	10,000
	102 Karbach Houston, TX 77092						
		Preferred Equity (749 units)	0.0%			749	830
		Common Equity (676 units)	6.2%			1	
						10,724	10,830
<b>Specialty Chemicals</b>							
	<i>AR Research Inc. (b)</i>	Senior Secured Loan		11.8%/1.0%	3/31/2019	7,423	7,440
	10 Wilhelmina Ct, NE Milton Bay, FL 32905						
		Revolving Loan (\$1,750 commitment)		11.8%/1.0%	3/31/2019	131	130
		Common Equity (10 units)	14.3%			1,000	160
						8,554	7,740
<b>Specialty Cracker</b>							
<b>Manufacturing</b>							

<i>Westminster Cracker Company, Inc. (b)</i>	Common Equity (1,307,262 units)	13.0%			19
Scale Avenue, Suite 81, Bldg					
Burlington, VT 05701					
<b>Specialty Distribution</b>					
<i>Carlson Systems Holdings, Inc.</i>	Subordinated Note	12.0%/0.0%	5/20/2020	20,912	21,000
840 Harney Street	Common Equity (15,000 units)	2.5%		1,500	2,070
Omaha, NE 68154					
<i>Virginia Tile Company, LLC</i>	Subordinated Note	12.3%/0.0%	5/19/2020	11,952	12,000
320 Plymouth Road	Common Equity (20 shares)	1.4%		250	550
Livonia, MI 48150					
<b>Telecommunication Services</b>					
<i>Opco LLC</i>	Senior Secured Loan	12.0%/0.0%	3/24/2020	5,477	5,660
101 5th Avenue	Revolving Loan (\$500 commitment)	12.0%/0.0%	3/24/2020		
Seattle, WA 98101	Preferred Equity (15,000 units)	3.4%	0.0%/8.0%	531	350
6,008 6,010					
<b>Transportation Services</b>					
<i>Vallo Bus Lines Holdings, LLC</i>	Subordinated Note	12.0%/3.0%	4/26/2021	8,210	8,210
9 Illinois Avenue					
Malespie, IL 62033					

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<b>Industry</b>	<b>Portfolio Company</b>	<b>Investment Type</b>	<b>Percentage of Class Held (a)</b>	<b>Rate Cash/PIK</b>	<b>Maturity</b>	<b>Cost</b>	<b>Fair Value</b>
	<i>US Pack Logistics LLC</i>	Subordinated Note		12.0%/1.8%	9/27/2020	\$ 10,255	\$ 10,299
	405 Lexington Avenue	Common Equity (5,357 units)	2.4%			536	483
	New York, NY 10174					10,791	10,782
	<i>Worldwide Express Operations, LLC</i>	Subordinated Note		11.5%/1.0%	8/1/2020	12,723	12,806
	2828 Routh Street, Suite 400	Common Equity (2,500,000 units)	2.2%			2,500	4,036
	Dallas, TX 75201					15,223	16,842
	<b>Utility Equipment Manufacturing</b>						
	<i>Mirage Trailers LLC (b)</i>	Senior Secured Loan		12.5%/0.0%	11/25/2020	8,912	8,912
	2212 Industrial Road	Common Equity (2,500,000 shares)	21.4%			2,475	2,475
	Nampa, ID 83687					11,387	11,387
	<i>Trantech Radiator Products, Inc. (b)</i>	Subordinated Note		12.0%/1.8%	5/4/2017	8,482	8,494
	1 Tranter Drive, P.O. Box 570	Common Equity (6,875 shares)	6.8%			688	434
	Edgefield, SC 29824					9,170	8,928
	<b>Vending Equipment Manufacturing</b>						
	<i>Ice House America, LLC</i>	Subordinated Note Warrant (1,957,895 units)		12.0%/3.5%	1/1/2020	3,903	3,668
	1597 The Greens Way		5.0%			216	47
	Jacksonville Beach, FL 32250					4,119	3,715
	<b>Total Investments</b>					\$ 448,338	\$ 443,269

(a) Percentage of class held refers only to equity held, if any, calculated on a fully diluted basis.

(b) As defined in the 1940 Act, the Company is deemed to be an Affiliated Person of this portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company. Transactions in which the issuer was an Affiliated

Person are detailed in Note 3 to the consolidated financial statements.

- (c) As defined in the 1940 Act, the Company is deemed to be both an Affiliated Person of and Control this portfolio company because it owns 25% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company.

Transactions in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control are detailed in Note 3 to the consolidated financial statements.

- (d) Investment was on non-accrual status as of December 31, 2015, meaning the Company has ceased recognizing interest income on the investment.

As of December 31, 2015, there were no portfolio companies where our investment represented greater than 5.0% of our total assets.



**Table of Contents****MANAGEMENT****Board of Directors**

Under our charter, our directors are divided into three classes. Each class of directors will hold office for a three-year term. However, the initial members of the three classes will have initial terms of one, two and three years, respectively. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. This classification of our board of directors may have the effect of delaying or preventing a change in control of our management. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Our charter permits the board of directors to elect directors to fill vacancies that are created either through an increase in the number of directors or due to the resignation, removal or death of any director.

The following individuals currently serve on our board of directors:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Expiration of Term</b>
<b>Interested Directors:</b>				
Edward H. Ross	50	Chairman of the Board, Chief Executive Officer	2011	2017
Thomas C. Lauer	48	Director	2011	2016
<b>Independent Directors:</b>				
Raymond L. Anstiss, Jr.	49	Director	2011	2017
Charles D. Hyman	57	Director	2011	2018
John A. Mazzarino	63	Director	2012	2016

The address for each of our directors is c/o Fidus Investment Corporation, 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201.

**Executive Officers Who Are Not Directors**

Information regarding our executive officers who are not directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Shelby E. Sherard	45	Chief Financial Officer, Chief Compliance Officer and Corporate Secretary

The address for each of our executive officers is c/o Fidus Investment Corporation, 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201.

**Biographical Information**

For purposes of this presentation, our directors have been divided into two groups – independent directors and interested directors. Interested directors are interested persons as defined in the 1940 Act.

***Independent Directors***

*Raymond L. Anstiss, Jr.* has served on our Board of Directors since September 2011 and is the chairman of our Audit and Compensation Committee ( Audit Committee ) and a member of our Nominating and Corporate Governance Committee ( Nominating Committee ). Mr. Anstiss is the President of Anstiss & Co., an accounting, audit, tax and financial consulting firm headquartered in Lowell, Massachusetts. Prior to joining Anstiss & Co. in 1993, Mr. Anstiss served on the audit staff of KPMG Peat Marwick from 1988 to 1992. Mr. Anstiss has served on the board of two not-for-profit companies in the past five years.

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*Charles D. Hyman* has served on our Board of Directors since our initial public offering in June 2011 and is the chairman of our Nominating Committee and a member of our Audit Committee. Mr. Hyman is the founder and chief executive officer of Charles D. Hyman & Co., a private, registered investment management firm located in Ponte Vedra Beach, Florida. Prior to forming Charles D. Hyman & Co. in 1994, Mr. Hyman served as a senior vice president of St. Johns Investment Management Company. Mr. Hyman has served on the board of directors for several not-for-profit companies in the past five years.

*John A. Mazzarino* has served on our Board of Directors since November, 2012 and is a member of our Audit Committee and our Nominating Committee. Mr. Mazzarino is a Co-Founder and Managing Director of Cherokee Investment Partners, a private equity real estate investment management firm focused on the acquisition, remediation, management and development of brownfields in North America and Europe. Prior to co-founding Cherokee's predecessor firm in 1988, Mr. Mazzarino worked at Bain & Company from 1982 to 1988, where he specialized in mergers and acquisitions and corporate strategy. From 1977 to 1982 he worked at Peat, Marwick, Mitchell & Co., consulting on policy issues with the Environmental Protection Agency, the Department of Housing and Urban Development, the Department of Energy and other federal agencies. Mr. Mazzarino currently serves as a member of the board of advisors of the MIT Sloan School Finance Group and is a director of Cherokee Gives Back, Cherokee's philanthropic arm. In addition, Mr. Mazzarino is a member of two other private and not-for-profit company boards.

***Interested Directors***

*Edward H. Ross* has served as chairman of our board of directors and our chief executive officer, and as chairman of our Investment Advisor's investment committee, since our initial public offering in June 2011. Additionally, Mr. Ross is the chief executive officer and a manager of our Investment Advisor. Mr. Ross is an interested director due to his positions with the Company and our Investment Advisor. Mr. Ross has more than 21 years of debt and equity capital investing experience with lower middle-market companies. Mr. Ross co-founded Fidus Capital, LLC, the predecessor firm to our Investment Advisor, in 2005. From February 2007 to June 2011, Mr. Ross served as a member of the investment committee of Fidus Mezzanine Capital GP, LLC, Fund I's former general partner. From 2002 to 2005, Mr. Ross was a managing director and the head of the Chicago office for Allied Capital Corporation, a publicly-traded business development company, where he focused on making debt and equity investments in middle-market companies. Prior to joining Allied Capital Corporation, Mr. Ross co-founded Middle Market Capital, a merchant banking group of Wachovia Securities and its predecessor, First Union Securities, Inc., a retail brokerage and institutional capital markets and investment banking firm. Mr. Ross earned a bachelor of arts from Southern Methodist University and a master of business administration from the University of Notre Dame's Mendoza College of Business. Mr. Ross is the brother of John J. Ross, II, a manager of our Investment Advisor and a member of its investment committee.

*Thomas C. Lauer* has served as our director and as a member of our Investment Advisor's investment committee since our initial public offering in June 2011. Additionally, Mr. Lauer is a manager of our Investment Advisor. Mr. Lauer is an interested director due to his position with the Investment Advisor. Mr. Lauer has more than 18 years of experience investing debt and equity capital in lower middle-market companies. Mr. Lauer was a managing partner of Fidus Partners, LLC, an investment banking firm, from 2008 to June 2011. From 2004 to 2008, Mr. Lauer was a managing director of Allied Capital Corporation, a publicly-traded business development company, and member of that firm's Management Committee from 2006 to 2008, Private Finance Investment Committee from 2005 to 2008, and Senior Debt Fund Investment Committee from 2007 to 2008. Prior to joining Allied Capital Corporation, Mr. Lauer worked with the Global Sponsor Finance Group of GE Capital, the financial services unit of General Electric, the Leveraged Capital Group at Wachovia Securities and its predecessor, First Union Securities, Inc., a retail brokerage and institutional capital markets and investment banking firm, and the Platform Components Division of Intel Corporation. Mr. Lauer earned a bachelor of business administration from the University of Notre Dame and master of

business administration from the University of Notre Dame's Mendoza College of Business.

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### ***Qualifications of Directors***

When considering whether our directors have the experience, qualifications, attributes and skills, taken as a whole, to enable our board of directors to satisfy its oversight responsibilities effectively in light of our operational and organizational structure, the nominating and corporate governance committee and the board of directors focused primarily on the information discussed in each of the director's individual biographies set forth above and on the following particular attributes:

#### ***Interested Directors***

*Mr. Ross:* The Nominating Committee and the Board of Directors considered his familiarity with the Fidus investment platform, his significant experience with investing debt and equity capital in middle-market companies, and his broad experience with the day-to-day management and operation of other investment funds, which provides our Board of Directors with valuable investment and management experience, insight and perspective.

*Mr. Lauer:* The Nominating Committee and the Board of Directors considered his experience with investing debt and equity capital in middle-market companies, which provides our Board of Directors with valuable investment knowledge, experience and insight.

#### ***Independent Directors***

*Mr. Anstiss:* The Nominating Committee and the Board of Directors considered his extensive experience in the accounting industry. In addition, Mr. Anstiss' accounting background was instrumental in his appointment to the chairmanship of our audit committee.

*Mr. Hyman:* The Nominating Committee and the Board of Directors considered his extensive experience in the investment analysis, management, and advisory industries.

*Mr. Mazzarino:* The Nominating Committee and the Board of Directors considered his extensive experience in the investing and capital management industry, as well as merger and acquisition and corporate strategy expertise.

#### ***Executive Officers Who Are Not Directors***

*Shelby E. Sherard* has served as our chief financial officer and secretary since joining the Company on June 2, 2014 and chief compliance officer since August 11, 2014. Ms. Sherard has more than 20 years of finance experience most recently as a financial officer at Prologis, Inc., a leading owner, operator and developer of industrial real estate, first serving as Chief Financial Officer, Americas, and then overseeing the U.S. tax department. Previously, she served as the Finance Director for Chicago Union Station Development Company, LLC, a real estate development company. From 2005 through 2006, Ms. Sherard served as Executive Vice President and Chief Financial Officer of Grubb & Ellis Company, a publicly-traded real estate services company. From 2002 through 2005, Ms. Sherard was the Chief Financial Officer and Senior Vice President of SiteStuff, Inc., a procurement solutions provider for the commercial

real estate industry. Previously, Ms. Sherard held positions at Morgan Stanley, LaSalle Partners Inc. and Hewitt Associates, Inc. Ms. Sherard is a CPA and earned a bachelor's degree from Northwestern University, a master of business administration from the University of Pennsylvania's Wharton School and a master's degree in tax from the University of Illinois.

### **Organization of the Board of Directors**

Our board of directors has established an audit and compensation committee, or audit committee, and a nominating and corporate governance committee. We do not have a separate compensation committee because our executive officers do not receive any direct compensation from us. During 2015, our board of directors held six meetings.

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We encourage, but do not require, the directors to attend our annual meeting of stockholders. In 2015, all of our current directors attended all of the meetings of the board of directors and of the respective committees on which they served. All of our directors attended our 2015 Annual Meeting of Shareholders on June 3, 2015.

## **Board Leadership Structure**

Our board of directors monitors and performs an oversight role with respect to our business and affairs. Among other things, our board of directors approves the appointment of our investment advisor, administrator and officers, reviews and monitors the services and activities performed by our investment advisor, administrator and officers and approves the engagement, and reviews the performance of, our independent registered public accounting firm.

Under our bylaws, our board of directors may designate a chairman to preside over the meetings of the board of directors and meetings of our stockholders and to perform such other duties as may be assigned to him by the board of directors. We do not have a fixed policy as to whether the chairman of our board of directors should be an independent director and believes that board of directors' flexibility to select its chairman and reorganize its leadership structure from time to time is in the best interests of the Company and our stockholders.

Presently, Mr. Ross serves as the chairman of our board of directors. Mr. Ross is an interested director because he is the chief executive officer of the Company, serves on our Investment Advisor's investment committee and is a manager of our Investment Advisor. We believe that Mr. Ross's history with the Company, familiarity with the Fidus investment platform and extensive experience in the management of private equity and debt investments qualifies him to serve as chairman of our board of directors. Moreover, our board of directors believes that it is in the best interests of our stockholders for Mr. Ross to lead our board of directors because of his broad experience with the day-to-day management and operation of other investment funds and his significant background in the financial services industry, as described above.

Our board of directors does not have a lead independent director. However, Mr. Anstiss, the chairman of the audit committee, is an independent director and acts as a liaison between the independent directors and management between meetings of our board of directors and is involved in the preparation of agendas for board and committee meetings. Our board of directors believes that its leadership structure is appropriate in light of the Company's characteristics and circumstances because the structure allocates areas of responsibility among the individual directors and the committees in a manner that encourages effective oversight. The members of our board of directors also believe that its small size creates a highly efficient governance structure that provides ample opportunity for direct communication and interaction between both the members of management and our investment advisor and our board of directors.

## **Board Role in Risk Oversight**

Our board of directors performs its risk oversight function primarily through (a) its two standing committees, which report to the entire board of directors and are comprised solely of independent directors and (b) monitoring by our Chief Compliance Officer in accordance with its compliance policies and procedures.

As described below in more detail under **Audit Committee** and **Nominating and Corporate Governance Committee**, the audit committee and the nominating and corporate governance committee assist the board of directors in fulfilling its risk oversight responsibilities. The audit committee's risk oversight responsibilities include overseeing our accounting and financial reporting processes, our systems of internal controls regarding finance and accounting and audits of our financial statements and discussing with management our major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management

policies. The nominating and corporate governance committee's risk oversight responsibilities include selecting, researching and nominating directors for election by our stockholders, developing and recommending to our board of directors a set of corporate governance principles



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and overseeing the evaluation of our board of directors and its committees. Both the audit committee and the nominating and corporate governance committee consist solely of independent directors.

Our board of directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. Our Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures of the Company and certain of its service providers. The Chief Compliance Officer's report, which is reviewed by the board of directors, addresses at a minimum (a) the operation of the compliance policies and procedures of the Company and certain of its service providers since the last report; (b) any material changes to such policies and procedures since the last report; (c) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer's annual review; and (d) any compliance matter that has occurred since the date of the last report about which the board of directors would reasonably need to know to oversee the Company's compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the independent directors periodically, but in no event less than once each year.

We believe that the board of directors' role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a BDC. Specifically, as a BDC, we must comply with certain regulatory requirements that control the levels of risk in its business and operations. For example, our ability to incur indebtedness is limited such that our asset coverage must equal at least 200.0% immediately after each time we incurs indebtedness and we generally have to invest at least 70.0% of our total assets in qualifying assets. In addition, we intend to maintain our status as a RIC under Subchapter M of the Code. As a RIC we must, among other things, meet certain income source and asset diversification requirements.

We believe that the board of directors' existing role in risk oversight is appropriate. However, we re-examine the manners in which the board of directors administers its oversight function on an ongoing basis to ensure that it continues to meet our needs.

## **Board Committees**

### ***Audit and Compensation Committee***

The members of the audit committee are Messrs. Anstiss, Hyman and Mazzarino, each of whom is not an interested person and is otherwise independent for purposes of the 1940 Act and NASDAQ's corporate governance regulations. Since September 2011, Mr. Anstiss has served as chairman of the audit committee. Our board of directors has adopted a charter for the audit committee, which is available on our website at <http://investor.fdus.com/governance.cfm>.

The audit committee is responsible for approving our independent accountants and recommending them to the board of directors (including a majority of the independent directors) for approval and submission to the board of directors for ratification, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls.

The audit committee is also responsible for aiding the board of directors in determining the fair value of debt and equity securities that are not publicly traded or for which current market values are not readily available. The audit committee also currently receives input from independent valuation firms that have been engaged at the direction of the board of directors to value certain portfolio investments. In addition, the audit committee is responsible for discussing with management our major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies.

Because the Audit committee is charged with approving our related-party transactions, the board of directors has determined not to create a separate compensation committee and instead has charged the Audit Committee with overseeing amounts payable to our advisor pursuant to the Advisory Agreement and the

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Administration Agreement, and making a recommendation to the board of directors with respect to the board's approval (including the approval of a majority of the directors who are not interested persons of the Company within the meaning of Section 2(a)(19) of the 1940 Act, as amended) of the renewal of the Advisory Agreement and the Administration Agreement.

The board of directors has determined that Mr. Anstiss is an audit committee financial expert within the meaning of the rules of the SEC. Mr. Anstiss acquired his financial expertise from his education and experience as a public accountant, his experience actively supervising financial officers of public companies and in his supervisory role at a public accounting firm and from his experience overseeing and assessing the performance of public accountants with respect to the preparation, auditing and evaluation of financial statements.

### ***Nominating and Corporate Governance Committee***

The members of the nominating and corporate governance committee are Messrs. Anstiss, Hyman and Mazzarino, each of whom is not an interested person and is otherwise independent for purposes of the 1940 Act and NASDAQ's corporate governance regulations. Mr. Hyman currently serves as chairman of the nominating and corporate governance committee. Our board of directors has adopted a charter for the nominating and corporate governance committee, which is available on our website at <http://investor.fdus.com/governance.cfm>.

The nominating and corporate governance committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board of directors or a committee of the board of directors, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the board of directors and its committees.

The nominating and corporate governance committee identifies potential nominees based on suggestions from members of the nominating and corporate governance committee, other members of the board of directors, other executive officers and by other means, and evaluates such persons as a committee. The nominating and corporate governance committee will also consider nominees to the board of directors recommended by a stockholder, if such stockholder complies with the advance notice provisions of our bylaws. From time to time, the board of directors may determine that it requires a director with a particular expertise or qualification and will actively recruit such a candidate.

In considering which persons to nominate as directors for election by stockholders, the board of directors and its nominating and corporate governance committee consider the experience, qualifications, attributes and skills of candidates, in light of the Company's then existing business and structure. Additionally, the committee generally will hire an outside firm to perform a background check on potential nominees. On an annual basis, the nominating and corporate governance committee evaluates the qualifications and diversity of the board of directors who are available for reelection in light of the characteristics of independence, age, skills, experience, availability of service to the Company and tenure of its members, and the board of directors' anticipated needs. The nominating and corporate governance committee has adopted a policy that it will seek to enhance the perspectives and experiences of the members of the board of directors through diversity in gender, ethnic background, geographic origin and professional experience. The nominating and corporate governance committee recommends to the board of directors for its approval the slate of directors to be nominated for election at the annual meeting of our stockholders. The board of directors and its nominating and corporate governance committee periodically review board composition and the policies with respect thereto and as part of this review, the nominating and corporate governance committee evaluates the effectiveness of its policies, including the provisions with respect to diversity.

In considering possible candidates for nomination as a director, the nominating and corporate governance committee takes into account, in addition to such other factors as it deems relevant, the desirability of selecting directors who:

have strength of character;

have mature judgment;

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have industry knowledge or experience; and

have an ability to work collegially with the other members of the board of directors.

The nominating and corporate governance committee also considers all applicable legal and regulatory requirements that govern the composition of the board of directors.

All nominees properly submitted to the Company (or which the nominating and corporate governance committee otherwise elects to consider) will be evaluated and considered by the members of the nominating and corporate governance committee using the same criteria as nominees identified by the nominating and corporate governance committee itself.

**Communications Between Stockholders and the Board of Directors**

Stockholders with questions about us are encouraged to contact Shelby E. Sherard at Fidus Investment Corporation, 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201. However, if stockholders feel their questions have not been addressed, they may communicate with our board of directors by sending their communications to: Fidus Investment Corporation, board of directors, c/o Shelby E. Sherard at the address listed above. In addition, stockholders may communicate with the board of directors by clicking **Contact the Board** on the Investor Relations section of our website at the following URL: <http://investor.fidus.com/contactBoard.com>. Communications are distributed to the board of directors as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, the board of directors has requested that certain items that are unrelated to the duties and responsibilities of the board of directors should be excluded, such as: product complaints, product inquiries, new product suggestions, resumes and other forms of job inquiries, surveys and business solicitations or advertisements. In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out must be available to any non-management director upon request.

**Code of Business Conduct**

We have adopted a code of ethics (which we refer to as our Code of Business Conduct) which all officers, directors and employees of the Company and our investment advisor are expected to observe. Our Code of Business Conduct can be accessed via the Company's website at <http://investor.fidus.com/governance.cfm>. We intend to disclose any amendments to or waivers of required provisions of the Code of Business Conduct on our website. We will provide any person, without charge, upon request, a copy of our Code of Business Conduct. To receive a copy, please provide a written request to: Fidus Investment Corporation, Attn: Chief Compliance Officer, 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201.

**Compensation of Directors**

The following table shows information regarding the compensation received by our directors, none of whom is an employee of the Company, for the year ended December 31, 2015. No compensation is paid by us to interested directors. No information has been provided with respect to our executive officers who are not directors since our executive officers do not receive any direct compensation from us.

Name	Fees Earned	Total
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	<b>or Paid in Cash <sup>(1)</sup></b>	
<b>Independent Directors</b>		
Raymond L. Anstiss, Jr.	\$ 91,000	\$ 91,000
Charles D. Hyman	\$ 86,000	\$ 86,000
John A. Mazzarino	\$ 81,000	\$ 81,000
<b>Interested Directors</b>		
Edward H. Ross	None	None
Thomas C. Lauer	None	None

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(1) For a discussion of the independent directors' compensation, see below.

The independent directors receive an annual fee of \$50,000. They receive \$5,000 plus reimbursement of reasonable and authorized business expenses incurred in connection with attending each quarterly meeting and the annual meeting. In addition, the chairperson of the audit committee receives an additional annual fee of \$10,000 and the chairperson of the nominating and corporate governance committee receives an additional annual fee of \$5,000 for his or her additional services in these capacities. They also receive \$1,500 per each additional Audit Committee meeting to review quarterly investment valuations.

**Compensation of Executive Officers**

None of our executive officers receive direct compensation from us. The compensation of our chief financial officer and chief compliance officer, is paid by our investment advisor. Compensation paid to our chief financial officer and chief compliance officer is set by our investment advisor and subject to reimbursement by us of an allocable portion of such compensation for services rendered to us.

**Investment Committee**

Our Investment Advisor has formed an investment committee to evaluate and approve all of our investments and those made by the Funds. The investment committee process is intended to bring the diverse experience and perspectives of the committee's members to the analysis and consideration of each investment. The investment committee also serves to provide investment consistency and adherence to our Investment Advisor's core investment philosophy and policies. The investment committee meets regularly to consider our investments, direct our strategic initiatives and supervise the actions taken by our Investment Advisor on our behalf. The investment committee determines appropriate investment sizing and suggest ongoing monitoring requirements. In addition, the investment committee reviews and determines whether to make prospective investments identified by our Investment Advisor and monitors the performance of our investment portfolio.

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

Information regarding members of the investment committee is as follows:

*John J. Ross, II* has served as a member of our Investment Advisor's investment committee since our initial public offering in June 2011. Additionally, Mr. Ross has served as a manager of our Investment Advisor since June 2011. Mr. Ross has over 17 years of experience advising clients on mergers and acquisitions. From February 2007 to June 2011, Mr. Ross served as a member of the investment committee of Fidus Mezzanine Capital GP, LLC, the Fund's former general partner. In 2004, Mr. Ross co-founded Fidus Partners, LLC, an investment banking firm. Prior to co-founding Fidus Partners, LLC, Mr. Ross served as a managing director at Wachovia Securities and its predecessors, First Union Securities, Inc. and Bowles Hollowell Conner & Co, from 1999 to 2002. Mr. Ross earned a bachelor of science from Southern Methodist University and a master of business administration from the Harvard Business School. Mr. Ross is the brother of Edward H. Ross, our chairman of the board and chief executive officer, and chairman of the investment committee.

*John H. Grigg* has served as a member of our Investment Advisor's investment committee since our initial public offering in June 2011 and as a senior origination professional of our Investment Advisor since June 2011. Mr. Grigg has over 22 years of experience advising clients on mergers and acquisitions. From February 2007 to June 2011, Mr.

Grigg served as a member of the investment committee of Fidus Mezzanine Capital GP, LLC, the Fund's former general partner. In 2004, Mr. Grigg co-founded Fidus Partners, LLC, an investment banking firm. Prior to co-founding Fidus Partners, LLC, Mr. Grigg served as managing director and partner at First Union Securities, Inc. and its predecessor, Bowles Hollowell Conner & Co., from 1989 to 2000. Prior to joining Bowles Hollowell Conner & Co., Mr. Grigg worked in the investment banking group of Merrill Lynch & Co. Mr. Grigg earned a bachelor of arts from the University of North Carolina and a master of business administration from the University of Virginia's Darden School of Business.



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*W. Andrew Worth* has served as a member of our Investment Advisor's investment committee since our initial public offering in June 2011. Additionally, Mr. Worth has served as a manager of our Investment Advisor since June 2011. Mr. Worth has over 14 years of experience investing in debt and equity securities of lower middle-market companies. In 2008, Mr. Worth joined Fidus Capital, LLC, the predecessor firm to our investment advisor. Prior to joining Fidus Capital, LLC in 2008, Mr. Worth served as a principal with Allied Capital Corporation from 2002 to 2008, where he was responsible for all aspects of the investment process including origination, execution and portfolio management. From 1996 to 2002, Mr. Worth was an associate in Credit Suisse First Boston's Global Industrials and Services investment banking practice and an analyst in the Leveraged Finance Group of First Union Securities, Inc. Mr. Worth earned a bachelor of arts from the University of North Carolina at Chapel Hill and a master of business administration from the University of Chicago Graduate School of Business.

*Robert G. Lesley* has served as a member of the investment committee since January 2015. Prior to joining Fidus Investment Advisors, LLC in 2013, Mr. Lesley was a partner at Chapter IV Investors, a middle-market hybrid investment firm with approximately a \$270 million fund. Chapter IV's flexible investment charter allowed for investment in both the private (control and minority equity) and public markets. From 2003 to 2007, Mr. Lesley was a vice president with Blue Point Capital Partners, a private equity firm focused on lower middle-market companies. From 2000 to 2003, Robert was an associate in the Mergers & Acquisitions Group of Wachovia Securities and its predecessor, First Union Securities, Inc. Mr. Lesley earned a bachelor of arts in economics from the University of North Carolina at Chapel Hill and a masters of business administration from the Kellogg Graduate School of Management at Northwestern University.

**Senior Origination Professionals**

The following individuals are the senior origination professionals of our investment advisor. Brief summaries of the backgrounds of these individuals, who are not also members of the investment committee, are provided below:

*Edward P. Imbrogno* has served as a senior origination professional of our investment advisor since June 2011. Mr. Imbrogno has over 26 years of experience advising clients on mergers and acquisitions. In 2006, Mr. Imbrogno joined Fidus Capital, LLC, the predecessor firm to our investment advisor, as a senior investment professional. In 2004, Mr. Imbrogno co-founded Fidus Partners, LLC, an investment banking firm. Prior to co-founding Fidus Partners, LLC, Mr. Imbrogno served as a managing director and partner at Wachovia Securities and its predecessors, First Union Securities, Inc. and Bowles Hollowell Conner & Co, from 1985 to 2004. Mr. Imbrogno also served as the head of Wachovia Securities' private equity group coverage effort from 1998 to 2002. Mr. Imbrogno earned a bachelor of arts from Davidson College and a master of business administration from the University of Virginia's Darden School of Business.

*J. Stephen Dockery* has served as a senior origination professional of our investment advisor since June 2011. Mr. Dockery has over 22 years of experience advising clients on mergers and acquisitions and corporate finance transactions. In 2006, Mr. Dockery joined Fidus Capital, LLC, the predecessor firm to our investment advisor, as a senior investment professional and joined Fidus Partners, LLC, an investment banking firm. Prior to joining Fidus Capital and Fidus Partners, Mr. Dockery served in various capacities at Wachovia Securities and its predecessors, First Union Securities, Inc. and Bowles Hollowell Conner & Co., including managing director and officer from 1997 to 2006. Prior to joining Bowles Hollowell Conner & Co., Mr. Dockery worked as a corporate attorney for Robinson Bradshaw & Hinson, P.A. Mr. Dockery earned a bachelor of arts from Davidson College and a juris doctor from Yale Law School.

*Michael J. Miller* has served as a senior origination professional of our investment advisor since June 2011. Mr. Miller has over 22 years of leveraged finance and corporate lending and origination experience. In 2010, Mr. Miller joined

Fidus Capital, LLC, the predecessor firm to our investment advisor, as a senior investment professional and joined Fidus Partners, LLC, an investment banking firm. Prior to joining Fidus Capital and

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Fidus Partners, Mr. Miller served in various capacities, including managing director and head of business development, at Allied Capital Corporation from 2005 until 2010. Prior to joining Allied Capital Corporation, Mr. Miller spent more than 16 years with JPMorgan Chase and its predecessors where he worked in their middle-market leveraged finance, asset based and corporate lending groups. Mr. Miller earned his bachelor of science in industrial and labor relations from Cornell University and his master of business administration from The Stern School at New York University.

**Portfolio Management**

We will only invest in an opportunity with the approval of four of the six members of the investment committee responsible for advising the Company and the Funds. Generally, an investment opportunity will receive the unanimous approval of the respective investment committee. Follow-on investments in existing portfolio companies require the relevant investment committee's approval in addition to what was obtained when the initial investment in the company was made. In addition, temporary investments, such as those in cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less, may require approval by the relevant investment committee. The day-to-day management of investments approved by the investment committee will be overseen by the members of the relevant investment committee. Biographical information with respect to the members of the investment committee is set out under Investment Committee.

Each of our advisor's investment committee members has ownership and financial interests in, and may receive compensation and/or profit distributions from, our investment advisor. Each of the members of the investment committee will receive compensation and/or profit distributions from our investment advisor. None of the members of the investment committee receives any direct compensation from us. The following table shows the dollar range of our common stock beneficially owned by each member of our investment advisor's investment committees as of April 22, 2016:

<b>Members of our Investment Advisor's Investment Committee</b>	<b>Dollar Range of Equity Securities in Fidus Investment Corporation <sup>(1)</sup></b>
Edward H. Ross	Over \$1,000,000
John J. Ross, II	Over \$1,000,000
Thomas C. Lauer	Over \$1,000,000
W. Andrew Worth	\$500,001-\$1,000,000
John H. Grigg	\$100,001-\$500,000
Robert G. Lesley	\$50,001-\$100,000

(1) Dollar ranges are as follows: None, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001 - \$500,000; \$500,001 - \$1,000,000 or Over \$1,000,000.

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**MANAGEMENT AND OTHER AGREEMENTS**

Our investment advisor is located at 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201. Our investment advisor is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of our board of directors and in accordance with the 1940 Act, our investment advisor manages our day-to-day operations and provides investment advisory services to us. Under the terms of the Investment Advisory Agreement, our investment advisor:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

assists us in determining what securities we purchase, retain or sell;

identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and

executes, closes, services and monitors the investments we make.

**Investment Advisory Agreement**

***Management Fee***

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

***Base Management Fee***

The base management fee is calculated at an annual rate of 1.75% based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed amounts) at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial quarter are appropriately prorated. The base management fee is payable quarterly in arrears.

***Incentive Fee***

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee, excise taxes on realized gains and any deferred organizing and offering costs). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as

market discount, debt instruments with payment-in-kind interest, preferred stock with payment-in-kind dividends and zero-coupon securities), accrued income that we have not yet received in cash. Our investment advisor is not under any obligation to reimburse us for any part of the incentive fee it receives that was based on accrued interest that we never actually receive.

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 we may pay an incentive fee for a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and unrealized capital losses.

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

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

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

100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (that exceeds the hurdle rate but is less than 2.5%) as the catch-up provision. The catch-up is meant to provide our investment advisor with 20.0% of the pre-incentive fee net investment income as if a hurdle rate did not apply if net investment income exceeds 2.5% in any calendar quarter; and

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

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

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

**Quarterly Incentive Fee Based on Net Investment Income**

**Pre-incentive fee net investment income**

**(expressed as a percentage of the value of net assets)**

**Percentage of pre-incentive fee net investment income**

**allocated to income-related portion of incentive fee**

The second part of the incentive fee is a capital gains incentive fee that is determined and paid in arrears as of the end of each fiscal year (or, upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.0% of our net capital gains as of the end of the fiscal year. In determining the capital gains incentive fee to be paid to our investment advisor, we calculate 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 our portfolio. At the end of the applicable year, the amount of capital gains that serves as the basis for our calculation

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of the capital gains incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate unrealized capital depreciation, with respect to our portfolio of investments. If this number is positive at the end of such year, then the capital gains incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains incentive fees paid in respect of our portfolio in all prior years. We accrue, but do not pay, a capital gains incentive fee in connection with any unrealized capital appreciation, as appropriate.

**Examples of Quarterly Incentive Fee Calculation****Example 1: Income Related Portion of Incentive Fee***Alternative 1**Assumptions*

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

Hurdle rate <sup>(1)</sup> = 2.0%

Management fee <sup>(2)</sup> = 0.4375%

Other expenses (legal, accounting, custodian, transfer agent, etc.) <sup>(3)</sup> = 0.2%

Pre-incentive fee net investment income

(investment income - (management fee + other expenses)) = 0.6125%

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

*Alternative 2**Assumptions*

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

Hurdle rate <sup>(1)</sup> = 2.0%

Management fee <sup>(2)</sup> = 0.4375%

Other expenses (legal, accounting, custodian, transfer agent, etc.) <sup>(3)</sup> = 0.2%

Pre-incentive fee net investment income

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



$$\begin{aligned}\text{Incentive fee} &= 100.0\% \times \text{pre-incentive fee net investment income (subject to catch-up}^{(4)}) \\ &= 100.0\% \times (2.2625\% - 2.0\%) \\ &= 0.2625\%\end{aligned}$$

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

***Alternative 3***

*Assumptions*

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

Hurdle rate <sup>(1)</sup> = 2.0%

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Management fee <sup>(2)</sup> = 0.4375%

Other expenses (legal, accounting, custodian, transfer agent, etc.) <sup>(3)</sup> = 0.2%

Pre-incentive fee net investment income

(investment income (management fee + other expenses)) = 2.8625%

Incentive fee = 100.0% × pre-incentive fee net investment income (subject to catch-up<sup>(4)</sup>)

Incentive fee = 100.0% × catch-up + (20.0% × (pre-incentive fee net investment income - 2.5%))

Catch-up = 2.5% - 2.0%  
= 0.5%

Incentive fee = (100.0% × 0.5%) + (20.0% × (2.8625% - 2.5%))  
= 0.5% + (20.0% × 0.3625%)  
= 0.5% + 0.0725%  
= 0.575%

Pre-incentive fee net investment income exceeds the hurdle rate and fully satisfies the catch-up provision, therefore the income related portion of the incentive fee is 0.575%.

(1) Represents 8.0% annualized hurdle rate.

(2) Represents 1.75% annualized base management fee.

(3) Excludes organizational and offering expenses.

(4) The catch-up provision is intended to provide our investment advisor with an incentive fee of 20.0% on all pre-incentive fee net investment income as if a hurdle rate did not apply when our net investment income exceeds 2.5% in any fiscal quarter.

**Example 2: Capital Gains Portion of Incentive Fee<sup>(\*)</sup>:*****Alternative 1******Assumptions***

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

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

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

*Year 4* : Investment B sold for \$7.75 million

The capital gains portion of the incentive fee would be:

*Year 1* : None

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

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

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

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***Alternative 2***

***Assumptions***

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

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

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

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

*Year 5* : Investment B sold for \$5.0 million

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

*Year 1* : None

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

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

*Year 4* : None

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

\* The hypothetical amounts of returns shown are based on a percentage of our total net assets and assume no leverage. There is no guarantee that positive returns will be realized and actual returns may vary from those shown in this example.

- (1) As illustrated in Year 3 of Alternative 2 above, if we were to be wound up on a date other than our fiscal year end of any year, we may have paid aggregate capital gains incentive fees that are more than the amount of such fees that would be payable if we had been wound up on our fiscal year end of such year.
- (2) As noted above, it is possible that the cumulative aggregate capital gains fee received by our investment advisor (\$1.8 million) is effectively greater than \$1.45 million (20.0% of cumulative aggregate realized capital gains less net realized capital losses or net unrealized depreciation (\$7.25 million)).

***Payment of Our Expenses***

All investment professionals of our investment advisor and/or its affiliates, when and to the extent engaged in providing investment advisory and management services to us, and the compensation and routine overhead expenses

of personnel allocable to these services to us, are provided and paid for by our investment advisor and not by us. We bear all other out-of-pocket costs and expenses of our operations and transactions. See Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Expenses.

***Duration and Termination***

At an in-person meeting of our board of directors on June 3, 2015, our board of directors, including a majority of the Independent Directors, unanimously voted to approve the continuation of the Investment Advisory Agreement to June 20, 2016. Unless terminated earlier, the Investment Advisory Agreement will automatically renew for successive annual periods if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities (as that term is defined in the 1940 Act), including, in either case, approval by a majority of the Independent Directors.

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

the nature, extent and quality of the advisory and other services (including administrative services provided under the Administrative Agreement as discussed below) provided to us by our investment advisor;

the fee structure of comparative externally managed BDCs with similar investment objectives;

our projected operating expenses and expense ratio compared to BDCs with similar investment objectives;

our investment advisor's pro forma profitability with respect to managing us and providing administrative services under the Administrative Agreement;

the limited potential for our investment advisor and its affiliates to derive additional "fall-out" benefits as a result of our relationship with our investment advisor; and

various other matters.

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

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

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

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

***Indemnification***

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

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### **Administration Agreement**

Pursuant to the Administration Agreement, Fidus Investment Advisors, LLC acts as our administrator and furnishes us with office facilities and equipment and clerical, book-keeping and record-keeping services at such facilities. Under the Administration Agreement, our investment advisor performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, our investment advisor assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, our investment advisor also provides managerial assistance on our behalf to those portfolio companies that have accepted our offer to provide such assistance and we reimburse our Investment Advisor for fees and expenses incurred with providing such services. In addition, we reimburse our Investment Advisor for fees and expenses incurred while performing due diligence on our prospective portfolio companies. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of our investment advisor's overhead in performing its obligations under the Administration Agreement, including rent and our allocable portion of the cost of our officers, including our chief financial officer and chief compliance officer and their respective staffs. To the extent that our investment advisor outsources any of its functions, we will pay the fees associated with such functions on a direct basis without profit to our investment advisor.

At an in-person meeting of our board of directors on June 3, 2015, our board of directors, including a majority of the Independent Directors, unanimously voted to approve the continuation of the Administration Agreement to June 20, 2016. Unless terminated earlier, the Administration Agreement will automatically renew for successive annual periods if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities (as that term is defined in the 1940 Act), including, in either case, approval by a majority of our Independent Directors. In making the decision to approve the continuation of the Administration Agreement, our board of directors took into account, to the extent relevant, certain information set forth above under Investment Advisory Agreement Duration and Termination with respect to its consideration of the Investment Advisory Agreement.

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

### ***Indemnification***

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

### **License Agreement**

We have entered into a license agreement with Fidus Partners, LLC under which Fidus Partners, LLC has agreed to grant us a non-exclusive (provided that there is not a change in control of Fidus Partners, LLC), royalty-free license to



use the name Fidus. Under this agreement, we have a right to use the Fidus name for so long as our investment advisor remains our investment advisor. Other than with respect to this limited license, we have no legal right to the Fidus name. This license agreement will remain in effect for so long as the Investment Advisory Agreement with our investment advisor remains in effect.

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**Table of Contents****CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

We acquired Fund I through the merger of Fund I with our wholly-owned subsidiary, and, as a result, we acquired 100.0% of the limited partnership interests in Fund I. In addition, we have acquired Fidus Mezzanine Capital GP, LLC, the Fund's general partner, through a merger of Fidus Mezzanine Capital GP, LLC with and into our wholly-owned subsidiary and, as a result, we acquired 100.0% of the general partnership interests in Fund I. Fidus Mezzanine Capital GP, LLC's partnership interest in Fund I was converted into shares of our common stock on the same terms as the partnership interests held by the limited partners. The former members of Fidus Mezzanine Capital GP, LLC each received a pro rata portion of these shares of our common stock in exchange for their interest in Fidus Mezzanine Capital GP, LLC. All of the former members of Fidus Mezzanine Capital GP, LLC and some of the former limited partners of Fund I are members, officers, investment committee members and investment professionals of our investment advisor and, therefore, received a financial benefit from the formation transactions. Moreover, some of the former members of Fidus Mezzanine Capital GP, LLC and some of the former limited partners of Fund I are officers, directors and former five percent beneficial owners of the Company and Fund I, including Mr. E. Ross, who is the chief executive officer of the Company and chairman of the board of directors of the Company and Fund I, Mr. Lauer who is a director of the Company and Fund I. In connection with these formation transactions, we issued and exchanged 3,702,778 shares of our common stock at \$15.00 per share for 100.0% of the limited partnership interests in Fund I and 353,743 shares of our common stock at \$15.00 per share for 100.0% of the equity interests of Fidus Mezzanine Capital GP, LLC.

***Investment Advisory Agreement***

Under the Investment Advisory Agreement with our investment advisor, we pay our investment advisor a management fee and incentive fee that consists of an income incentive fee and a capital gains incentive fee. The incentive fee is computed and paid on income that we may not have yet received in cash. This fee structure may create an incentive for our investment advisor to invest in certain types of securities that may have a high degree of risk. Additionally, we rely on investment professionals from our investment advisor to assist our board of directors with the valuation of our portfolio investments. Our investment advisor's management fee and incentive fee are based on the value of our investments and there may be a conflict of interest when personnel of our investment advisor are involved in the valuation process for our portfolio investments. The base management fee under the Investment Advisory Agreement for the years ended December 31, 2015, 2014 and 2013 totaled \$7.5 million, \$5.9 million and \$5.3 million, respectively. The income incentive fee expense for the years ended December 31, 2015, 2014 and 2013 totaled \$6.6 million, \$5.6 million and \$5.2 million, respectively. For the years ended December 31, 2015 and 2014, we reversed previously accrued capital gain incentive fees totaling \$0.1 million and \$0.7 million, respectively. The capital gains incentive fee accrual for the year ended December 31, 2013 totaled \$1.6 million.

Mr. E. Ross is the chairman of the board of directors of the Company and the Funds, as well as the chairman of our investment advisor's investment committees and the chief executive officer of our investment advisor. The board of managers of our investment advisor, the manager of Fidus Investment GP, LLC, the general partner of the Funds, currently controls the Funds. The following people are members of the board of managers of our investment advisor: Messrs. E. Ross, Lauer, J. Ross and Andrew W. Worth. Officers and members of the board of managers of our investment advisor receive a benefit from the fees paid to our investment advisor pursuant to the Investment Advisory Agreement. Our board of directors, including a majority of the Independent Directors has approved the Investment Advisory Agreement, including the fees paid pursuant to such agreement.

***Administration Agreement***

Pursuant to the Administration Agreement, Fidus Investment Advisors, LLC acts as our administrator and furnishes us with office facilities and equipment and clerical, book-keeping and record-keeping services at such facilities. Under the Administration Agreement, our investment advisor performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are

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required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, our investment advisor assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, our investment advisor also provides managerial assistance on our behalf to those portfolio companies that have accepted our offer to provide such assistance. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of our investment advisor's overhead in performing its obligations under the Administration Agreement, including rent and our allocable portion of the cost of our officers, including our chief financial officer and chief compliance officer and their respective staffs. To the extent that our investment advisor outsources any of its functions, we will pay the fees associated with such functions on a direct basis without profit to our investment advisor. Under the administration agreement, administrative expenses for services provided for the years ended December 31, 2015, 2014 and 2013 totaled \$1.5 million, \$1.8 million and \$1.2 million, respectively.

**Conflicts of Interest**

Our investment advisor currently manages Fidus Credit Opportunities, LLC, a Delaware LLC, which has an investment objective and investment policies that are substantially similar to those of the Company, and may in the future manage investment vehicles with similar or overlapping investment strategies. Our investment advisor has put in place a conflict-resolution policy that addresses the co-investment restrictions set forth under the 1940 Act and the allocation of investment opportunities. The 1940 Act generally prohibits us from making certain negotiated co-investments with affiliates unless we first obtain an order from the SEC permitting us to do so. On March 27, 2012, the SEC granted us an order for exemptive relief to allow us to take certain actions that would otherwise be prohibited by the 1940 Act, as applicable to BDCs. In particular, this relief permitted Fidus Investment Corporation and Fidus Mezzanine Capital, L.P. to operate effectively as one company by specifically allowing them to engage in certain transactions with each other and invest in securities in which the other is or proposes to be an investor. On June 2, 2014, we received an amended exemptive order that extended the previous granted relief to apply to Fidus Mezzanine Capital II, L.P. and any future subsidiary of Fidus Investment Corporation.

On January 27, 2016, we, our investment advisor, and Fidus Credit Opportunities, LLC submitted an exemptive application to the SEC to permit us to co-invest with other funds managed by the Advisor or its affiliates in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors. There can be no assurance that any such exemptive order will be granted. If such relief is granted, then we will be permitted to co-invest with our affiliates if a required majority (as defined in Section 57(o) of the 1940 Act) or our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching by us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies.

Where co-investments can be made, or where an investment opportunity becomes available to one investment vehicle managed by our investment advisor, then an equitable allocation must be made with respect to the investment. Our investment advisor will seek to ensure the equitable allocation of investment opportunities when we invest alongside other accounts managed by our investment advisor. When we invest alongside such other accounts as permitted, such investments will be made consistent with our investment advisor's allocation policy. The allocation policy provides that allocations among us and other accounts will be based on certain factors determined by our investment advisor, including but not limited to: (1) the targeted asset mix and diversification requirements and other investment policies and restrictions for the entity, including those imposed by the entities organizational documents, policies, applicable

laws, rules, regulations or interpretations; (2) the risk and return profile for the entity; (3) the suitability/priority of a particular investment for the entity; (4) if applicable, the target position size of the investment for the entity; and (5) the level of available cash for investment with respect to the particular entity.

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Certain members of our investment advisor and its investment committee are also members of Fidus Partners, LLC, a merchant banking firm. Fidus Partners, LLC may in the future serve as an advisor to our portfolio companies and we may invest in companies that Fidus Partners, LLC is advising. Fidus Partners, LLC may receive fees in connection with these advisory services, subject to regulatory restrictions imposed by the 1940 Act.

In addition, Edward H. Ross, our Chairman and Chief Executive Officer and Thomas C. Lauer, one of our directors, are managers of Fidus Investment Advisors, LLC. In May 2015, Fidus Investment Advisors, LLC entered into a combination with Fidus Partners, LLC (the *Combination* ), by which members of Fidus Investment Advisors LLC and Fidus Partners, LLC ( *Partners* ) contributed all of their respective membership interest in Fidus Investment Advisors LLC and Partners to a newly formed limited liability company, Fidus Group Holdings, LLC ( *Holdings* ). As a result, Fidus Investment Advisors LLC is a wholly-owned subsidiary of Holdings, which is a newly formed limited liability company organized under the laws of Delaware.

**Table of Contents****CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS**

The following table sets forth information with respect to the beneficial ownership of our common stock as of April 22, 2016 by each of our executive officers and independent directors and all of our directors and executive officers as a group. As of April 22, 2016, we are not aware of any 5.0% beneficial owners of our common stock, nor are we aware of any person who controls us, control being defined as the beneficial ownership of more than 25.0% of our common stock.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. There is no common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of April 22, 2016. Percentage of beneficial ownership is based on 16,312,363 shares of common stock outstanding as of April 22, 2016. The business address of each person below is 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201.

Name and Address	Number of Shares Beneficially Owned <sup>(1)</sup>	Percentage of Class	Dollar Range of Equity Securities Beneficially Owned <sup>(2)(3)</sup>
<b>Interested Directors:</b>			
Edward H. Ross	167,955	1.0%	over \$100,000
Thomas C. Lauer	70,600	*	over \$100,000
<b>Independent Directors:</b>			
Raymond L. Anstiss, Jr. <sup>(4)</sup>	12,256	*	over \$100,000
Charles D. Hyman	21,700	*	over \$100,000
John A. Mazzarino	11,358	*	over \$100,000
<b>Executive Officers Who Are Not Directors:</b>			
Shelby E. Sherard	3,435	*	under \$100,000
All Directors and Executive Officers as a Group	287,304	1.8	over \$100,000

\* Represents less than 1.0%.

- (1) Beneficial ownership has been determined in accordance with Rule 13d-3 of the Exchange Act.
- (2) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.
- (3) The dollar range of equity securities beneficially owned by our directors is based on a stock price of \$15.41 per share as of April 22, 2016.
- (4) Includes 5,246 shares held by Anstiss & Co., P.C. 401(k) Profit Sharing Trust, 2,000 shares held by Mr. Anstiss's son and 2,000 shares held by Mr. Anstiss's daughter. Mr. Anstiss has discretionary voting and investment power over the 5,246 shares held by Anstiss & Co., P.C. 401(k) Profit Sharing Trust, the 2,000 shares held by his son and the 2,000 shares held by his daughter.

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**SALES OF COMMON STOCK BELOW NET ASSET VALUE**

On June 3, 2015, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a discount from net asset value per share for a period of one year ending on the earlier of June 3, 2016 or the date of our 2016 Annual Meeting of Stockholders. We expect to present to our stockholders a similar proposal at our 2016 Annual meeting of Stockholders. In order to sell shares pursuant to this authorization a majority of our directors who have no financial interest in the sale or issuance and a majority of our independent directors must (a) find that the sale or issuance is in our best interests and in the best interests of our stockholders, and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold or otherwise issued is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount. It should be noted that the maximum number of shares issuable below net asset value pursuant to this authority that could result in such dilution is limited to 25% of the Company's then outstanding common stock immediately prior to each such sale. Any offering of common stock below net asset value per share will be designed to raise capital for investment in accordance with our investment objective.

In making a determination that an offering below net asset value per share is in our and our stockholders' best interests, our board of directors would consider a variety of factors including:

The effect that an offering below net asset value per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;

The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined net asset value per share;

The relationship of recent market prices of our common stock to net asset value per share and the potential impact of the offering on the market price per share of our common stock;

Whether the estimated offering price would closely approximate the market value of our shares;

The potential market impact of being able to raise capital during the current financial market difficulties;

The nature of any new investors anticipated to acquire shares in the offering;

The anticipated rate of return on and quality, type and availability of investments; and

The leverage available to us.



Sales or other issuances by us of our common stock at a discount from net asset value pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

The following three headings and accompanying tables will explain and provide hypothetical examples on the impact of an offering at a price less than net asset value per share on three different set of investors:

existing stockholders who do not purchase any shares in the offering;

existing stockholders who purchase a relative small amount of shares in the offering or a relatively large amount of shares in the offering; and

new investors who become stockholders by purchasing shares in the offering.

**Impact On Existing Stockholders Who Do Not Participate in the Offering**

Our existing stockholders who do not participate in an offering below net asset value per share or who do not buy additional shares in the secondary market at the same or lower price we obtain in the offering (after

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expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate decrease (often called dilution) in the net asset value of the shares they hold and their net asset value per share. These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to the offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

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.

The examples assume that Company XYZ has 1,000,000 shares of common stock 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. 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.

Period	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>Increase (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) Accretion 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)%

**Total Asset  
Values**

Total NAV Held by Stockholder A	\$ 100,000	\$ 99,762	(0.24)%	\$ 99,091	(0.91)%	\$ 96,667	(3.33)%
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Total Investment by Stockholder A (Assumed to Be \$10.00 per Share)	\$ 100,000	\$ 100,000		\$ 100,000		\$ 100,000	
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Total (Dilution) Accretion to Stockholder A (Total NAV Less Total Investment)		\$ (238)		\$ (909)		\$ (3,333)	
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**Per Share  
Amounts**

NAV per Share Held by Stockholder A		\$ 9.98		\$ 9.91		\$ 9.67	
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Investment per Share Held by Stockholder A (Assumed to be \$10.00 per Share)	\$ 10.00	\$ 10.00		\$ 10.00		\$ 10.00	
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(Dilution) Accretion per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.02)		\$ (0.09)		\$ (0.33)	
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Percentage (Dilution) Accretion to Stockholder A (Dilution per Share Divided by Investment per Share)			(0.24)%		(0.91)%		(3.33)%
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**Impact On Existing Stockholders Who Do Participate in the Offering**

Our existing stockholders who participate in an offering below net asset value per share or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of net asset value dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares immediately prior to the offering. The level of net asset value dilution will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience net asset value dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in net asset value per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares such stockholder purchases increases. Even a stockholder who over participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience net asset value dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and the level of discounts increases.

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The following table illustrates the level of dilution and accretion in the hypothetical 20.0% discount offering from the prior table (Example 3) for a stockholder that acquires shares equal to (1) 50.0% of its proportionate share of the offering (i.e., 1,000 shares, which is 0.5% of an offering of 200,000 shares) rather than its 1.0% proportionate share and (2) 150% of such percentage (i.e. 3,000 shares, which is 1.5% of an offering of 200,000 shares rather than its 1.0% proportionate share). The prospectus supplement pursuant to which any discounted offering is made will include a table for these examples based on the actual number of shares in such offering and the actual discount from the most recently determined net asset value per share. 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.

<b>Period</b>	<b>Prior to Sale Below NAV</b>	<b>50.0% Participation Following Sale</b>	<b>% Change</b>	<b>150.0% Participation Following Sale</b>	<b>% Change</b>
<b>Offering Price</b>					
Price per Share to Public		\$ 8.42		\$ 8.42	
Net Proceeds per Share to Issuer		\$ 8.00		\$ 8.00	
<b>Increase (Decrease) to NAV</b>					
Total Shares Outstanding	1,000,000	1,200,000	20.00%	1,200,000	20.00%
NAV per Share	\$ 10.00	\$ 9.67	(3.33)%	\$ 9.67	(3.33)%
<b>(Dilution) Accretion to Stockholder</b>					
Shares Held by Stockholder A	10,000	11,000	10.00%	13,000	30.00
Percentage Held by Stockholder A	1.0%	0.92%	(8.33)%	1.08%	8.33%
<b>Total Asset Values</b>					
Total NAV Held by Stockholder A	\$ 100,000	\$ 106,333	6.33%	\$ 125,667	25.67%
Total Investment by Stockholder A (Assumed to Be \$10.00 per Share)	\$ 100,000	\$ 108,421		\$ 125,263	
Total (Dilution) Accretion to Stockholder A (Total NAV Less Total Investment)		\$ (2,088)		\$ 404	
<b>Per Share Amounts</b>					
NAV per Share Held by Stockholder A		\$ 9.67		\$ 9.67	
Investment per Share Held by Stockholder A (Assumed to be \$10.00 per Share)	\$ 10.00	\$ 9.86		\$ 9.64	
(Dilution) Accretion per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.19)		\$ 0.03	
Percentage (Dilution) Accretion to Stockholder A (Dilution per Share Divided by Investment per Share)			(1.93)%		0.32%
<b>Impact On New Investors</b>					

Investors who are not currently stockholders and who participate in an offering below net asset value but whose investment per share is greater than the resulting net asset value per share due to selling compensation and expenses paid by the issuer will experience an immediate decrease, albeit small, in the net asset value of their shares and their net asset value per share compared to the price they pay for their shares. Investors who are not currently stockholders

and who participate in an offering below net asset value per share and whose investment per share is also less than the resulting net asset value per share due to selling compensation and expenses paid by the issuer being significantly less than the discount per share will experience an immediate increase in the net asset value of their shares and their net asset value per share compared to the price they pay for their shares. These investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder

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does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following table illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same hypothetical 5.0%, 10.0% and 20.0% discounted offerings as described in the first table above. The illustration is for a new investor who purchases the same percentage (1.0%) of the shares in the offering as Stockholder A in the prior examples held immediately prior to the offering. The prospectus supplement pursuant to which any discounted offering is made will include a table for these examples based on the actual number of shares in such offering and the actual discount from the most recently determined net asset value per share. 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.

Period	Prior to Sale	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	
	Below NAV	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)</b>							
<b>Increase 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)</b>							
<b>Accretion to Stockholder</b>							
Shares Held by Investor A		500		1,000		2,000	
Percentage Held by Investor A	%	0.05%	%	0.09%	%	0.17%	%
<b>Total Asset Values</b>							
Total NAV Held by Investor A	\$	\$ 4,988	%	\$ 9,909	%	\$ 19,333	%
Total Investment by Investor A (At Price to Public)	\$	\$ 5,000		\$ 9,474		\$ 16,842	
		\$ (12)		\$ 435		\$ 2,491	

Total (Dilution)				
Accretion to				
Investor A (Total				
NAV Less Total				
Investment)				
<b>Per Share</b>				
<b>Amounts</b>				
NAV per Share				
Held by				
Investor A	\$	9.98	\$	9.91
			\$	9.67
Investment per				
Share Held by				
Investor A	\$	10.00	\$	9.47
			\$	8.42
(Dilution)				
Accretion per				
Share Held by				
Investor A (NAV				
per Share Less				
Investment per				
Share)				
	\$	(0.02)	\$	0.44
			\$	1.25
Percentage				
(Dilution)				
Accretion to				
Investor A				
(Dilution per				
Share Divided by				
Investment per				
Share)				
		(0.24)%		4.60%
				14.79%



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**DIVIDEND REINVESTMENT PLAN**

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our board of directors authorizes, and we declare, a cash distribution, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distribution.

No action is required on the part of a registered stockholder to have their cash distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying American Stock Transfer & Trust, LLC, the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than three days prior to the payment date for distributions to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive distributions in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than three days prior to the payment date, the plan administrator will, instead of crediting shares to and/or carrying shares in the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

We intend to use primarily newly issued shares to implement the plan, so long as our shares are trading at or above net asset value. If our shares are trading below net asset value, we intend to purchase shares in the open market in connection with our implementation of the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the Nasdaq Global Select Market on the valuation date fixed for such distribution. Market price per share on that date will be the closing price for such shares on the Nasdaq Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There will be no brokerage charges or other charges to stockholders who participate in the plan. The plan administrator's fees will be paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.10 per share brokerage commissions from the proceeds.

Stockholders who receive distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash; however, since their cash distributions will be reinvested, such stockholders will not receive cash with which to pay any applicable taxes on reinvested distributions. A stockholder's basis for determining gain or loss upon the sale of stock received in a distribution from us will be equal to the total dollar amount of the distribution payable to the stockholder. Any stock received in a distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at [www.amstock.com](http://www.amstock.com) or by filling out the transaction request form located at bottom of their statement and sending it to the plan administrator.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any distribution by us. All correspondence concerning the plan should be

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directed to the plan administrator by mail at Post Office Box 922, Wall Street Station, New York, New York 10269-0560, or by the Plan Administrator's Interactive Voice Response System at 1-877-573-4005.

If you withdraw or the plan is terminated, you will receive the number of whole shares in your account under the plan and a cash payment for any fraction of a share in your account.

If you hold your common stock with a brokerage firm that does not participate in the plan, you will not be able to participate in the plan, and any distribution reinvestment may be effected on different terms than those described above. Consult your financial advisor for more information.

**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in shares of our common stock. This summary does not purport to be a complete description of the income tax considerations applicable to us or to investors in such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, financial institutions, U.S. stockholders (as defined below) whose functional currency is not the U.S. dollar, persons who mark-to-market our shares and persons who hold our shares as part of a straddle, hedge or conversion transaction. This summary assumes that investors hold shares of our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and do not intend to seek any ruling from the Internal Revenue Service, or the IRS, regarding any offer and sale of our securities under this prospectus. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

For purposes of our discussion, a U.S. stockholder means a beneficial owner of shares of our common stock that is for U.S. federal income tax purposes:

a citizen or individual resident of the United States;

a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if (1) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in place to be treated as a U.S. person.

For purposes of our discussion, a Non-U.S. stockholder means a beneficial owner of shares of our common stock that is neither a U.S. stockholder nor a partnership (including an entity treated as a partnership for U.S. federal income tax purposes).

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner or member of the partnership will generally depend upon the status of the partner and the activities of the partnership. Each partner in a partnership that is considering acquiring shares of our common stock should consult his, her or its tax advisors with respect to the purchase, ownership and disposition of shares of our common stock.

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Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of U.S. federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

### **Taxation in Connection with Holding Securities other than our Common Stock**

We intend to describe in any prospectus supplement related to the offering of preferred stock, subscription rights, debt securities, or warrants to purchase our common stock, preferred stock or debt securities, the U.S. federal income tax considerations applicable to such securities as will be sold by us pursuant to that prospectus supplement, including the taxation of any debt securities that will be sold at an original issue discount, and the tax treatment of sales, exchanges or retirements of our debt securities.

### **Election to be Taxed as a RIC**

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

### **Taxation as a RIC**

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

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

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

meet the Annual Distribution Requirement;

qualify to be treated as a BDC or be registered as a management investment company under the 1940 Act at all times during each taxable year;

derive in each taxable year at least 90.0% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale or other disposition of stock or other securities or foreign currencies, other income derived with respect to our business of investing in such stock,

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securities or currencies and net income derived from an interest in a qualified publicly traded partnership (as defined in Subchapter M of the Code), or the 90% Income Test; and

diversify our holdings so that at the end of each quarter of the taxable year:

at least 50.0% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5.0% of the value of our assets or more than 10.0% of the outstanding voting securities of the issuer (which for these purposes includes the equity securities of a qualified publicly traded partnership ); and

no more than 25.0% of the value of our assets is invested in the securities, other than U.S. Government securities or securities of other RICs, (i) of one issuer (ii) of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) of one or more qualified publicly traded partnerships, or the Diversification Tests.

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

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

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

Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of the accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount. As a result, we may have difficulty meeting the Annual Distribution Requirement. We may have to sell some of our

investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

Furthermore, a portfolio company in which we invest may face financial difficulty that requires us to work-out, modify or otherwise restructure our investment in the portfolio company. Any such restructuring may result in unusable capital losses and future non-cash income. Any restructuring may also result in our recognition of a



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substantial amount of non-qualifying income for purposes of the 90% Income Test, such as cancellation of indebtedness income in connection with the work-out of a leveraged investment (which, while not free from doubt, may be treated as non-qualifying income) or the receipt of other non-qualifying income.

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

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

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

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

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

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

As described above, to the extent that we invest in equity securities of entities that are treated as partnerships for U.S. federal income tax purposes, the effect of such investments for purposes of the 90% Income

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

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

We may make distributions that are payable in cash or shares of our stock at the election of each stockholder. Under certain applicable provisions of Subchapter M of the Code and the Treasury regulations, distributions payable in cash or in shares of stock at the election of stockholders may be treated as taxable dividends to the extent of the distributing corporation's current and accumulated earnings and profits. The Internal Revenue Service has issued private letter rulings indicating that such treatment will apply under circumstances in which the total amount of cash distributed is limited to as little as 20.0% of the total distribution. If we decide to make any distributions that are payable in part in shares of our stock, U.S. stockholders receiving such distributions will be required to include the full amount of the distribution (whether received in cash, shares of our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits. As a result, a U.S. stockholder may be required to pay tax with respect to such distributions in excess of any cash received. If a U.S. stockholder sells the stock it receives in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. federal tax with respect to such distributions, including in respect of all or a portion of such distributions that are payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on such distributions, it may put downward pressure on the trading price of shares of our stock.

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

## **Failure To Obtain RIC Tax Treatment**

If we fail to satisfy the 90% Income Test or the Diversification Tests for any taxable year, we may nevertheless continue to qualify as a RIC for such year if certain relief provisions are applicable (which may, among other things,

require us to pay certain corporate-level U.S. federal taxes or to dispose of certain assets).

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

If we fail to meet the RIC requirements for more than two consecutive years and then seek to re-qualify as a RIC, we would be subject to corporate-level taxation on any built-in gain recognized during the succeeding 10-year period unless we made a special election to recognize all such built-in gain upon our re-qualification as a RIC and pay the corporate-level tax on such built-in gain.

**Taxation of U.S. Stockholders**

Whether an investment in shares of our common stock is appropriate for a U.S. stockholder will depend upon that person's particular circumstances. An investment in shares of our common stock by a U.S. stockholder may have adverse tax consequences. The following summary generally describes certain U.S. federal income tax consequences of an investment in shares of our common stock by taxable U.S. stockholders. Prospective investors should consult their own tax advisors before making an investment in our common stock.

Distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gain. Distributions of our investment company taxable income (which is, generally, our ordinary income excluding net capital gain) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent such distributions paid by us to noncorporate U.S. stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions generally will be eligible for taxation at rates applicable to qualifying dividends (at a maximum tax rate of 20.0%) provided that we properly report such distribution as qualified dividend income in a written statement furnished to our stockholders and certain holding period and other requirements are satisfied. In this regard, it is not anticipated that a significant portion of distributions paid by us will be attributable to qualifying dividends; therefore, our distributions generally will not qualify for the preferential rates applicable to qualified dividend income. Distributions of our net capital gain (which is generally our net long-term capital gain in excess of net short-term capital loss) properly designated by us as capital gain dividends will be taxable to a U.S. stockholder as long-term capital gain (at a maximum rate of 20.0% in the case of individuals, trusts or estates), regardless of the U.S. stockholder's holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gain to such U.S. stockholder.

In order to satisfy the Annual Distribution Requirement we intend to distribute any long-term capital gain at least annually; however, we may in the future decide to retain some or all of our long-term capital gain, but designate the retained amount as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its proportionate share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's tax basis for his, her or its common stock. Since we expect to pay tax on any retained capital gain at our regular corporate tax rate, and since that rate is in excess of the

maximum rate currently payable by individuals on net capital gain, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit

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will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other U.S. federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for U.S. federal income tax. A stockholder that is not subject to U.S. federal income tax or otherwise required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a deemed distribution.

We could be subject to the alternative minimum tax, or the AMT, but any items that are treated differently for AMT purposes must be apportioned between us and our stockholders and this may affect U.S. stockholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued, such items will generally be apportioned in the same proportion that distributions paid to each stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless a different method for a particular item is warranted under the circumstances.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in any such month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution, and the investor will be subject to tax on the distribution even though it represents a return of his, her or its investment.

A U.S. stockholder generally will recognize taxable gain or loss if the stockholder sells or otherwise disposes of his, her or its shares of our common stock. The amount of gain or loss will be measured by the difference between such stockholder's adjusted tax basis in the common stock sold and the amount of the proceeds received in exchange. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other substantially identical shares are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. The ability to otherwise deduct capital loss may be subject to other limitations under the Code.

In general, noncorporate U.S. stockholders, including individuals, trusts and estates, are subject to U.S. federal income tax (at a maximum rate of 20.0%) on their net capital gain, or the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year, including a long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to U.S. federal income tax on net capital gain at the maximum 35.0% rate also applied to ordinary income. Noncorporate stockholders with net capital loss for a year (which we define as capital loss in excess of capital gain) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital loss of a noncorporate stockholder in excess of \$3,000 generally may be carried forward and used in

subsequent years as provided in the Code.



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Corporate stockholders generally may not deduct any net capital loss for a year, but may carry back such losses for three years or carry forward such losses for five years.

Certain U.S. stockholders who are individuals, estates or trusts generally will be subject to a 3.8% Medicare tax on, among other things, dividends on, and capital gain from the sale or other disposition of shares, of our common stock.

A publicly offered RIC is a RIC whose shares are either (i) continuously offered pursuant to a public offering, (ii) regularly traded on an established securities market or (iii) held by at least 500 persons at all times during the taxable year. If we are not a publicly offered RIC for any period, a noncorporate stockholder's pro rata portion of our affected expenses, including our management fees, will be treated as an additional distribution to the stockholder and will be deductible by such stockholder only to the extent permitted under the limitations described below. For noncorporate stockholders, including individuals, trusts, and estates, significant limitations generally apply to the deductibility of certain expenses of a nonpublicly offered RIC, including advisory fees. In particular, these expenses, referred to as miscellaneous itemized deductions, are deductible only to individuals to the extent they exceed 2.0% of such a stockholder's adjusted gross income, and are not deductible for AMT purposes. Because we anticipate that shares of our common stock will continue to be regularly traded on an established securities market, we believe that we will continue to qualify as a publicly offered RIC.

We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a written statement detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the U.S. federal income tax status of each year's distributions generally will be reported to the IRS (including the amount of dividends, if any, eligible for the current 20.0% maximum rate). Distributions paid by us generally will not be eligible for the dividends-received deduction or the preferential tax rate applicable to qualifying dividends. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation.

We may be required to withhold U.S. federal income tax, or backup withholding (at a rate of 28.0%), from all taxable distributions to any noncorporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding or (2) with respect to whom the IRS notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Backup withholding tax is not an additional tax, and any amount withheld may be refunded or credited against the U.S. stockholder's U.S. federal income tax liability, provided that proper information is timely provided to the IRS.

Under legislation commonly referred to as FATCA, if certain disclosure requirements related to U.S. accounts or ownership are not satisfied, a U.S. federal withholding tax at a 30.0% rate will be imposed on dividends received by U.S. stockholders that own their stock through foreign accounts or foreign intermediaries. In addition, for taxable years beginning after December 31, 2018, if certain disclosure requirements related to U.S. accounts or ownership are not satisfied, a U.S. federal withholding tax at a 30.0% rate will be imposed on proceeds of sale in respect of our stock received by U.S. stockholders that own their stock through foreign accounts or foreign intermediaries. We will not pay any additional amounts in respect of any amounts withheld.

Under applicable Treasury regulations, if a stockholder recognizes a loss with respect to shares of our stock of \$2 million or more for an individual, S corporation, trust, or a partnership with at least one noncorporate partner or \$10 million or more for a stockholder that is either a corporation or a partnership with only corporate partners in any single taxable year (or a greater loss over a combination of years), the stockholder must file with the IRS a disclosure statement on IRS Form 8886 (or successor form). Direct stockholders of portfolio securities in many cases are excepted from this reporting requirement, but under current guidance, stockholders of a RIC are not excepted. Future

guidance may extend the current exception from this reporting requirement to

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stockholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Significant monetary penalties apply to a failure to comply with this reporting requirement. States may also have a similar reporting requirement. Stockholders should consult their own tax advisors to determine the applicability of these regulations in light of their individual circumstances.

**Taxation of Non-U.S. Stockholders**

Whether an investment in the shares is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisers before investing in our common stock.

Distributions of our investment company taxable income to Non-U.S. stockholders that are not effectively connected with a U.S. trade or business carried on by the Non-U.S. stockholder, generally will be subject to withholding of U.S. federal income tax at a rate of 30.0% (or lower rate provided by an applicable treaty) to the extent of our current and accumulated earnings and profits, unless an applicable exception applies.

Properly reported dividends received by a Non-U.S. stockholder generally were exempt from U.S. federal withholding tax when they (a) were paid in respect of our qualified net interest income (generally, our U.S. source interest income, other than certain contingent interest and interest from obligations of a corporation or partnership in which we are at least a 10.0% stockholder, reduced by expenses that are allocable to such income), or (b) paid in connection with our qualified short-term capital gains (generally, the excess of our net short-term capital gain over our long-term capital loss for such taxable year). We may report all, some or none of our potentially eligible dividends as such qualified net interest income or as qualified short-term capital gains, or treat such dividends, in whole or in part, as ineligible for this exemption from withholding. In order to qualify for this exemption from withholding, a Non-U.S. stockholder must comply with applicable certification requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN or an acceptable substitute or successor form). In the case of shares held through an intermediary, the intermediary could withhold tax even if we properly report the payment as qualified net interest income or qualified short-term capital gain. Non-U.S. stockholders should contact their intermediaries with respect to the application of these rules to their accounts.

Actual or deemed distributions of our net capital gain to a Non-U.S. stockholder, and gain realized by a Non-U.S. stockholder upon the sale of our common stock, that are not effectively connected with a U.S. trade or business carried on by the Non-U.S. stockholder, will generally not be subject to U.S. federal withholding tax and generally will not be subject to U.S. federal income tax unless the Non-U.S. stockholder is a nonresident alien individual and is physically present in the United States for more than 182 days during the taxable year and meets certain other requirements. However, withholding of U.S. federal income tax at a rate of 30.0% on the capital gain of nonresident alien individuals who are physically present in the United States for more than the 182 day period only applies in exceptional cases because any individual present in the United States for more than 182 days during the taxable year is generally treated as a resident for U.S. income tax purposes; in that case, he or she would be subject to U.S. income tax on his or her worldwide income at the graduated rates applicable to U.S. citizens, rather than the 30.0% U.S. federal withholding tax.

If we distribute our net capital gain in the form of deemed rather than actual distributions (which we may do in the future), a Non-U.S. stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the stockholder's allocable share of the tax we pay on the capital gain deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification

number or file a U.S. federal income tax return. Accordingly, investment in the shares may not be appropriate for a Non-U.S. stockholder.

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Distributions of our investment company taxable income and net capital gain (including deemed distributions) to Non-U.S. stockholders, and gain realized by Non-U.S. stockholders upon the sale of our common stock that is effectively connected with a U.S. trade or business carried on by the Non-U.S. stockholder (or if an income tax treaty applies, attributable to a permanent establishment in the United States), will be subject to U.S. federal income tax at the graduated rates applicable to U.S. citizens, residents and domestic corporations. Corporate Non-U.S. stockholders may also be subject to an additional branch profits tax at a rate of 30.0% imposed by the Code (or lower rate provided by an applicable treaty). In the case of a non-corporate Non-U.S. stockholder, we may be required to withhold U.S. federal income tax from distributions that are otherwise exempt from withholding tax (or taxable at a reduced rate) unless the Non-U.S. stockholder certifies his or her foreign status under penalties of perjury or otherwise establishes an exemption.

The tax consequences to a Non-U.S. stockholder entitled to claim the benefits of an applicable tax treaty may differ from those described herein. Non-U.S. stockholders are advised to consult their own tax advisers with respect to the particular tax consequences to them of an investment in our shares.

A Non-U.S. stockholder who is a nonresident alien individual may be subject to information reporting and backup withholding of U.S. federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Under FATCA, if certain disclosure requirements related to U.S. accounts or ownership are not satisfied, a U.S. federal withholding tax at a 30.0% rate will be imposed on dividends received by certain Non-U.S. stockholders. In addition, for taxable years beginning after December 31, 2018, if certain disclosure requirements related to U.S. accounts or ownership are not satisfied, a U.S. federal withholding tax at a 30.0% rate will be imposed on proceeds of sale in respect of shares of our stock received by certain Non-U.S. stockholders. If payment of withholding taxes is required, Non-U.S. stockholders that are otherwise eligible for an exemption from, or reduction of, U.S. federal withholding taxes with respect to such dividends and proceeds will be required to seek a refund from the IRS to obtain the benefit of such exemption or reduction. We will not pay any additional amounts in respect of any amounts withheld.

Non-U.S. persons should consult their own tax advisors with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

## **Possible Legislative or Other Actions Affecting Tax Considerations**

Prospective investors should recognize that the present U.S. federal income tax treatment of an investment in our stock may be modified by legislative, judicial or administrative action at any time, and that any such action may affect investments and commitments previously made. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process any by the IRS and the U.S. Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in U.S. federal tax laws and interpretations thereof could adversely affect the tax consequences of an investment in our stock.

The discussion set forth herein does not constitute tax advice, and potential investors should consult their own tax advisors concerning the tax considerations relevant to their particular situation.



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**DESCRIPTION OF OUR CAPITAL STOCK**

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

**Capital Stock**

Our authorized capital stock consists of 100,000,000 shares of common stock, par value \$0.001 per share, of which 16,312,363 were outstanding as of April 22, 2016. Our common stock trades on the Nasdaq Global Select Market under the ticker symbol FDUS. There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plan. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

***Common Stock***

All shares of our common stock have equal rights as to earnings, assets, voting, and distributions and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of assets legally available therefor. Shares of our common stock have no preemptive, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

**Long-Term Debt**

The debentures issued by the Funds to the SBA have a maturity of ten years and bear interest semi-annually at fixed rates. As of December 31, 2015, the Funds had \$213.5 million of SBA debentures. With \$112.5 million of regulatory capital as of December 31, 2015, the Funds have the current capacity to issue up to a total of \$11.5 million of SBA debentures. The maximum statutory limit on the dollar amount of outstanding SBA debentures that may be issued by three or more SBICs under common control is \$350.0 million.

**Credit Facility**

On June 16, 2014, we entered into a \$30.0 million senior secured revolving credit agreement (the Credit Facility ) with certain lenders party thereto and ING Capital, LLC, as administrative agent. The Credit Facility, which matures on

June 16, 2018, has an initial commitment of \$30.0 million with an accordion feature that allows for an increase in the total commitments up to \$75.0 million, subject to certain conditions and the satisfaction of specified financial covenants.



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On December 19, 2014, we amended the Credit Facility to (i) increase the commitment from \$30.0 million to \$50.0 million until certain financial conditions are met and (ii) allow FIC to buy-back up to \$10.0 million of our common stock subject to the satisfaction of specified financial covenants and conditions. The Credit Facility continues to have an accordion feature which allows for an increase in the total commitment up to \$75.0 million.

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

Borrowings under the Credit Facility are subject to, among other things, a minimum borrowing/collateral base. The Credit Facility is secured primarily by our assets, excluding the assets of our wholly-owned SBIC subsidiaries. We have made customary representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities.

**Outstanding Securities**

The following table shows our outstanding classes of securities:

(a) Title of Class	(b) Amount Authorized	(c) Amount Held by us or for Our Account	(d) Amount Outstanding Exclusive of Amounts Shown Under (c)
Common Stock	100,000,000		16,300,732
SBA Debentures	\$ 225.0 million <sup>(1)</sup>		\$ 213.5 million
Credit Facility	\$ 50.0 million <sup>(2)</sup>		\$ 15.5 million

(1) Based on \$112.5 million of regulatory capital as of December 31, 2015. For more information regarding our limitations as to SBA debenture issuances, see Regulation Small Business Administration Regulations.

(2) Commitment increased from \$30.0 million to \$50.0 million on December 19, 2014.

**Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors and officers liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as our director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her

service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as our director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that

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person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer in advance of final disposition of a proceeding upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

We have entered into indemnification agreements with our directors. The indemnification agreements provide our directors the maximum indemnification permitted under Maryland law and the 1940 Act.

We have purchased directors' and officers' insurance policies covering our directors and officers and us for any acts and omissions committed, attempted or allegedly committed by any director or officer during the policy period. The policy is subject to customary exclusions.

## **Certain Provisions of the Maryland General Corporation Law and Our Charter and Bylaws**

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

## **Classified Board of Directors**

Our board of directors is divided into three classes of directors serving staggered three-year terms. The terms of the first, second and third classes expire in 2016, 2017 and 2018, respectively, and in each case, those directors will serve until their successors are elected and qualify. Directors of each class will be elected to serve for three-year terms and

until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our

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incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

### **Election of Directors**

Our charter and bylaws provide that the affirmative vote of the holders of a plurality of the outstanding shares of stock entitled to vote in the election of directors cast at a meeting of stockholders duly called and at which a quorum is present is required to elect a director. Pursuant to our bylaws our board of directors may amend the bylaws to alter the vote required to elect directors.

### **Number of Directors; Vacancies; Removal**

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than one nor more than eight. Except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

### **Action by Stockholders**

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or (unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not) by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

### **Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals**

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the board of directors and the proposal of business to be considered by stockholders may be made only (a) pursuant to our notice of the meeting, (b) by the board of directors or (c) by a stockholder who was a stockholder of record both at the time of giving notice and at the time of the annual meeting and who is entitled to vote at the meeting and who has complied with the advance notice procedures of our bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the board of directors at a special meeting may be made only (a) pursuant to our notice of the meeting, (b) by the board of directors or (c) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who was a stockholder of record both at the time of giving notice and at the time of the annual meeting and who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the

advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as

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to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of (a) precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and (b) discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

## **Calling of Special Meetings of Stockholders**

Our bylaws provide that special meetings of stockholders may be called by the chairman of our board of directors, our President and our board of directors. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

## **Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws**

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter provides that certain charter amendments, any proposal for our conversion, whether by charter amendment, merger or otherwise, from a closed-end company to an open-end company and any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80.0% of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by a majority of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The continuing directors are defined in our charter as (a) our current directors, (b) those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of our current directors then on the board of directors or (c) any successor directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of continuing directors or the successor continuing directors then in office.

Our charter and bylaws provide that the board of directors has the exclusive power to make, alter, amend or repeal any provision of our bylaws.

## **No Appraisal Rights**

Except with respect to appraisal rights arising in connection with the Control Share Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of the board of directors shall determine such rights apply.

## **Control Share Acquisitions**

The Maryland General Corporation Law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter (the Control Share Act ). Shares owned by the acquiror, by officers or by directors who are

employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of



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a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third;

one-third or more but less than a majority; or

a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations, including, as provided in our bylaws compliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Act only if the board of directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Control Share Act does not conflict with the 1940 Act.

## **Business Combinations**

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder (the Business Combination Act). These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or

reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns 10.0% or more of the voting power of the corporation's outstanding voting stock; or

an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10.0% or more of the voting power of the then outstanding voting stock of the corporation.

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A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which the stockholder otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

80.0% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution, subject to the provisions of the 1940 Act, that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution may be altered or repealed in whole or in part at any time; however, our board of directors will adopt resolutions so as to make us subject to the provisions of the Business Combination Act only if the board of directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Business Combination Act does not conflict with the 1940 Act. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

### **Conflict with 1940 Act**

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

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**DESCRIPTION OF OUR PREFERRED STOCK**

Our charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption for each class or series. Thus, our board of directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act.

The 1940 Act generally requires that (1) immediately after issuance and before any distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50.0% of our total assets less liabilities not represented by indebtedness, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a BDC. Further, the 1940 Act requires that any distributions we make on preferred stock be cumulative. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

For any series of preferred stock that we may issue, our board of directors will determine and the prospectus supplement relating to such series will describe:

the designation and number of shares of such series;

the rate and time at which, and the preferences and conditions under which, any distributions will be paid on shares of such series, as well as whether such distributions are participating or non-participating;

any provisions relating to convertibility or exchangeability of the shares of such series;

the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;

the voting powers, if any, of the holders of shares of such series;

any provisions relating to the redemption of the shares of such series;

any limitations on our ability to pay distributions on, or acquire or redeem, other securities while shares of such series are outstanding;

any conditions or restrictions on our ability to issue additional shares of such series or other securities;

if applicable, a discussion of certain U.S. federal income tax considerations; and

any other relative power, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

The preferred stock may be either fixed rate preferred stock or variable rate preferred stock, which is sometimes referred to as auction rate preferred stock. All shares of preferred stock that we may issue will be identical and of equal rank except as to the particular terms thereof that may be fixed by our board of directors, and all shares of each series of preferred stock will be identical and of equal rank except as to the dates from which cumulative distributions, if any, thereon will be cumulative. If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash distributions at an annual rate that will be fixed or will vary for the successive distribution periods for each series. In general, the distribution periods for fixed rate preferred stock can range from quarterly to weekly and are subject to extension. The distribution rate to be variable and determined for each distribution period.

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**DESCRIPTION OF OUR SUBSCRIPTION RIGHTS**

We may issue subscription rights to purchase common stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with any subscription rights offering to our stockholders, we may enter into a standby underwriting or other arrangement with one or more underwriters or other persons pursuant to which such underwriters or other persons would purchase any offered securities remaining unsubscribed for after such subscription rights offering. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current net asset value per share of common stock, excluding underwriting commissions, unless we first file a post-effective amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with the rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In connection with a subscription rights offering to our stockholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our stockholders on the record date that we set for receiving subscription rights in such subscription rights offering. Our common stockholders will indirectly bear the expenses of such subscription rights offerings, regardless of whether our common stockholders exercise any subscription rights.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

the title of such subscription rights;

the exercise price or a formula for the determination of the exercise price for such subscription rights;

the number or a formula for the determination of the number of such subscription rights issued to each stockholder;

the extent to which such subscription rights are transferable;

if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;

the date on which the right to exercise such subscription rights would commence, and the date on which such rights shall expire (subject to any extension);

the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities;

if applicable, the material terms of any standby underwriting or other purchase arrangement that we may enter into in connection with the subscription rights offering; and

any other terms of such subscription rights, including terms, procedures and limitations relating to the exchange and exercise of such subscription rights.

### **Exercise of Subscription Rights**

Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of shares of common stock or other securities at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby or another report filed with the SEC. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the applicable prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void. We have not previously completed such an offering of subscription rights.

Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and

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duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement, we will forward, as soon as practicable, the shares of common stock or other securities purchasable upon such exercise. We may determine to offer any unsubscribed offered securities directly to stockholders, persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, including pursuant to standby underwriting or other arrangements, as set forth in the applicable prospectus supplement.



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**DESCRIPTION OF OUR DEBT SECURITIES**

We may issue debt securities in one or more series. The specific terms of each series of debt securities will be described in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an indenture. An indenture is a contract between us and the financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under **Events of Default Remedies** if an Event of Default Occurs. Second, the trustee performs certain administrative duties for us with respect to our debt securities.

This section includes a description of the material provisions of the indenture. Because this section is a summary, however, it does not describe every aspect of the debt securities and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities. A copy of the form of indenture is attached as an exhibit to the registration statement of which this prospectus is a part. We will file a supplemental indenture with the SEC in connection with any debt offering, at which time the supplemental indenture would be publicly available. See **Available Information** for information on how to obtain a copy of the indenture.

The prospectus supplement, which will accompany this prospectus, will describe the particular series of debt securities being offered by including:

the designation or title of the series of debt securities;

the total principal amount of the series of debt securities;

the percentage of the principal amount at which the series of debt securities will be offered;

the date or dates on which principal will be payable;

the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;

the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;

whether any interest may be paid by issuing additional securities of the same series in lieu of cash (and the terms upon which any such interest may be paid by issuing additional securities);

the terms for redemption, extension or early repayment, if any;

the currencies in which the series of debt securities are issued and payable;

whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;

the place or places, if any, other than or in addition to the Borough of Manhattan in the City of New York, of payment, transfer, conversion and/or exchange of the debt securities;

the denominations in which the offered debt securities will be issued (if other than \$1,000 and any integral multiple thereof);

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the provision for any sinking fund;

any restrictive covenants;

any Events of Default (as defined in Events of Default below);

whether the series of debt securities are issuable in certificated form;

any provisions for defeasance or covenant defeasance;

any special U.S. federal income tax implications, including, if applicable, U.S. federal income tax considerations relating to original issue discount;

whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);

any provisions for convertibility or exchangeability of the debt securities into or for any other securities;

whether the debt securities are subject to subordination and the terms of such subordination;

whether the debt securities are secured and the terms of any security interest;

the listing, if any, on a securities exchange; and

any other terms.

The debt securities may be secured or unsecured obligations. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

As a BDC, under the 1940 Act, generally we are permitted to issue debt only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of debt, but giving effect to any exemptive relief granted to us by the SEC. For a discussion of pending legislation that may allow us to incur additional leverage, see Risk Factors Risks Related to Our Business and Structure Pending legislation may allow us to incur additional leverage.

As a BDC, the necessity of raising additional capital may expose us to risks, including the typical risks associated with leverage.

## General

The indenture provides that any debt securities proposed to be sold under this prospectus and the accompanying prospectus supplement ( offered debt securities ) and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities ( underlying debt securities ) may be issued under the indenture in one or more series.

For purposes of this prospectus, any reference to the payment of principal of, or premium or interest, if any, on, debt securities will include additional amounts if required by the terms of the debt securities.

The indenture does not limit the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the indenture securities. The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See Resignation of Trustee below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term indenture securities means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the

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powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

Except as described under **Events of Default** and **Merger or Consolidation** below, the indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants, as applicable, that are described below, including any addition of a covenant or other provision providing event risk protection or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

## **Conversion and Exchange**

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio, and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

## **Issuance of Securities in Registered Form**

We may issue the debt securities in registered form, in which case we may issue them either in book-entry form only or in certificated form. Debt securities issued in book-entry form will be represented by global securities. We expect that we will usually issue debt securities in book-entry only form represented by global securities.

## ***Book-Entry Holders***

We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means debt securities will be represented by one or more global securities registered in the name of a depositary that will hold them on behalf of financial institutions that participate in the depositary's book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depositary or its nominee. These institutions may hold these interests on behalf of themselves or customers.

Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depositary as the holder of the debt securities and we will make all payments on the debt securities to the depositary. The depositary will then pass along the payments it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.



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As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depositary's book-entry system or holds an interest through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders, of the debt securities.

### ***Street Name Holders***

In the future, we may issue debt securities in certificated form or terminate a global security. In these cases, investors may choose to hold their debt securities in their own names or in street name. Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen by the investor, and the investor would hold a beneficial interest in those debt securities through the account he or she maintains at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities, and we will make all payments on those debt securities to them. These institutions will pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

### ***Legal Holders***

Our obligations, as well as the obligations of the applicable trustee and those of any third parties employed by us or the applicable trustee, run only to the legal holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend an indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture), we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you in this Description of Our Debt Securities, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

### ***Special Considerations for Indirect Holders***

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

how it handles securities payments and notices;

whether it imposes fees or charges;

how it would handle a request for the holders' consent, if ever required;

whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future for a particular series of debt securities;



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how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests; and

if the debt securities are in book-entry form, how the depository's rules and procedures will affect these matters.

## **Global Securities**

As noted above, we usually will issue debt securities as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depository. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depository for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. We describe those situations below under **Termination of a Global Security**. As a result of these arrangements, the depository, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depository or with another institution that has an account with the depository. Thus, an investor whose security is represented by a global security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

## ***Special Considerations for Global Securities***

As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depository, as well as general laws relating to securities transfers. The depository that holds the global security will be considered the holder of the debt securities represented by the global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

an investor cannot cause the debt securities to be registered in his or her name and cannot obtain certificates for his or her interest in the debt securities, except in the special situations we describe below;

an investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as we describe under **Issuance of Securities in Registered Form** above;

an investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;

an investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;

the depositary's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor's interest in a global security. We and the trustee

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have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way;

if we redeem less than all the debt securities of a particular series being redeemed, DTC's practice is to determine by lot the amount to be redeemed from each of its participants holding that series;

an investor is required to give notice of exercise of any option to elect repayment of its debt securities, through its participant, to the applicable trustee and to deliver the related debt securities by causing its participant to transfer its interest in those debt securities, on DTC's records, to the applicable trustee;

DTC requires that those who purchase and sell interests in a global security deposited in its book-entry system use immediately available funds; your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security; and

financial institutions that participate in the depositary's book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt securities; there may be more than one financial intermediary in the chain of ownership for an investor; we do not monitor and are not responsible for the actions of any of those intermediaries.

### ***Termination of a Global Security***

If a global security is terminated for any reason, interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated debt securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of legal holders and street name investors under "Issuance of Securities in Registered Form" above.

The prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by the prospectus supplement. If a global security is terminated, only the depositary, and not we or the applicable trustee, is responsible for deciding the investors in whose names the debt securities represented by the global security will be registered and, therefore, who will be the holders of those debt securities.

### **Payment and Paying Agents**

We will pay interest to the person listed in the applicable trustee's records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, usually about two weeks in advance of the interest due date, is called the record date. Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called accrued interest.

### ***Payments on Global Securities***

We will make payments on a global security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depositary and its participants, as described under Special Considerations for Global Securities.

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### ***Payments on Certificated Securities***

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date to the holder of debt securities as shown on the trustee's records as of the close of business on the regular record date at our office and/or at other offices that may be specified in the prospectus supplement. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, at our option, we may pay any cash interest that becomes due on the debt security by mailing a check to the holder at his, her or its address shown on the trustee's records as of the close of business on the regular record date or by transfer to an account at a bank in the United States, in either case, on the due date.

### ***Payment When Offices Are Closed***

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

## **Events of Default**

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term "Event of Default" in respect of the debt securities of your series means any of the following:

we do not pay the principal of, or any premium on, a debt security of the series within five days of its due date;

we do not pay interest on a debt security of the series when due, and such default is not cured within 30 days;

we remain in breach of a covenant in respect of debt securities of the series for 60 days after we receive a written notice of default stating we are in breach (the notice must be sent by either the trustee or holders of at least 25% of the principal amount of the debt securities of the series);

we file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 90 days;

the series of debt securities has an asset coverage, as such term is defined in the 1940 Act, of less than 100% on the last business day of each of twenty-four consecutive calendar months, after giving effect to any exemptive relief granted to the Company by the SEC; or

any other Event of Default in respect of debt securities of the series described in the prospectus supplement occurs.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of the debt securities of any default, except in the payment of principal, premium, interest, or sinking or purchase fund installment, if it in good faith considers the withholding of notice to be in the interest of the holders.

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***Remedies if an Event of Default Occurs***

If an Event of Default has occurred and is continuing, the trustee or the holders of not less than 25% in principal amount of the outstanding debt securities of the affected series may (and the trustee shall at the request of such holders) declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the outstanding debt securities of the affected series if (1) we have deposited with the trustee all amounts due and owing with respect to the securities (other than principal that has become due solely by reason of such acceleration) and certain other amounts, and (2) any other Events of Default have been cured or waived.

The trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee protection from expenses and liability reasonably satisfactory to it (called an indemnity). If indemnity reasonably satisfactory to the trustee is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

you must give the trustee written notice that an Event of Default with respect to the relevant debt securities has occurred and remains uncured;

the holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer the trustee indemnity, security or both reasonably satisfactory to it against the cost, expenses, and other liabilities of taking that action;

the trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity and/or security; and

the holders of a majority in principal amount of the outstanding debt securities of that series must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

**Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.**

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities, or else specifying any default.

***Waiver of Default***

Holders of a majority in principal amount of the outstanding debt securities of the affected series may waive any past defaults other than a default:

in the payment of principal or interest; or

in respect of a covenant that cannot be modified or amended without the consent of each holder.



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### **Merger or Consolidation**

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met:

where we merge out of existence or convey or transfer our assets substantially as an entirety, the resulting entity must agree to be legally responsible for our obligations under the debt securities;

the merger or sale of assets must not cause a default on the debt securities and we must not already be in default (unless the merger or sale would cure the default). For purposes of this no-default test, a default would include an Event of Default that has occurred and has not been cured, as described under "Events of Default" above. A default for this purpose would also include any event that would be an Event of Default if the requirements for giving us a notice of default or our default having to exist for a specific period of time were disregarded;

we must deliver certain certificates and documents to the trustee; or

we must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

### **Modification or Waiver**

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

#### ***Changes Requiring Your Approval***

First, there are changes that we cannot make to your debt securities without your specific approval. The following is a list of those types of changes:

change the stated maturity of the principal of or interest on a debt security or the terms of any sinking fund with respect to any security;

reduce any amounts due on a debt security;

reduce the amount of principal payable upon acceleration of the maturity of an original issue discount or indexed security following a default or upon the redemption thereof or the amount thereof provable in a bankruptcy proceeding;

adversely affect any right of repayment at the holder's option;

change the place or currency of payment on a debt security (except as otherwise described in the prospectus or prospectus supplement);

impair your right to sue for payment;

adversely affect any right to convert or exchange a debt security in accordance with its terms;

modify the subordination provisions in the indenture in a manner that is adverse to outstanding holders of the debt securities;

reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;

reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;

modify any other aspect of the provisions of the indenture dealing with supplemental indentures with the consent of holders, waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and

change any obligation we have to pay additional amounts.

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***Changes Not Requiring Approval***

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications, establishment of the form or terms of new securities of any series as permitted by the indenture and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

***Changes Requiring Majority Approval***

Any other change to the indenture and the debt securities would require the following approval:

if the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series; and

if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

In each case, the required approval must be given by written consent.

The holders of a majority in principal amount of a series of debt securities issued under the indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants applicable to that series of debt securities. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under Changes Requiring Your Approval.

**Further Details Concerning Voting**

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default;

for debt securities whose principal amount is not known (for example, because it is based on an index), we will use the principal face amount at original issuance or a special rule for that debt security described in the prospectus supplement; and

for debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent. Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption or if we, any other obligor, or any affiliate of us or any obligor own such debt securities. Debt securities will also not be eligible to vote if they have been fully defeased as described later under Defeasance Full Defeasance.

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. However, the record date may not be more than 30 days before the date of the first solicitation of holders to vote on or take such action. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.

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**Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.**

**Defeasance**

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

***Covenant Defeasance***

Under current U.S. federal tax law and the indenture, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called covenant defeasance. In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. If we achieved covenant defeasance and your debt securities were subordinated as described under Indenture Provisions Subordination below, such subordination would not prevent the trustee under the indenture from applying the funds available to it from the deposit described in the first bullet below to the payment of amounts due in respect of such debt securities for the benefit of the subordinated debt holders. In order to achieve covenant defeasance, we must do the following:

we must deposit in trust for the benefit of all holders of a series of debt securities a combination of cash (in such currency in which such securities are then specified as payable at stated maturity) or government obligations applicable to such securities (determined on the basis of the currency in which such securities are then specified as payable at stated maturity) that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates and any mandatory sinking fund payments or analogous payments;

we must deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit;

we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers certificate stating that all conditions precedent to covenant defeasance have been complied with;

defeasance must not result in a breach or violation of, or result in a default under, of the indenture or any of our other material agreements or instruments;

no default or event of default with respect to such debt securities shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days; and

satisfy the conditions for covenant defeasance contained in any supplemental indentures.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. For example, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be such a shortfall. However, there is no assurance that we would have sufficient funds to make payment of the shortfall.

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***Full Defeasance***

If there is a change in U.S. federal tax law or we obtain an IRS ruling, as described in the second bullet below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called "full defeasance") if we put in place the following other arrangements for you to be repaid:

we must deposit in trust for the benefit of all holders of a series of debt securities a combination of cash (in such currency in which such securities are then specified as payable at stated maturity) or government obligations applicable to such securities (determined on the basis of the currency in which such securities are then specified as payable at stated maturity) that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates and any mandatory sinking fund payments or analogous payments;

we must deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit. Under current U.S. federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit;

we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with;

defeasance must not result in a breach or violation of, or constitute a default under, of the indenture or any of our other material agreements or instruments;

no default or event of default with respect to such debt securities shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days; and

satisfy the conditions for full defeasance contained in any supplemental indentures.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If your debt securities were subordinated as described later under "Indenture Provisions - Subordination", such subordination would not prevent the trustee under the indenture from applying the funds available to it from the deposit referred to in the first bullet of the preceding paragraph to the payment of amounts due in respect of such debt securities for the benefit of the subordinated debt holders.

**Form, Exchange and Transfer of Certificated Registered Securities**

If registered debt securities cease to be issued in book-entry form, they will be issued:

only in fully registered certificated form;

without interest coupons; and

unless we indicate otherwise in the prospectus supplement, in denominations of \$1,000 and amounts that are multiples of \$1,000.

Holders may exchange their certificated securities for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed and as long as the denomination is greater than the minimum denomination for such securities.



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Holders may exchange or transfer their certificated securities at the office of the trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for your debt security, they will be named in the prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a registered debt security is issued in book-entry form, only the depository will be entitled to transfer and exchange the debt security as described in this subsection, since it will be the sole holder of the debt security.

## **Resignation of Trustee**

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series and has accepted such appointment. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

## **Indenture Provisions Subordination**

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all Senior Indebtedness (as defined below), but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities, upon our dissolution, winding up, liquidation or reorganization before all Senior Indebtedness is paid in full, the payment or distribution received by the trustee in respect of such subordinated debt securities or by the holders of any of such subordinated debt securities must be paid over to the holders of the Senior Indebtedness or on their behalf for application to the payment of all the Senior Indebtedness remaining unpaid until all the Senior Indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness. Subject to the

payment in full of all Senior Indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the Senior Indebtedness to the extent of payments made to the holders of the Senior Indebtedness out of the distributive share of such subordinated debt securities.

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By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities or the holders of any indenture securities that are not Senior Indebtedness. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

Senior Indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on:

our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed, that we have designated as Senior Indebtedness for purposes of the indenture and in accordance with the terms of the indenture (including any indenture securities designated as Senior Indebtedness), and

renewals, extensions, modifications and refinancings of any of this indebtedness.

If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement will set forth the approximate amount of our Senior Indebtedness and of our other Indebtedness outstanding as of a recent date.

## **Secured Indebtedness and Ranking**

Certain of our indebtedness, including certain series of indenture securities, may be secured. The prospectus supplement for each series of indenture securities will describe the terms of any security interest for such series and will indicate the approximate amount of our secured indebtedness as of a recent date. Any unsecured indenture securities will effectively rank junior to any secured indebtedness, including any secured indenture securities, that we incur in the future to the extent of the value of the assets securing such future secured indebtedness. The debt securities, whether secured or unsecured, of the Company will rank structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles, or similar facilities.

In the event of our bankruptcy, liquidation, reorganization or other winding up, any of our assets that secure secured debt will be available to pay obligations on unsecured debt securities only after all indebtedness under such secured debt has been repaid in full from such assets. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all unsecured debt securities then outstanding after fulfillment of this obligation. As a result, the holders of unsecured indenture securities may recover less, ratably, than holders of any of our secured indebtedness.

## **The Trustee under the Indenture**

We intend to use a nationally recognized financial institution to serve as the trustee under the indenture.

## **Certain Considerations Relating to Foreign Currencies**

Debt securities denominated or payable in foreign currencies may entail significant risks. These risks include the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable prospectus supplement.



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**DESCRIPTION OF OUR WARRANTS**

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants.

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities. Such warrants may be issued independently or together with shares of common or preferred stock or a specified principal amount of debt securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

the title of such warrants;

the aggregate number of such warrants;

the price or prices at which such warrants will be issued;

the currency or currencies, including composite currencies, in which the price of such warrants may be payable;

if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;

in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which this principal amount of debt securities may be purchased upon such exercise;

in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;

the date on which the right to exercise such warrants shall commence and the date on which such right will expire;

whether such warrants will be issued in registered form or bearer form;

if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;

if applicable, the date on and after which such warrants and the related securities will be separately transferable;

information with respect to book-entry procedures, if any;

the terms of the securities issuable upon exercise of the warrants;

if applicable, a discussion of certain U.S. federal income tax considerations; and

any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

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Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including, in the case of warrants to purchase debt securities, the right to receive principal, premium, if any, or interest payments, on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture or, in the case of warrants to purchase common stock or preferred stock, the right to receive distributions, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the 1940 Act, we may generally only offer warrants provided that (1) the warrants expire by their terms within ten years; (2) the exercise or conversion price is not less than the current market value at the date of issuance; (3) our stockholders authorize the proposal to issue such warrants, and our board of directors approves such issuance on the basis that the issuance is in our best interests and our stockholders; and (4) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants at the time of issuance may not exceed 25.0% of our outstanding voting securities. Our stockholders voted to allow us to issue warrants at our 2012 Annual Meeting of Stockholders.

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**REGULATION**

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

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

**Qualifying Assets**

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

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

is organized under the laws of, and has its principal place of business in, the U.S.;

is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940



Act; and

satisfies either of the following:

does not have any class of securities listed on a national securities exchange or has any class of securities listed on a national securities exchange subject to a \$250.0 million market capitalization maximum; or

is controlled by a BDC or a group of companies including a BDC, the BDC actually exercises a controlling influence over the management or policies of the eligible portfolio company, and, as a result, the BDC has an affiliated person who is a director of the eligible portfolio company.

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- (b) Securities of any eligible portfolio company which we control.
- (c) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident to such a private transaction, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities, was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
- (d) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60.0% of the outstanding equity of the eligible portfolio company.
- (e) Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the exercise of warrants or rights relating to such securities.
- (f) Cash, cash equivalents, U.S. government securities or high-quality debt securities that mature in one year or less from the date of investment.

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

**Managerial Assistance to Portfolio Companies**

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

**Temporary Investments**

Pending investment in other types of qualifying assets, as described above, our investments may consist of cash, cash equivalents, U.S. government securities, repurchase agreements and high-quality debt investments that mature in one year or less from the date of investment, which we refer to, collectively, as temporary investments, so that 70.0% of our assets are invested in qualifying assets or temporary investments. We may from time to time invest in U.S. Treasury bills or in repurchase agreements, so long as the agreements are fully collateralized by cash or securities issued by the U.S. government, including securities issued by certain U.S. government agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by

the seller to repurchase it at an agreed-upon future date and at a price that is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25.0% of our total assets constitute repurchase agreements from a single counterparty (other than repurchase agreements fully collateralized by U.S. government securities), we would not satisfy the asset diversification requirements for qualification as a RIC for U.S. federal income tax purposes. Accordingly, we do not intend to enter into any such repurchase agreements that would cause us to fail such asset diversification requirements. Our investment advisor monitors the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

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### **Senior Securities**

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200.0% immediately after each such issuance (exclusive of the SBA debentures pursuant to our SEC exemptive relief). In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5.0% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see Risk Factors Risks Relating to Our Business and Structure Regulations governing our operation as a BDC affect our ability to raise, and the way in which we raise, additional capital which may have a negative effect on our growth.

### **Codes of Ethics**

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

### **Proxy Voting Policies and Procedures**

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

#### ***Introduction***

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

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

#### ***Proxy Policies***

Our investment advisor will vote proxies relating to our portfolio securities in what it perceives to be the best interest of our stockholders. Our investment advisor reviews on a case-by-case basis each proposal submitted to a stockholder vote to determine its effect on the portfolio securities we hold. In most cases our

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investment advisor will vote in favor of proposals that it believes are likely to increase the value of the portfolio securities we hold. Although our investment advisor will generally vote against proposals that may have a negative effect on our portfolio securities, our investment advisor may vote for such a proposal if there exist compelling long-term reasons to do so.

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

## ***Proxy Voting Records***

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

## **Compliance Policies and Procedures**

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

## **Other**

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

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our Independent Directors and, in some cases, prior approval by the SEC. On March 27, 2012, the SEC granted us and Fund I exemptive relief allowing us to operate effectively as one company and to take certain actions, including engaging in certain transactions with our affiliates, and to be subject to modified consolidated asset coverage requirements for senior securities issued by a BDC, that would otherwise be prohibited by the 1940 Act. Effective September 30, 2014, our exemptive relief was amended to include Fund II. Therefore, any SBA debentures issued by Fund II are not subject to the 200.0% asset coverage requirement.

## **Small Business Administration Regulations**

The Funds are licensed by the SBA to operate as SBICs under Section 301(c) of the Small Business Investment Act of 1958. Fund I received its SBIC license on October 22, 2007 and Fund II received its SBIC license on May 28, 2013. We may issue SBA debentures to fund additional investments through the Funds.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs can provide financing in the form of debt and/or equity securities and provide consulting and

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advisory services to eligible small businesses. The Funds have typically invested in senior subordinated debt, acquired warrants and/or made other equity investments in qualifying small businesses.

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

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

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

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

An SBIC (or group of SBICs under common control) may generally have outstanding debentures guaranteed by the SBA in amounts up to two times the amount of the regulatory capital of the SBIC(s). Debentures guaranteed by the SBA have a maturity of ten years, require semi-annual payments of interest, and do not require any principal payments prior to maturity. In December 2015, the 2016 omnibus spending bill approved by Congress and signed into law by the President increased the amount of SBA-guaranteed debentures that affiliated SBIC funds can have outstanding from \$225.0 million to \$350.0 million, subject to SBA approval.

SBICs must invest idle funds that are not being used to make loans in investments permitted under SBA regulations in the following limited types of securities: (i) direct obligations of, or obligations guaranteed as to principal and interest by, the U.S. government, which mature within 15 months from the date of the investment; (ii) repurchase agreements with federally insured institutions with a maturity of seven days or less (and the securities underlying the repurchase



obligations must be direct obligations of or guaranteed by the federal government); (iii) certificates of deposit with a maturity of one year or less, issued by a federally insured institution; (iv) a deposit account in a federally insured institution that is subject to a withdrawal restriction of one year or less; (v) a checking account in a federally insured institution; or (vi) a reasonable petty cash fund.

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

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

## **Sarbanes-Oxley Act of 2002**

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

pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, our principal executive officer and principal financial officer must certify the accuracy of the financial statements contained in our periodic reports;

pursuant to Item 307 under Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;

pursuant to Rule 13a-15 under the Exchange Act, our management must prepare an annual report regarding its assessment of our internal control over financial reporting, which must be audited by our independent registered public accounting firm; and

pursuant to Item 308 of Regulation S-K and Rule 13a-15 under the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

## **The NASDAQ Global Select Market Corporate Governance Regulations**

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

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**PLAN OF DISTRIBUTION**

We may sell our securities through underwriters or dealers, directly to one or more purchasers or through agents or through a combination of any such methods of sale. Any underwriter or agent involved in the offer and sale of our securities will also be named in the applicable prospectus supplement.

The distribution of our securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share of our securities less any underwriting commissions or discounts must equal or exceed the net asset value per share of our securities except that we may sell shares of our securities at a price below net asset value per share if a majority of the number of beneficial holders of our stock have approved such a sale or if the following conditions are met: (i) holders of a majority of our stock and a majority of our stock not held by affiliated persons have approved issuance at less than net asset value per share during the one year period prior to such sale; (ii) a majority of our directors who have no financial interest in the sale and a majority of such directors who are not interested persons of us have determined that such sale would be in our best interest and in the best interests of our stockholders; and (iii) a majority of our directors who have no financial interest in the sale and a majority of such directors who are not interested persons of us, in consultation with the underwriter or underwriters of the offering if it is to be underwritten, have determined in good faith, and as of a time immediately prior to the first solicitation by or on behalf of us of firm commitments to purchase such securities or immediately prior to the issuance of such securities, that the price at which such securities are to be sold is not less than a price which closely approximates the market value of those securities, less any distributing commission or discount.

On June 3, 2015, our common 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 3, 2016 or the date of our 2016 Annual Meeting of Stockholders. We expect to present to our stockholders a similar proposal at our 2016 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.

In connection with the sale of our securities, underwriters or agents may receive compensation from us or from purchasers of our securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell our securities to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our securities may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of our securities may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable prospectus supplement.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement.

supplement (or a post-effective amendment).

Any of our common stock sold pursuant to a prospectus supplement will be listed on the Nasdaq Global Select Market, or another exchange on which our common stock is traded.

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Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of our securities may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our securities from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of our securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

In order to comply with the securities laws of certain states, if applicable, our securities offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, our securities may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority, Inc. will not be greater than 10.0% for the sale of any securities being registered.

## **CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR**

Our securities are held by U.S. Bank National Association pursuant to a custody agreement. The principal business address of U.S. Bank National Association is Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110, telephone: (617) 603-6538. American Stock Transfer & Trust Company, LLC will serve as our transfer agent, distribution paying agent and registrar. The principal business address of American Stock Transfer & Trust Company, LLC is 59 Maiden Lane, Plaza Level, New York, New York 10038, telephone: (800) 937-5449.

## **BROKERAGE ALLOCATION AND OTHER PRACTICES**

Since we will acquire and dispose of many of our investments in privately negotiated transactions, many of the transactions that we engage in will not require the use of brokers or the payment of brokerage commissions. Subject to policies established by our board of directors, our investment advisor will be primarily responsible for selecting brokers and dealers to execute transactions with respect to the publicly-traded securities portion of our portfolio transactions and the allocation of brokerage commissions. Our investment advisor does not expect to execute transactions through any particular broker or dealer but will seek to obtain the best net results for us under the circumstances, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. Our investment advisor generally will seek reasonably competitive trade execution costs but will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements and consistent with Section 28(e) of the Exchange Act, our investment advisor may select a broker based upon brokerage or research services provided to our investment advisor and us and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if our investment advisor determines in good faith that such commission is reasonable in relation to the services provided.



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**LEGAL MATTERS**

Certain legal matters will be passed upon for us by Sutherland Asbill & Brennan LLP. Sutherland Asbill & Brennan LLP also represents our investment advisor.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The consolidated financial statements, the related senior securities table and the effectiveness of internal control over financial reporting appearing in this prospectus and registration statement have been audited by RSM US LLP, an independent registered public accounting firm located at One South Wacker Drive, Suite 800, Chicago, Illinois 60606, as stated in their reports appearing elsewhere herein, and are included in reliance upon such reports and upon the authority of such firm as experts in accounting and auditing.

**AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the securities offered by this prospectus. The registration statement contains additional information about us and the securities being offered by this prospectus.

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. We maintain a website at <http://www.fidus.com> and intend to make all of our annual, quarterly and current reports, proxy statements and other publicly filed information available, free of charge, on or through our website. Information contained on our website is not incorporated into this prospectus supplement, and you should not consider information on our website to be part of this prospectus supplement. You may also obtain such information by contacting us in writing at 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201, Attention: Investor Relations. The SEC maintains a website that contains reports, proxy and information statements and other information we file with the SEC at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may also be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-0102.

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**PRIVACY NOTICE**

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

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

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



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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

Fidus Investment Corporation and Subsidiaries

We have audited Fidus Investment Corporation and Subsidiaries (collectively, the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Fidus Investment Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of assets and liabilities, including the consolidated schedules of investments, of Fidus Investment Corporation and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2015, and our report dated March 3, 2016 expressed an unqualified opinion.

/s/ RSM US LLP

Chicago, Illinois

March 3, 2016

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

Fidus Investment Corporation and Subsidiaries

We have audited the accompanying consolidated statements of statement of assets and liabilities, including the consolidated schedules of investments, of Fidus Investment Corporation and Subsidiaries (collectively, the Company ) as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of investments owned as of December 31, 2015 and 2014, by correspondence with the custodian, loan agent, or borrower or by other appropriate procedures where replies from the custodian, loan agent or borrower were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fidus Investment Corporation and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fidus Investment Corporation and Subsidiaries internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 3, 2016, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ RSM US LLP

Chicago, Illinois

March 3, 2016

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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Investments, at fair value		
Control investments (cost: \$12,042 and \$10,460, respectively)	\$ 618	\$ 4,244
Affiliate investments (cost: \$105,930 and \$81,979, respectively)	111,846	86,200
Non-control/non-affiliate investments (cost: \$330,366 and \$298,899, respectively)	330,805	305,911
Total investments, at fair value (cost: \$448,338 and \$391,338, respectively)	443,269	396,355
Cash and cash equivalents	31,657	29,318
Interest receivable	4,520	4,460
Deferred financing costs (net of accumulated amortization of \$3,794 and \$2,784, respectively)	4,872	4,567
Prepaid expenses and other assets	1,222	887
<b>Total assets</b>	<b>\$ 485,540</b>	<b>\$ 435,587</b>
<b>LIABILITIES</b>		
SBA debentures	\$ 213,500	\$ 173,500
Borrowings under credit facility	15,500	10,000
Accrued interest and fees payable	2,840	2,853
Due to affiliates	5,762	5,395
Taxes payable	400	328
Accounts payable and other liabilities	176	248
<b>Total liabilities</b>	<b>238,178</b>	<b>192,324</b>
Commitments and contingencies (Note 7)		
<b>NET ASSETS</b>		
Common stock, \$0.001 par value (100,000,000 shares authorized, 16,300,732 and 16,051,037 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively)	16	16
Additional paid-in capital	246,307	243,008
Undistributed net investment income	13,887	12,433
Accumulated net realized (loss) gain on investments, net of taxes and distributions	(6,145)	(15,999)
Accumulated net unrealized (depreciation) appreciation on investments	(6,703)	3,805

<b>Total net assets</b>		247,362		243,263
<b>Total liabilities and net assets</b>	\$	485,540	\$	435,587
<b>Net asset value per common share</b>	\$	15.17	\$	15.16

*See Notes to Consolidated Financial Statements.*

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

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Investment income:			
Interest income			
Control investments	\$ 220	\$ 86	\$ 1,648
Affiliate investments	10,400	9,738	8,969
Non-control/non-affiliate investments	39,973	30,473	27,033
Total interest income	50,593	40,297	37,650
Dividend income			
Affiliate investments	412	150	139
Non-control/non-affiliate investments	548	1,865	1,539
Total dividend income	960	2,015	1,678
Fee income			
Control investments			176
Affiliate investments	591	584	337
Non-control/non-affiliate investments	2,072	3,193	1,801
Total fee income	2,663	3,777	2,314
Interest on idle funds and other income	53	27	150
Total investment income	54,269	46,116	41,792
Expenses:			
Interest and financing expenses	9,428	7,507	7,076
Base management fee	7,545	5,899	5,261
Incentive fee	6,481	4,857	6,792
Administrative service expenses	1,465	1,772	1,155
Professional fees	1,255	1,182	851
Other general and administrative expenses	1,212	1,235	1,115
Total expenses	27,386	22,452	22,250
Net investment income before income taxes	26,883	23,664	19,542
Income tax provision	390	383	246
<b>Net investment income</b>	<b>26,493</b>	<b>23,281</b>	<b>19,296</b>
Net realized and unrealized gains (losses) on investments:			

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Realized gains on control investments			22,231
Net realized gains (losses) on affiliate investments	1,686	(12,121)	
Net realized gains (losses) on non-control/non-affiliate investments	7,845	(4,908)	8,357
Net change in unrealized (depreciation) appreciation on investments	(10,086)	13,250	(22,188)
Income tax benefit (provision) from realized gains on investments	39	(17)	(493)
<b>Net (loss) gain on investments</b>	<b>(516)</b>	<b>(3,796)</b>	<b>7,907</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 25,977</b>	<b>\$ 19,485</b>	<b>\$ 27,203</b>
<b>Per common share data:</b>			
Net investment income per share-basic and diluted	\$ 1.64	\$ 1.62	\$ 1.43
Net increase in net assets resulting from operations per share-basic and diluted	\$ 1.60	\$ 1.36	\$ 2.01
Dividends paid per share	\$ 1.60	\$ 1.72	\$ 1.94
Weighted average number of shares outstanding - basic and diluted	16,201,449	14,346,438	13,524,368

*See Notes to Consolidated Financial Statements.*



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

(In thousands, except shares)

	Common Stock		Additional Paid in Capital	Undistributed Net Investment Income	Accumulated Net Realized (Loss) Gain on Accumulated Investments, Net		Total Net Assets
	Number of Shares	Par Value			net of taxes and distributions	Unrealized (Depreciation) Appreciation on Investments	
<b>Balances at December 31, 2012</b>	11,953,847	\$ 12	\$ 177,498	\$ 455	\$ 1,493	\$ 3,633	\$ 183,091
Public offerings of common stock, net of expenses	1,725,000	2	28,855				28,857
Shares issued under dividend reinvestment plan	76,385		1,464				1,464
Net increase in net assets resulting from operations				19,296	20,985	(13,078)	27,203
Dividends declared				(16,603)	(10,000)		(26,603)
Deemed distribution			5,363		(8,250)		(2,887)
Tax reclassificaiton of stockholders equity in accordance with generally accepted accounting principles			(7,057)	73	6,984		
<b>Balances at December 31, 2013</b>	13,755,232	14	206,123	3,221	11,212	(9,445)	211,125
Public offerings of common stock, net of expenses	2,241,767	2	36,540				36,542
Shares issued under dividend reinvestment plan	54,038		935				935
Net increase in net assets resulting from operations				23,281	(17,046)	13,250	19,485
Dividends declared				(14,435)	(10,389)		(24,824)

Tax reclassificaiton of stockholders' equity in accordance with generally accepted accounting principles			(590)	366	224		
<b>Balances at</b>							
<b>December 31, 2014</b>	16,051,037	16	243,008	12,433	(15,999)	3,805	243,263
Public offerings of common stock, net of expenses	190,623		3,170				3,170
Shares issued under dividend reinvestment plan, net of expenses	59,072		899				899
Net increase in net assets resulting from operations				26,493	9,992	(10,508)	25,977
Dividends declared				(25,947)			(25,947)
Tax reclassificaiton of stockholders' equity in accordance with generally accepted accounting principles			(770)	908	(138)		
<b>Balances at</b>							
<b>December 31, 2015</b>	16,300,732	\$ 16	\$ 246,307	\$ 13,887	\$ (6,145)	\$ (6,703)	\$ 247,362

*See Notes to Consolidated Financial Statements.*

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

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities:</b>			
Net increase in net assets resulting from operations	\$ 25,977	\$ 19,485	\$ 27,203
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used for) operating activities:			
Net change in unrealized depreciation on investments	10,086	(13,250)	22,188
Net realized (gain) loss on investments	(9,531)	17,029	(30,588)
Interest and dividend income paid-in-kind	(5,170)	(5,617)	(5,811)
Accretion of original issue discount	(578)	(643)	(1,081)
Accretion of loan origination fees	(797)	(529)	(407)
Purchase of investments	(136,380)	(149,814)	(149,095)
Proceeds from sales and repayments of investments	94,686	62,643	131,199
Proceeds from loan origination fees	770	807	863
Amortization of deferred financing costs	1,010	681	512
Changes in operating assets and liabilities:			
Interest receivable	(60)	(1,973)	820
Prepaid expenses and other assets	(335)	337	(387)
Accrued interest and fees payable	487	155	61
Due to affiliates	367	(187)	1,936
Taxes payable	72	(356)	684
Accounts payable and other liabilities	(72)	(38)	(189)
<b>Net cash (used for) operating activities</b>	<b>(19,468)</b>	<b>(71,270)</b>	<b>(2,092)</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from stock offerings, net of expenses	3,170	36,542	28,857
Proceeds received from SBA debentures	40,000	29,000	
Net proceeds received from borrowings under credit facility	5,500	10,000	
Payment of deferred financing costs	(1,815)	(1,596)	(250)
Dividends paid to stockholders, including expenses	(25,048)	(23,889)	(25,139)
Taxes paid on deemed distribution		(2,887)	
<b>Net cash provided by financing activities</b>	<b>21,807</b>	<b>47,170</b>	<b>3,468</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,339</b>	<b>(24,100)</b>	<b>1,376</b>
Cash and cash equivalents:			
Beginning of period	29,318	53,418	52,042

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End of period	\$ 31,657	\$ 29,318	\$ 53,418
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**Supplemental disclosure of cash flow information:**

Cash payments for interest	\$ 7,931	\$ 6,670	\$ 6,503
Cash payments for taxes, net of tax refunds received	\$ 279	\$ 3,471	\$ 55

**Non-cash financing activities:**

Shares issued under dividend reinvestment plan	\$ 901	\$ 935	\$ 1,464
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*See Notes to Consolidated Financial Statements.*

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**Table of Contents****FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****December 31, 2015****(In thousands, except shares)****Industry**

<b>Portfolio Company</b> <sup>(a)(b)</sup>	<b>Rate</b> <sup>(d)</sup>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Investment Type</b> <sup>(c)</sup>	<b>Cash/PIK</b>					
<b>Aerospace &amp; Defense Manufacturing</b>						
<i>FDS Avionics Corp.</i>						
<i>(dba Flight Display Systems)</i>						
Subordinated Note	12.3%/0.0%	4/1/2020	\$ 5,200	\$ 5,180	\$ 5,200	
Common Equity (200 units) <sup>(i)</sup>				2,000	1,468	
				7,180	6,668	3%
<i>Lightning Diversion Systems, LLC</i>						
Senior Secured Loan	9.5%/0.0%	12/20/2018	9,198	9,165	9,198	
Revolving Loan (\$1,000 commitment) <sup>(h)</sup>	9.5%/0.0%	12/20/2018		(1)	(1)	
Common Equity (600,000 units)					2,429	
				9,164	11,626	5%
<i>Malabar International</i> <sup>(k)</sup>						
Subordinated Note <sup>(j)</sup>	12.5%/2.5%	5/21/2017	7,450	7,436	7,450	
Preferred Equity (1,494 shares) <sup>(f)</sup>	6.0%/0.0%	11/21/2017		1,994	4,808	
				9,430	12,258	5%
<i>Simplex Manufacturing Co.</i>						
Subordinated Note	14.0%/0.0%	5/1/2016	4,550	4,550	4,550	
Warrant (24 shares)				710	3,359	
				5,260	7,909	3%
<i>Steward Holding LLC</i> <sup>(k)</sup>						
<i>(dba Steward Advanced Materials)</i>						
Subordinated Note	12.0%/2.3%	5/12/2021	7,022	6,987	6,987	
Common Equity (1,000,000 units)				1,000	1,000	
				7,987	7,987	3%
<b>Apparel Distribution</b>						

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*Jacob Ash Holdings, Inc.*

Subordinated Note <sup>(j)</sup>	13.0%/4.0%	6/30/2018	4,000	3,994	4,000
Subordinated Note	13.0%/0.0%	6/30/2018	963	956	963
Preferred Equity (66,138 shares) <sup>(f)</sup>	0.0%/15.0%	6/30/2018		924	926
Warrant (63,492 shares)				67	

5,941 5,889 2%

**Building Products Manufacturing**

*The Wolf Organization, LLC*

Common Equity (175 shares)				1,750	2,514	1%
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*US GreenFiber, LLC*

Subordinated Note <sup>(j)</sup>	12.5%/0.0%	1/2/2019	14,000	13,952	14,000
Common Equity (1,667 units) <sup>(g)(i)</sup>				500	1,170

14,452 15,170 6%

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**Table of Contents****FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments (Continued)**

December 31, 2015

(In thousands, except shares)

**Industry**

<b>Portfolio Company</b> <sup>(a)(b)</sup>	<b>Rate</b> <sup>(d)</sup>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Investment Type</b> <sup>(c)</sup>	<b>Cash/PIK</b>					
<b>Business Services</b>						
<i>Inflexxion, Inc.</i> <sup>(k)</sup>						
Senior Secured Loan	12.5%/0.0%	12/16/2019	\$ 3,950	\$ 3,931	\$ 3,470	
Revolving Loan (\$1,000 commitment)						
<sup>(i)</sup>	12.5%/0.0%	12/16/2019	150	146	132	
Preferred Equity (1,400 units)				1,400		
				5,477	3,602	1%
<i>Plymouth Rock Energy, LLC</i>						
Senior Secured Loan	11.8%/0.0%	5/14/2017	6,000	5,984	6,000	2%
<i>Stagnito Partners, LLC</i>						
<i>(dba Stagnito Business Information)</i>						
Senior Secured Loan <sup>(i)</sup>	12.0%/0.0%	6/30/2018	6,361	6,290	6,361	3%
<i>Vanguard Dealer Services, L.L.C.</i>						
Subordinated Note (\$9,850 commitment) <sup>(i)</sup>	12.3%/0.0%	1/30/2021	7,350	7,310	7,310	
Common Equity (6,000 shares)				600	600	
				7,910	7,910	3%
<b>Commercial Cleaning</b>						
<i>Premium Franchise Brands, LLC</i>						
Preferred Equity (1,054,619 shares)				832	717	0%
<b>Component Manufacturing</b>						
<i>Channel Technologies Group, LLC</i>						
Subordinated Note	11.0%/1.8%	4/10/2019	7,000	6,963	6,253	
Preferred Equity (612 units) <sup>(g)(i)</sup>				1,139	548	
Common Equity (612,432 units) <sup>(g)(i)</sup>						
				8,102	6,801	3%
<i>Toledo Molding &amp; Die, Inc.</i>						

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Subordinated Note <sup>(i)</sup>	10.5%/0.0%	12/18/2018	10,000	9,889	10,000	4%
<b>Consumer Products</b>						
<i>Grindmaster Corporation</i>						
Subordinated Note	11.5%/0.0%	10/31/2019	10,500	10,465	10,500	4%
<i>World Wide Packaging, LLC <sup>(k)</sup></i>						
Subordinated Note <sup>(i)</sup>	12.0%/1.0%	10/26/2018	10,265	10,239	10,277	
Common Equity (1,517,573 units) <sup>(g)(i)</sup>				1,518	2,043	
				11,757	12,320	5%
<b>Electronic Components Supplier</b>						
<i>Apex Microtechnology, Inc. <sup>(k)</sup></i>						
Warrant (2,293 shares)				220	274	
Common Equity (11,690 shares)				1,169	1,425	
				1,389	1,699	1%

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**Table of Contents****FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments (Continued)**

December 31, 2015

(In thousands, except shares)

**Industry****Portfolio Company (a)(b)**

<b>Investment Type (c)</b>	<b>Rate (d) Cash/PIK</b>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Financial Services</b>						
<i>National Truck Protection Co., Inc.</i>						
Senior Secured Loan	13.5%/2.0%	9/13/2018	\$ 11,989	\$ 11,944	\$ 11,989	
Common Equity (1,109 shares)				758	1,705	
				12,702	13,694	6%
<b>Healthcare Products</b>						
<i>Allied 100 Group, Inc.</i>						
Subordinated Note (i)	11.5%/0.0%	5/26/2020	13,000	12,948	13,000	
Common Equity (1,250,000 units) (i)				1,250	1,223	
				14,198	14,223	6%
<i>Anatrace Products, LLC</i>						
Subordinated Note	13.0%/1.3%	6/23/2021	6,500	6,480	6,480	
Common Equity (360,000 shares) (i)					148	
				6,480	6,628	3%
<i>MedPlast, LLC</i>						
Subordinated Note (i)	11.0%/1.5%	3/31/2019	10,338	10,294	10,338	
Preferred Equity (188 shares) (f)(i)	0.0%/8.0%	3/31/2019		223	223	
Common Equity (3,728 shares) (i)				62	103	
				10,579	10,664	4%
<i>Pfanstiehl, Inc. (k)</i>						
Subordinated Note	12.0%/2.0%	9/29/2018	6,208	6,178	6,208	
Common Equity (8,500 units) (i)				850	4,280	
				7,028	10,488	4%
<i>Six Month Smiles Holdings, Inc.</i>						
Subordinated Note (i)	12.0%/1.8%	7/31/2020	8,106	8,077	8,106	3%
<b>Healthcare Services</b>						

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<i>Continental Anesthesia Management, LLC</i>						
Senior Secured Loan	10.0%/4.0%	4/15/2016	10,676	10,676	10,676	
Warrant (263 shares)				276		
				10,952	10,676	4%
<i>Medsurant Holdings, LLC <sup>(k)</sup></i>						
Subordinated Note	12.3%/0.0%	6/18/2021	6,267	6,211	6,211	
Preferred Equity (126,662 units) <sup>(g)</sup>				1,346	1,515	
Warrant (505,176 units) <sup>(g)</sup>				4,516	5,237	
				12,073	12,963	5%
<i>Microbiology Research Associates, Inc. <sup>(k)</sup></i>						
Senior Secured Loan	6.0%/0.0%	5/13/2020	3,750	3,734	3,750	
Revolving Loan (\$500 commitment) <sup>(h)(i)</sup>	6.0%/0.0%	5/13/2020		(2)		
Subordinated Note	12.5%/0.0%	11/13/2020	6,250	6,222	6,250	
Common Equity (1,000,000 units) <sup>(i)</sup>				1,000	1,444	
				10,954	11,444	5%

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**Table of Contents****FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments (Continued)**

December 31, 2015

(In thousands, except shares)

**Industry**

<b>Portfolio Company</b> <sup>(a)(b)</sup>	<b>Rate</b> <sup>(d)</sup>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Investment Type</b> <sup>(c)</sup>	<b>Cash/PIK</b>					
<b>Oaktree Medical Centre, P.C.</b>						
<i>(dba Pain Management Associates)</i>						
Senior Secured Loan <sup>(i)</sup>	8.5%/0.0%	1/1/2018	\$ 560	\$ 570	\$ 589	
Senior Secured Loan <sup>(i)</sup>	16.0%/0.0%	1/1/2018	5,379	5,458	5,454	
Revolving Loan (\$500 commitment) <sup>(i)</sup>	8.5%/0.0%	1/1/2018	250	257	263	
				6,285	6,306	3%
<b>United Biologics, LLC</b>						
Subordinated Note	12.0%/2.0%	3/5/2017	8,523	8,360	7,932	
Preferred Equity (98,377 units) <sup>(g)(i)</sup>				1,069		
Warrant (57,469 units)				566		
				9,995	7,932	3%
<b>Industrial Cleaning &amp; Coatings</b>						
<i>K2 Industrial Services, Inc.</i>						
Subordinated Note	8.8%/6.4%	5/23/2017	17,118	17,086	16,718	
Preferred Equity - Series A (1,200 shares)				1,200	271	
Preferred Equity - Series B (74 shares)				68	78	
				18,354	17,067	7%
<b>Information Technology Services</b>						
<i>FTH Acquisition Corp. VII</i>						
Subordinated Note	13.0%/0.0%	2/28/2017	8,352	8,352	8,236	
Preferred Equity (887,122 shares)				887		
				9,239	8,236	3%
<b>inthinc Technology Solutions, Inc.</b>						
Subordinated Note (\$5,000 commitment)	12.5%/0.0%	4/24/2020	4,000	3,979	3,979	
Subordinated Note	0.0%/12.5%	4/24/2020	1,039	861	861	

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Royalty Rights		4/24/2020		185	185	
				5,025	5,025	2%
<b>Laundry Services</b>						
<i>Caldwell &amp; Gregory, LLC</i>						
Subordinated Note	11.5%/1.0%	11/30/2018	1,539	1,523	1,539	
Subordinated Note	0.0%/12.0%	5/31/2019	4,072	3,897	4,072	
Common Equity (500,000 units) <sup>(g)</sup>				500	651	
Warrant (242,121 units) <sup>(g)</sup>				242	316	
				6,162	6,578	3%
<b>Oil &amp; Gas Services</b>						
<i>IOS Acquisitions, Inc. <sup>(n)</sup></i>						
Common Equity (2,152 units) <sup>(i)</sup>				\$ 109	\$ 21	0%
<i>Pinnergy, Ltd.</i>						
Subordinated Note <sup>(j)</sup>	10.5%/1.8%	1/24/2020	20,000	19,945	16,440	7%

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**Table of Contents****FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments (Continued)**

December 31, 2015

(In thousands, except shares)

**Industry**

<b>Portfolio Company</b> <sup>(a)(b)</sup>	<b>Rate</b> <sup>(d)</sup>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Investment Type</b> <sup>(c)</sup>	<b>Cash/PIK</b>					
<b>Printing Services</b>						
<i>Brook &amp; Whittle Limited</i>						
Subordinated Note	12.0%/4.8%	12/31/2016	\$ 7,655	\$ 7,655	\$ 7,361	
Subordinated Note	12.0%/2.0%	12/31/2016	2,296	2,296	2,151	
Warrant (1,051 shares)				285		
Common Equity - Series A (148 shares)				110		
Common Equity - Series D (527 shares)				53	77	
				10,399	9,589	4%
<b>Restaurants</b>						
<i>ACFP Management, Inc.</i> <sup>(n)</sup>						
Common Equity (1,000,000 units) <sup>(i)</sup>						0%
<i>Cardboard Box LLC</i> <i>(dba Anthony's Coal Fired Pizza)</i>						
Common Equity (521,021 units) <sup>(i)</sup>				521	521	0%
<i>Restaurant Finance Co, LLC</i>						
Senior Secured Loan (\$10,500 commitment) <sup>(j)</sup>	12.0%/4.0%	7/31/2020	8,443	8,410	8,443	3%
<b>Retail</b>						
<i>EBL, LLC (EbLens)</i>						
Common Equity (750,000 units) <sup>(g)(i)</sup>				750	1,389	1%
<b>Retail Cleaning</b>						
<i>Paramount Building Solutions, LLC</i> <sup>(l)</sup>						
Subordinated Note <sup>(m)</sup>	0.0%/18.0%	12/31/2017	625	625	618	
Subordinated Note <sup>(m)</sup>	0.0%/15.0%	12/31/2017	275	275		
Subordinated Note <sup>(m)</sup>	0.0%/10.0%	12/31/2017	1,376	1,376		
Subordinated Note <sup>(m)</sup>	0.0%/14.0%	12/31/2017	2,927	2,927		
Warrant (1,086,035 units) <sup>(g)</sup>						
Preferred Equity (5,000,000 units) <sup>(g)</sup>				5,339		
Common Equity (107,143 units) <sup>(g)</sup>				1,500		

				12,042	618	0%
<b>Safety Products Manufacturing</b>						
<i>Safety Products Group, LLC</i> <sup>(k)</sup>						
Subordinated Note	12.0%/1.5%	12/30/2018	10,000	9,974	10,000	
Preferred Equity (749 units) <sup>(g)(i)</sup>				749	834	
Common Equity (676 units) <sup>(g)(i)</sup>				1		
				10,724	10,834	4%
<b>Specialty Chemicals</b>						
<i>FAR Research Inc.</i> <sup>(k)</sup>						
Senior Secured Loan <sup>(i)</sup>	11.8%/1.0%	3/31/2019	7,448	7,423	7,448	
Revolving Loan (\$1,750 commitment) <sup>(i)</sup>	11.8%/1.0%	3/31/2019	137	131	136	
Common Equity (10 units)				1,000	161	
				8,554	7,745	3%
<b>Specialty Cracker Manufacturing</b>						
<i>Westminster Cracker Company, Inc.</i> <sup>(k)(n)</sup>						
Common Equity (1,307,262 units)					191	0%

**Table of Contents****FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments (Continued)****December 31, 2015****(In thousands, except shares)****Industry**

<b>Portfolio Company</b> <sup>(a)(b)</sup>	<b>Rate</b> <sup>(d)</sup>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Investment Type</b> <sup>(c)</sup>	<b>Cash/PIK</b>					
<b>Specialty Distribution</b>						
<i>Carlson Systems Holdings, Inc.</i>						
Subordinated Note <sup>(j)</sup>	12.0%/0.0%	5/20/2020	\$ 21,000	\$ 20,912	\$ 21,000	
Common Equity (15,000 units) <sup>(i)</sup>				1,500	2,079	
				22,412	23,079	9%
<i>Virginia Tile Company, LLC</i>						
Subordinated Note <sup>(j)</sup>	12.3%/0.0%	5/19/2020	12,000	11,952	12,000	
Common Equity (20 shares)				250	559	
				12,202	12,559	5%
<b>Telecommunication Services</b>						
<i>X5 Opco LLC</i>						
Senior Secured Loan	12.0%/0.0%	3/24/2020	5,500	5,477	5,665	
Revolving Loan (\$500 commitment) <sup>(h)</sup>	12.0%/0.0%	3/24/2020				
Preferred Equity (5,000 units) <sup>(f)(g)(i)</sup>	0.0%/8.0%			531	350	
				6,008	6,015	2%
<b>Transportation Services</b>						
<i>Cavallo Bus Lines Holdings, LLC</i>						
Subordinated Note	12.0%/3.0%	4/26/2021	8,250	8,210	8,210	3%
<i>US Pack Logistics LLC</i>						
Subordinated Note	12.0%/1.8%	9/27/2020	10,299	10,255	10,299	
Common Equity (5,357 units) <sup>(g)(i)</sup>				536	483	
				10,791	10,782	4%
<i>Worldwide Express Operations, LLC</i>						
Subordinated Note	11.5%/1.0%	8/1/2020	12,805	12,723	12,806	
Common Equity (2,500,000 units)				2,500	4,036	

(g)(i)				15,223	16,842	7%
<b>Utility Equipment Manufacturing</b>						
<i>Mirage Trailers LLC</i> <sup>(k)</sup>						
Senior Secured Loan <sup>(i)(e)</sup>	12.5%/0.0%	11/25/2020	9,000	8,912	8,912	
Common Equity (2,500,000 shares)				2,475	2,475	
				11,387	11,387	5%
<i>Trantech Radiator Products, Inc.</i> <sup>(k)</sup>						
Subordinated Note <sup>(i)</sup>	12.0%/1.8%	5/4/2017	8,494	8,482	8,494	
Common Equity (6,875 shares) <sup>(i)</sup>				688	434	
				9,170	8,928	4%
<b>Vending Equipment Manufacturing</b>						
<i>Ice House America, LLC</i>						
Subordinated Note <sup>(i)</sup>	12.0%/3.5%	1/1/2020	4,098	3,903	3,668	
Warrant (1,957,895 units) <sup>(g)(i)</sup>				216	47	
				4,119	3,715	2%
<b>Total Investments</b>				<b>\$ 448,338</b>	<b>\$ 443,269</b>	<b>179%</b>



**Table of Contents**

**FIDUS INVESTMENT CORPORATION**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2015**

**(In thousands, except shares)**

- (a) See Note 3 to the consolidated financial statements for portfolio composition by geographic location.
- (b) Equity ownership may be held in shares or units of companies related to the portfolio companies.
- (c) All debt investments are income producing, unless otherwise indicated. Equity investments are non-income producing unless otherwise noted.
- (d) Rate includes the cash interest or dividend rate and paid-in-kind interest or dividend rate, if any, as of December 31, 2015. Generally, payment-in-kind interest can be paid-in-kind or all in cash.
- (e) The investment bears interest at a variable rate that is determined by reference to LIBOR, which is reset monthly. The interest rate is set as LIBOR + 11.5% and is subject to a 12.5% interest rate floor. The Company has provided the interest rate in effect as of December 31, 2015.
- (f) Income producing. Maturity date, if any, represents mandatory redemption date.
- (g) Investment is held by a wholly-owned subsidiary of the Company.
- (h) The entire commitment was unfunded at December 31, 2015. As such, no interest is being earned on this investment.
- (i) Investment pledged as collateral for the Credit Facility and, as a result, is not directly available to the creditors of the Company to satisfy any obligations of the Company other than the Company's obligations under the Credit Facility (see Note 6 to the consolidated financial statements).
- (j) The portion of the investment not held by the Funds is pledged as collateral for the Credit Facility and, as a result, is not directly available to the creditors of the Company to satisfy any obligations of the Company other than the Company's obligations under the Credit Facility (see Note 6 to the consolidated financial statements).
- (k) As defined in the 1940 Act, the Company is deemed to be an Affiliated Person of this portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company. Transactions in which the issuer was an Affiliated Person are detailed in Note 3 to the consolidated financial statements.
- (l) As defined in the 1940 Act, the Company is deemed to be both an Affiliated Person of and Control this portfolio company because it owns 25% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company. Transactions in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control are detailed in Note 3 to the consolidated financial statements.
- (m) Investment was on non-accrual status as of December 31, 2015, meaning the Company has ceased recognizing interest income on the investment.
- (n) Investment in portfolio company that has sold its operations and is in the process of winding down.

*See Notes to Consolidated Financial Statements.*

**Table of Contents****FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments****December 31, 2014****(In thousands, except shares)****Industry**

<b>Portfolio Company</b> <sup>(a) (b)</sup>	<b>Rate</b> <sup>(d)</sup>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Investment Type</b> <sup>(c)</sup>	<b>Cash/PIK</b>					
<b>Aerospace &amp; Defense Manufacturing</b>						
<i>FDS Avionics Corp.</i>						
<i>(dba Flight Display Systems)</i>						
Subordinated Note	12.3%/0.0%	4/1/2020	\$ 5,200	\$ 5,175	\$ 5,175	
Common Equity (200 units) <sup>(h)</sup>				2,000	2,000	
				7,175	7,175	3%
<i>Lightning Diversion Systems, LLC</i>						
Senior Secured Loan	10.5%/0.0%	12/20/2018	12,198	12,154	12,198	
Revolving Loan (\$1,000 commitment) <sup>(g)</sup>	N/A	12/20/2018		(2)	(2)	
Common Equity (600,000 units)					2,204	
				12,152	14,400	6%
<i>Malabar International</i> <sup>(i)</sup>						
Subordinated Note <sup>(i)</sup>	12.5%/2.5%	5/21/2017	7,264	7,239	7,264	
Preferred Equity (1,494 shares) <sup>(e)</sup>	6.0%/0.0%			1,992	3,258	
				9,231	10,522	4%
<i>Simplex Manufacturing Co.</i>						
Subordinated Note	14.0%/0.0%	11/1/2015	4,550	4,537	4,537	
Warrant (24 shares)				710	813	
				5,247	5,350	2%
<b>Apparel Distribution</b>						
<i>Jacob Ash Holdings, Inc.</i>						
Subordinated Note <sup>(i)</sup>	13.0%/4.0%	6/30/2018	4,000	3,992	4,000	
Subordinated Note	13.0%/0.0%	6/30/2018	963	953	963	
Preferred Equity (66,138 shares) <sup>(e)</sup>	0.0%/15.0%	6/30/2018		798	810	
Warrant (63,492 shares)				67		

				5,810	5,773	2%
<b>Building Products Manufacturing</b>						
<i>US GreenFiber, LLC</i>						
Subordinated Note <sup>(i)</sup>	12.5%/0.0%	1/2/2019	14,000	13,936	13,936	
Common Equity (1,667 units) <sup>(f)(h)</sup>				500	500	
				14,436	14,436	6%
<b>Business Services</b>						
<i>Inflexion, Inc.</i> <sup>(i)</sup>						
Senior Secured Loan	12.5%/0.0%	12/16/2019	4,750	4,726	4,726	
Revolving Loan (\$1,000 commitment) <sup>(h)</sup>	12.5%/0.0%	12/16/2019	300	295	295	
Preferred Equity (1,400 units)				1,400	1,400	
				6,421	6,421	3%
<i>Plymouth Rock Energy, LLC</i>						
Senior Secured Loan	11.8%/0.0%	5/14/2017	6,000	5,973	5,973	2%
<b>Commercial Cleaning</b>						
<i>Premium Franchise Brands, LLC</i>						
Preferred Equity (1,054,619 shares)				832	718	0%

**Table of Contents****FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments (Continued)****December 31, 2014****(In thousands, except shares)****Industry**

<b>Portfolio Company</b> <sup>(a) (b)</sup>	<b>Rate</b> <sup>(d)</sup>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Investment Type</b> <sup>(c)</sup>	<b>Cash/PIK</b>					
<b>Component Manufacturing</b>						
<i>Channel Technologies Group, LLC</i>						
Subordinated Note	11.0%/1.3%	4/10/2019	\$ 7,000	\$ 6,952	\$ 6,619	
Preferred Equity (612 units) <sup>(f)(h)</sup>				1,139	686	
Common Equity (612,432 units) <sup>(f)(h)</sup>						
				8,091	7,305	3%
<i>Toledo Molding &amp; Die, Inc.</i>						
Subordinated Note <sup>(h)</sup>	10.5%/0.0%	12/18/2018	10,000	9,851	9,851	4%
<b>Consumer Products</b>						
<i>Grindmaster Corporation</i>						
Subordinated Note	11.5%/0.0%	10/31/2019	10,500	10,456	10,456	4%
<i>World Wide Packaging, LLC</i> <sup>(i)</sup>						
Subordinated Note <sup>(h)</sup>	12.0%/1.8%	10/26/2018	10,097	10,063	10,097	
Common Equity (1,517,573 units) <sup>(f)(h)</sup>				1,518	1,515	
				11,581	11,612	5%
<b>Electronic Components Supplier</b>						
<i>Apex Microtechnology, Inc.</i> <sup>(i)</sup>						
Warrant (2,293 units)				220	254	
Common Equity (11,690 shares)				1,169	1,302	
				1,389	1,556	1%
<b>Financial Services</b>						
<i>National Truck Protection Co., Inc.</i>						
Senior Secured Loan	13.5%/2.0%	9/13/2018	12,662	12,598	12,662	
Common Units (1,109 shares)				758	1,923	
				13,356	14,585	6%
<b>Healthcare Products</b>						

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<i>Allied 100 Group, Inc.</i>						
Subordinated Note <sup>(i)</sup>	11.5%/0.0%	5/26/2020	13,000	12,936	12,936	
Common Equity (1,250,000 units) <sup>(h)</sup>				1,250	1,250	
				14,186	14,186	6%
<i>Anatrace Products, LLC</i>						
Senior Secured Loan	11.5%/1.5%	10/11/2018	9,500	9,469	9,500	
Revolving Loan (\$500 commitment) <sup>(g)</sup>	N/A	10/11/2018		(2)	(2)	
Common Equity (360,000 shares) <sup>(h)</sup>				360	520	
				9,827	10,018	4%
<i>MedPlast, LLC</i>						
Subordinated Note <sup>(h)</sup>	11.0%/1.5%	3/31/2019	10,185	10,126	10,185	
Preferred Equity (188 shares) <sup>(e)(h)</sup>	0.0%/8.0%			206	206	
Common Equity (3,728 shares) <sup>(h)</sup>				62	65	
				10,394	10,456	4%

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Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments (Continued)****December 31, 2014****(In thousands, except shares)****Industry**

<b>Portfolio Company</b> <sup>(a) (b)</sup>	<b>Rate</b> <sup>(d)</sup>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Investment Type</b> <sup>(c)</sup>	<b>Cash/PIK</b>					
<b>Pfanstiehl, Inc.</b> <sup>(i)</sup>						
Subordinated Note	12.0%/1.5%	9/29/2018	\$ 6,208	\$ 6,168	\$ 6,208	
Common Equity (8,500 units) <sup>(h)</sup>				850	3,088	
				7,018	9,296	4%
<b>Healthcare Services</b>						
<i>Continental Anesthesia Management, LLC</i>						
Senior Secured Loan	8.0%/6.0%	4/15/2015	10,259	10,252	10,130	
Warrant (263 shares)				276		
				10,528	10,130	4%
<i>Medsurant Holdings, LLC</i> <sup>(i)</sup>						
Subordinated Note	9.5%/4.5%	7/12/2016	10,129	9,603	10,129	
Preferred Equity (126,662 units) <sup>(f)</sup>				1,345	1,027	
Warrant (505,176 units) <sup>(f)</sup>				4,516	3,715	
				15,464	14,871	6%
<i>Oaktree Medical Centre, P.C.</i> <i>(dba Pain Management Associates)</i>						
Senior Secured Loan <sup>(h)</sup>	6.5%/0.0%	5/6/2019	700	694	675	
Senior Secured Loan <sup>(h)</sup>	14.0%/0.0%	5/6/2019	5,300	5,254	5,000	
Revolving Loan (\$500 commitment) <sup>(h)</sup>	6.5%/0.0%	5/6/2019	250	246	250	
				6,194	5,925	2%
<i>United Biologics, LLC</i>						
Subordinated Note	12.0%/2.0%	3/5/2017	8,688	8,393	8,688	
Preferred Equity (98,377 units) <sup>(f)(h)</sup>				1,069	1,069	
Warrant (57,469 units)				566	281	

				10,028	10,038	4%
<b>Industrial Cleaning &amp; Coatings</b>						
<i>K2 Industrial Services, Inc.</i>						
Subordinated Note	11.8%/2.8%	5/23/2017	15,213	15,162	15,213	
Preferred Equity - Series A (1,200 shares)				1,200	914	
Preferred Equity - Series B (74 shares)				68	83	
				16,430	16,210	7%
<b>Information Technology Services</b>						
<i>Acentia, LLC</i>						
Common Units (499 units)				500	243	0%
<i>FTH Acquisition Corp. VII</i>						
Subordinated Note	13.0%/0.0%	2/27/2015	8,395	8,395	8,350	
Preferred Equity (887,122 shares)				887	621	
				9,282	8,971	4%

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**Table of Contents****FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments (Continued)****December 31, 2014****(In thousands, except shares)****Industry**

<b>Portfolio Company</b> <sup>(a) (b)</sup>	<b>Rate</b> <sup>(d)</sup>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Investment Type</b> <sup>(c)</sup>	<b>Cash/PIK</b>					
<b>Laundry Services</b>						
<i>Caldwell &amp; Gregory, LLC</i>						
Subordinated Note	11.5%/1.0%	11/30/2018	\$ 1,524	\$ 1,502	\$ 1,524	
Subordinated Note	0.0%/12.0%	5/31/2019	3,618	3,394	3,618	
Common Equity (500,000 units) <sup>(f)</sup>				500	568	
Warrant (242,121 units) <sup>(f)</sup>				242	275	
				5,638	5,985	2%
<b>Oil &amp; Gas Services</b>						
<i>IOS Acquisitions, Inc.</i>						
Subordinated Note	12.0%/3.3%	6/26/2018	14,263	14,175	13,788	
Common Equity (2,152 shares) <sup>(h)</sup>				500	364	
				14,675	14,152	6%
<i>Pinnergy, Ltd.</i>						
Subordinated Note <sup>(i)</sup>	10.5%/0.8%	1/24/2020	20,000	19,931	19,812	8%
<b>Printing Services</b>						
<i>Brook &amp; Whittle Limited</i>						
Subordinated Note	12.0%/4.8%	12/31/2016	7,297	7,297	7,272	
Subordinated Note	12.0%/2.0%	12/31/2016	2,250	2,250	2,153	
Warrant (1,051 shares)				285	134	
Common Equity - Series A (148 shares)				110	20	
Common Equity - Series D (527 shares)				53	71	
				9,995	9,650	4%
<b>Restaurants</b>						
<i>ACFP Management, Inc.</i>						
Common Units (1,000,000 units) <sup>(h)</sup>				1,091	1,587	1%
<i>Restaurant Finance Co, LLC</i>						



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Senior Secured Loan (\$10,500 commitment) <sup>(i)</sup>	12.0%/4.0%	7/31/2020	5,145	5,133	5,145	2%
<b>Retail</b>						
<i>EBL, LLC (EbLens)</i>						
Subordinated Note <sup>(h)</sup>	12.0%/3.0%	2/2/2018	9,610	9,584	9,706	
Common Equity (750,000 units) <sup>(f)(h)</sup>				750	981	
				10,334	10,687	4%
<b>Retail Cleaning</b>						
<i>Paramount Building Solutions, LLC</i>						
<sup>(k)</sup>						
Subordinated Note	7.0%/3.0%	12/31/2017	1,118	1,118	1,067	
Subordinated Note	7.0%/7.0%	12/31/2017	2,842	2,842	2,687	
Warrant (1,086,035 units) <sup>(f)</sup>						
Preferred Equity (5,000,000 units) <sup>(f)</sup>				5,000	490	
Common Equity (107,143 units) <sup>(f)</sup>				1,500		
				10,460	4,244	2%

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Table of Contents**FIDUS INVESTMENT CORPORATION****Consolidated Schedule of Investments (Continued)****December 31, 2014****(In thousands, except shares)****Industry**

<b>Portfolio Company</b> <sup>(a) (b)</sup>	<b>Rate</b> <sup>(d)</sup>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Net Assets</b>
<b>Investment Type</b> <sup>(c)</sup>	<b>Cash/PIK</b>					
<b>Safety Products Manufacturing</b>						
<i>Safety Products Group, LLC</i> <sup>(j)</sup>						
Subordinated Note	12.0%/1.5%	12/30/2018	\$ 10,000	\$ 9,965	\$ 10,000	
Preferred Equity (749 units) <sup>(f)(h)</sup>				749	812	
Common Equity (676 units) <sup>(f)(h)</sup>				1		
				10,715	10,812	4%
<b>Specialty Chemicals</b>						
<i>FAR Research Inc.</i> <sup>(j)</sup>						
Senior Secured Loan <sup>(i)</sup>	11.8%/0.0%	3/31/2019	7,600	7,567	7,600	
Revolving Loan (\$1,750 commitment) <sup>(h)</sup>	11.8%/0.0%	3/31/2019	136	129	136	
Common Equity (10 units)				1,000	938	
				8,696	8,674	4%
<b>Specialty Cracker Manufacturing</b>						
<i>Westminster Cracker Company, Inc.</i> <sup>(j)</sup>						
Preferred Equity (95,798 units)				70	152	
Common Equity (1,208,197 units)				1,208	1,804	
				1,278	1,956	1%
<b>Specialty Distribution</b>						
<i>Carlson Systems Holdings, Inc.</i>						
Subordinated Note <sup>(i)</sup>	11.5%/0.0%	5/20/2020	12,000	11,941	11,941	
Common Equity (7,500 units) <sup>(h)</sup>				750	750	
				12,691	12,691	5%
<i>Connect-Air International, Inc.</i>						
Subordinated Note	12.8%/0.0%	11/5/2018	11,400	11,395	11,400	
Common Equity					4,600	

				11,395	16,000	7%
<b>Virginia Tile Company, LLC</b>						
Subordinated Note <sup>(i)</sup>	12.3%/0.0%	5/19/2020	12,000	11,940	11,940	
Common Equity (19.5 shares)				250	250	
				12,190	12,190	5%
<b>Utility Equipment Manufacturing</b>						
<i>Trantech Radiator Products, Inc.</i> <sup>(j)</sup>						
Subordinated Note <sup>(h)</sup>	12.0%/1.8%	5/4/2017	9,518	9,498	9,518	
Common Equity (6,875 shares) <sup>(h)</sup>				688	962	
				10,186	10,480	4%
<b>Transportation Services</b>						
<i>Worldwide Express Operations, LLC</i>						
Subordinated Note	11.5%/1.0%	8/1/2020	12,678	12,578	12,678	
Common Equity (2,500,000 units) <sup>(f)(h)</sup>				2,500	3,135	
				15,078	15,813	7%
<b>Total Investments</b>				<b>\$ 391,338</b>	<b>\$ 396,355</b>	<b>163%</b>

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**FIDUS INVESTMENT CORPORATION**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2014**

**(In thousands, except shares)**

- (a) See Note 3 to the consolidated financial statements for portfolio composition by geographic location.
- (b) Equity ownership may be held in shares or units of companies related to the portfolio companies.
- (c) All debt investments are income producing. Equity investments are non-income producing unless otherwise noted.
- (d) Rate includes the cash interest or dividend rate and paid-in-kind interest or dividend rate, if any, as of December 31, 2014. Generally, payment-in-kind interest can be paid-in-kind or all in cash.
- (e) Income producing. Maturity date, if any, represents mandatory redemption date.
- (f) Investment is held by a wholly-owned subsidiary of the Company.
- (g) The entire commitment was unfunded at December 31, 2014. As such, no interest is being earned on this investment.
- (h) Investment pledged as collateral for the Credit Facility and, as a result, is not directly available to the creditors of the Company to satisfy any obligations of the Company other than the Company's obligations under the Credit Facility (see Note 6 to the consolidated financial statements).
- (i) The portion of the investment not held by the Funds is pledged as collateral for the Credit Facility and, as a result, is not directly available to the creditors of the Company to satisfy any obligations of the Company other than the Company's obligations under the Credit Facility (see Note 6 to the consolidated financial statements).
- (j) As defined in the 1940 Act, the Company is deemed to be an Affiliated Person of this portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company. Transactions in which the issuer was an Affiliated Person are detailed in Note 3 to the consolidated financial statements.
- (k) As defined in the 1940 Act, the Company is deemed to be both an Affiliated Person of and Control this portfolio company because it owns 25% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company. Transactions in which the issuer was both an Affiliated Person of and a portfolio company that the Company is deemed to Control are detailed in Note 3 to the consolidated financial statements.

*See Notes to Consolidated Financial Statements.*

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**FIDUS INVESTMENT CORPORATION**

**Notes to Consolidated Financial Statements**

**(In thousands, except shares and per share data)**

**Note 1. Organization and Nature of Business**

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

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

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

Fund I has also elected to be regulated as a BDC under the 1940 Act. Fund II will not be registered under the 1940 Act and will rely on the exclusion from the definition of investment company contained in Section 3(c)(7) of the 1940 Act. In addition, for federal income tax purposes, the Company elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ), commencing with its taxable year ended December 31, 2011.

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

**Note 2. Significant Accounting Policies**

*Basis of presentation:* The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ) pursuant to the requirements for reporting on Form 10-K, Accounting Standards Codification ( ASC ) 946, *Financial Services Investment Companies* ( ASC 946), and Articles 6 or 10 of Regulation S-X. In the opinion

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**FIDUS INVESTMENT CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except shares and per share data)**

of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. Certain prior period amounts have been reclassified to conform to the current period presentation.

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

*Consolidation:* Pursuant to Article 6 of Regulation S-X and ASC 946, the Company will generally not consolidate its investments in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. As a result, the consolidated financial statements of the Company include only the accounts of the Company and its wholly-owned subsidiaries, including the Funds. All significant intercompany balances and transactions have been eliminated.

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

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

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

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

*Deferred financing costs:* Deferred financing costs consist of fees and expenses paid in connection with the Credit Facility (as defined in Note 6) and SBA debentures. Deferred financing costs are capitalized and amortized over the term of the debt agreement using the effective interest method.

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

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

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

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

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

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

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

Transaction fees earned in connection with the Company's investments are recognized as fee income. Such fees typically include fees for services, including structuring and advisory services, provided to portfolio companies. The

Company recognizes income from fees for providing such structuring and advisory services when the services are rendered or the transactions are completed. Upon the prepayment of a loan or debt security, any prepayment penalties are recorded as fee income when earned.

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

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

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

*Income taxes:* The Company has elected to be treated as a RIC under Subchapter M of the Code, which will generally relieve the Company from U.S. federal income taxes with respect to all income distributed to stockholders. In order to qualify as a RIC, the Company is required to timely distribute to its stockholders at least 90.0% of investment company taxable income, as defined by Subchapter M of the Code, each year. Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year; however, the Company will pay a 4.0% excise tax if it does not distribute at least 98.0% of the current year's ordinary taxable income. Any such carryover taxable income must be distributed through a dividend declared prior to the later of the date on which the final tax return related to the year in which the Company generated such taxable income is filed or the 15<sup>th</sup> day of the 9<sup>th</sup> month following the close of such taxable year. In addition, the Company will be subject to federal excise tax if it does not distribute at least 98.2% of its net capital gains realized, computed for any one year period ending October 31.

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

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

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

expense, gain or loss are recognized at some time in the future.

ASC Topic 740 *Accounting for Uncertainty in Income Taxes* ( ASC Topic 740 ) provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. ASC Topic 740 requires the evaluation of tax positions taken in the course of preparing the Company s tax returns to determine whether the tax positions are more-likely-than-not to be respected by the

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**FIDUS INVESTMENT CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except shares and per share data)**

applicable tax authorities. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax provision, if any. There were no material uncertain income tax positions at December 31, 2015 and 2014. The 2012 through 2014 tax years remain subject to examination by U.S. federal and most state tax authorities.

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

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

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

*Earnings and net asset value per share:* The earnings per share calculations for the years ended December 31, 2015, 2014 and 2013, are computed utilizing the weighted average shares outstanding for the period. Net asset value per share is calculated using the number of shares outstanding as of the end of the period.

*Recent accounting pronouncements:* In February 2015, the FASB issued ASU 2015-02, *Consolidation: Amendments to the Consolidation Analysis*, which amends the criteria for determining which entities are considered variable interest entities ( VIEs ), amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2015 and early

adoption is permitted. The Company is currently evaluating the impact this ASU will have on the Company's consolidated financial position or disclosures.

In April 2015, FASB issued ASU 2015-03, *Interest - Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This guidance is effective for annual and interim periods beginning after December 15, 2015. The new guidance will be applied

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

retrospectively to each prior period presented. The Company is currently evaluating the impact this ASU will have on the Company's consolidated financial position or disclosures.

In August 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)*. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017 and early application is permitted only for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact this ASU will have on the Company's consolidated financial position or disclosures.

**Note 3. Portfolio Company Investments**

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

As of December 31, 2015, the Company had investments in 53 portfolio companies with an aggregate fair value of \$443,269 and a weighted average effective yield on its debt investments of 13.3%. As of December 31, 2015, the Company held equity investments in 83.0% of its portfolio companies and the average fully diluted equity ownership in those portfolio companies was 8.3%. As of December 31, 2014, the Company had investments in 42 portfolio companies with an aggregate fair value of \$396,355 and a weighted average effective yield on its debt investments of 13.4%. As of December 31, 2014, the Company held equity investments in 85.7% of its portfolio companies and the average fully diluted equity ownership in those portfolio companies was 8.7%. The weighted average yields were computed using the effective interest rates for debt investments at cost as of December 31, 2015 and 2014, including accretion of original issue discount and loan origination fees, but excluding investments on non-accrual status, if any.

Purchases of debt and equity investments for the years ended December 31, 2015, 2014 and 2013 totaled \$136,380, \$149,814 and \$149,095, respectively. Proceeds from sales and repayments, including principal, return of capital distributions and realized gains, of portfolio investments for the years ended December 31, 2015, 2014 and 2013 totaled \$94,686 and \$62,643 and \$131,199, respectively.





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

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

	Fair Value				Cost			
	December 31, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
Subordinated notes	\$ 300,467	67.8%	\$ 273,711	69.1%	\$ 309,899	69.2%	\$ 273,347	69.8%
Senior secured loans	88,485	20.0	74,286	18.7	88,505	19.7	74,486	19.0
Equity	44,899	10.1	42,886	10.8	42,651	9.5	36,623	9.4
Warrants	9,233	2.1	5,472	1.4	7,098	1.6	6,882	1.8
Royalty rights	185				185			
Total	\$ 443,269	100.0%	\$ 396,355	100.0%	\$ 448,338	100.0%	\$ 391,338	100.0%

All investments made by the Company as of December 31, 2015 and 2014 were made in portfolio companies headquartered in the U.S. The following table shows portfolio composition by geographic region at fair value and cost and as a percentage of total investments. The geographic composition is determined by the location of the corporate headquarters of the portfolio company, which may not be indicative of the primary source of the portfolio company's business.

	Fair Value				Cost			
	December 31, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
Midwest	\$ 119,291	26.8%	\$ 94,572	23.9%	\$ 116,015	25.9%	\$ 92,721	23.7%
Southeast	107,975	24.4	113,516	28.6	113,430	25.3	113,725	29.0
Northeast	93,430	21.1	66,900	16.9	92,492	20.6	65,248	16.7
West	84,648	19.1	78,904	19.9	77,028	17.2	71,975	18.4
Southwest	37,925	8.6	42,463	10.7	49,373	11.0	47,669	12.2
Total	\$ 443,269	100.0%	\$ 396,355	100.0%	\$ 448,338	100.0%	\$ 391,338	100.0%

As of December 31, 2015 and 2014, the Company had no portfolio company investments that represented more than 10% of the total investment portfolio. As of December 31, 2015, the Company had debt investments in one portfolio company on non-accrual status, which had an aggregate cost and fair value of \$5,203 and \$618, respectively. As of December 31, 2014, there were no investments on non-accrual status.



**Table of Contents****FIDUS INVESTMENT CORPORATION****Notes to Consolidated Financial Statements (Continued)****(In thousands, except shares and per share data)***Schedule 12-14. Consolidated Schedule of Investments In and Advances To Affiliates*

The table below represents the fair value of control and affiliate investments as of December 31, 2014 and any gross additions and reductions made to such investments, as well as the ending fair value as of December 31, 2015.

<b>Portfolio Company <sup>(1)</sup></b>	<b>Credited to December 31,</b>		<b>Gross</b>	<b>Gross</b>	<b>December 31, 2015</b>
	<b>Income<sup>(2)</sup></b>	<b>2014 Fair Value</b>	<b>Additions <sup>(3)</sup></b>	<b>Reductions <sup>(4)</sup></b>	<b>Fair Value</b>
<b>Control Investments</b>					
<i>Paramount Building Solutions, LLC</i>					
Subordinated Note	\$	\$	\$ 625	\$ 7	\$ 618
Subordinated Note			275	275	
Subordinated Note	51	1,067	597	1,664	
Subordinated Note	169	2,687	84	2,771	
Warrant					
Preferred Equity		490	339	829	
Common Equity					
	220	4,244	1,920	5,546	618
<b>Total Control Investments</b>	<b>220</b>	<b>4,244</b>	<b>1,920</b>	<b>5,546</b>	<b>618</b>
<b>Affiliate Investments</b>					
<i>Apex Microtechnology, Inc.</i>					
Warrant		254	20		274
Common Equity	40	1,302	123		1,425
	40	1,556	143		1,699
<i>FAR Research Inc.</i>					
Senior Secured Loan	963	7,600	40	192	7,448
Revolving Loan	27	136	2	2	136
Common Equity		938		777	161
	990	8,674	42	971	7,745
<i>Inflexxion, Inc.</i>					
Senior Secured Loan	543	4,726	5	1,261	3,470
Revolving Loan	30	295	241	404	132
Preferred Equity		1,400		1,400	

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	573	6,421	246	3,065	3,602
<i>Malabar International</i>					
Subordinated Note	1,125	7,264	197	11	7,450
Preferred Equity	123	3,258	1,550		4,808
	1,248	10,522	1,747	11	12,258
<i>Medsurant Holdings, LLC</i>					
Subordinated Note	1,781	10,129	775	10,904	
Subordinated Note	125		1,765	1,765	
Subordinated Note	97		6,211		6,211
Preferred Equity		1,027	488		1,515
Warrant		3,715	1,522		5,237
	2,003	14,871	10,761	12,669	12,963

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

<b>Portfolio Company <sup>(1)</sup></b>	<b>Credited to December 31,</b>		<b>Gross</b>	<b>Gross</b>	<b>December 31, 2015</b>
	<b>Income <sup>(2)</sup></b>	<b>2014 Fair Value</b>	<b>Additions <sup>(3)</sup></b>	<b>Reductions <sup>(4)</sup></b>	<b>Fair Value</b>
<i>Microbiology Research Associates, Inc.</i>					
Senior Secured Loan	\$ 202	\$	\$ 3,750	\$	\$ 3,750
Revolving Loan	9				
Subordinated Note	594		6,250		6,250
Common Equity			1,444		1,444
	805		11,444		11,444
<i>Mirage Trailers LLC</i>					
Senior Secured Loan	204		8,912		8,912
Common Equity	25		2,475		2,475
	229		11,387		11,387
<i>Pfanstiehl, Inc.</i>					
Subordinated Note	855	6,208	11	11	6,208
Common Equity	180	3,088	1,192		4,280
	1,035	9,296	1,203	11	10,488
<i>Safety Products Group, LLC</i>					
Subordinated Note	1,377	10,000	9	9	10,000
Preferred Equity		812	22		834
Common Equity					
	1,377	10,812	31	9	10,834
<i>Steward Holding LLC (dba Steward Advanced Materials)</i>					
Subordinated Note	243		6,987		6,987
Common Equity			1,000		1,000
	243		7,987		7,987
<i>Trantech Radiator Products, Inc.</i>					
Subordinated Note	1,312	9,518	135	1,159	8,494
Common Equity		962		528	434
	1,312	10,480	135	1,687	8,928
<i>Westminster Cracker Company, Inc.</i>					
Preferred Equity	16	152	16	168	
Common Equity	65	1,804		1,613	191

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	81	1,956	16	1,781	191
<i>World Wide Packaging, LLC</i>					
Subordinated Note	1,413	10,097	180		10,277
Common Equity	54	1,515	528		2,043
	1,467	11,612	708		12,320
<b>Total Affiliate Investments</b>	<b>\$ 11,403</b>	<b>\$ 86,200</b>	<b>\$ 45,850</b>	<b>\$ 20,204</b>	<b>\$ 111,846</b>

- (1) The principal amount, the ownership detail for equity investments, and if the investment is income producing is shown in the consolidated schedule of investments.
- (2) Represents the total amount of interest, fees or dividends included in 2015 income for the portion of the year ended December 31, 2015 that an investment was included in Control or Affiliate categories.

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

- (3) Gross additions include increases in the cost basis of investments resulting from a new portfolio investment, follow on investments, accrued PIK interest or dividends, and accretion of OID and loan origination fees. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation, as well as the movement of an existing portfolio company into this category and out of a different category.
- (4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments, if any. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation as well as the movement of an existing portfolio company out of this category and into a different category.

**Note 4. Fair Value Measurements***Investments*

The Board has established and documented processes and methodologies for determining the fair values of portfolio company investments on a recurring basis in accordance with ASC Topic 820 and consistent with the requirements of the 1940 Act. Fair value is the price, determined at the measurement date, that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available or reliable, valuation techniques described below are applied. Under ASC Topic 820, portfolio investments recorded at fair value in the consolidated financial statements are classified within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value, as defined below:

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

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

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

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's investment portfolio is comprised entirely of debt and equity securities of privately held companies for which quoted prices falling within the categories of Level 1 and Level 2 inputs are not available. Therefore, the Company values all of its portfolio investments at fair value, as determined in good faith by the Board, using Level 3 inputs. The degree of judgment exercised by the Board in determining fair value is greatest for investments classified as Level 3 inputs. Due to the inherent uncertainty of determining the fair values of investments that do not have readily available market values, the Board's estimate of fair values may differ significantly from the values that would have been used had a ready market for the securities existed, and those differences may be material. In addition, changes in the market environment, portfolio company performance and other events that may occur over the lives of the investments may cause the amounts ultimately realized on these investments to be materially different than the valuations currently assigned.

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**FIDUS INVESTMENT CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except shares and per share data)**

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

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

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

the Board engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of our portfolio investments for which market quotations are not readily available. Each portfolio company investment is generally appraised by the valuation firm(s) at least once every calendar year and each new portfolio company investment is appraised at least once in the twelve-month period following the initial investment. In certain instances, the Company may determine that it is not cost-effective, and as a result it is not in the Company's stockholders' best interest, to request the independent appraisal of certain portfolio company investments. Such instances include, but are not limited to, situations where the Company determines that the fair value of the portfolio company investment is relatively insignificant to the fair value of the total portfolio. The Board consulted with the independent valuation firm(s) in arriving at the Company's determination of fair value for 16 and 9 of its portfolio company investments representing 43.0% and 20.7% of the total portfolio investments at fair value (exclusive of new portfolio company investments made during the three months ended December 31, 2015 and 2014, respectively) as of December 31, 2015 and 2014, respectively.

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

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

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

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

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

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

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

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

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

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

The Company reviews the fair value hierarchy classifications on a quarterly basis. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur. There were no transfers among Levels 1, 2, and 3 during the years ended December 31, 2015 and 2014.

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

The following tables present a reconciliation of the beginning and ending balances for fair valued investments measured using significant unobservable inputs (Level 3) for the years ended December 31, 2015 and 2014:

	Subordinated Notes	Senior Secured Loans	Equity	Warrants	Royalty Rights	Total
<b>Balance, December 31, 2013</b>	\$ 214,400	\$ 53,387	\$ 32,560	\$ 6,634	\$	\$ 306,981
Net realized (losses) gains on investments	(13,742)		(3,973)	686		(17,029)
Net change in unrealized (depreciation) appreciation on investments	5,928	(276)	8,685	(1,087)		13,250
Non-cash conversion of security types	1,833	(6,833)	5,000			
Purchase of investments	103,663	33,086	12,238	827		149,814
Proceeds from sales and repayments of investments	(43,356)	(5,592)	(12,107)	(1,588)		(62,643)
Interest and dividend income paid-in-kind	4,577	586	454			5,617
Proceeds from loan origination fees	(589)	(195)	(23)			(807)
Accretion of loan origination fees	402	82	45			529
Accretion of original issue discount	595	41	7			643
<b>Balance, December 31, 2014</b>	273,711	74,286	42,886	5,472		396,355
Net realized gains on investments	155		9,376			9,531
Net change in unrealized (depreciation) appreciation on investments	(9,796)	180	(4,015)	3,545		(10,086)
Purchase of investments	98,050	28,341	9,496	216	277	136,380
Proceeds from sales and repayments of investments	(66,420)	(15,162)	(13,012)		(92)	(94,686)
Interest and dividend income paid-in-kind	4,170	813	187			5,170
Proceeds from loan origination fees	(485)	(260)	(25)			(770)
Accretion of loan origination fees	514	280	3			797
Accretion of original issue discount	568	7	3			578
<b>Balance, December 31, 2015</b>	\$ 300,467	\$ 88,485	\$ 44,899	\$ 9,233	\$ 185	\$ 443,269

Net change in unrealized (depreciation) appreciation of \$(5,363) and \$2,294 for the years ended December 31, 2015 and 2014, respectively, was attributable to Level 3 investments held at December 31, 2015 and 2014, respectively.

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

The following tables summarize the significant unobservable inputs by valuation technique used to determine the fair value of the Company's Level 3 debt and equity investments as of December 31, 2015 and 2014. The tables are not intended to be all-inclusive, but instead capture the significant unobservable inputs relevant to the Company's determination of fair values.

	<b>Fair Value at December 31, 2015</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range (weighted average)</b>
<b>Debt investments:</b>				
Subordinated notes	\$ 299,849	Discounted cash flow	Weighted average cost of capital	10.9%-22.8% (14.8%)
	618	Enterprise value	EBITDA multiples	5.5x - 5.5x (5.5x)
Senior secured loans	88,485	Discounted cash flow	Weighted average cost of capital	6.1% - 23.2% (14.1%)
<b>Equity investments:</b>				
Equity	44,899	Enterprise value	EBITDA multiples	3.8x - 13.1x (7.3x)
Warrants	9,233	Enterprise value	EBITDA multiples	5.0x - 9.5x (6.7x)
Royalty rights	185	Discounted cash flow	Weighted average cost of capital	22.0% - 27.0% (27.0%)

	<b>Fair Value at December 31, 2014</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range (weighted average)</b>
<b>Debt investments:</b>				
Subordinated notes	\$ 273,711	Discounted cash flow	Weighted average cost of capital	11.4% - 18.1% (13.6%)
Senior secured loans	74,286	Discounted cash flow	Weighted average cost of capital	6.7% - 17.0% (14.0%)
<b>Equity investments:</b>				
Equity	42,886	Enterprise value	EBITDA multiples	4.5x - 10.4x (6.8x)
Warrants	5,472	Enterprise value	EBITDA multiples	5.0x - 9.5x (7.0x)

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

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

*Other Financial Assets and Liabilities*

ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. The Company believes that the carrying amounts of its other financial instruments such as cash and cash equivalents, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. The fair value of borrowings under the Credit Facility (as defined in Note 6) are based on a market yield approach and current interest rates, which are level 3 inputs to the market yield model, and is estimated to be \$15,500 and \$10,000 as of December 31, 2015 and 2014, respectively, which is the same as the Company's carrying value of the borrowings. SBA debentures are carried at cost and with their longer maturity dates, fair value is estimated by discounting remaining payments using current market rates for similar instruments and considering such factors as the legal maturity date and the ability of market participants to prepay the debentures. As of December 31, 2015 and 2014, the fair value of the Company's SBA debentures using Level 3 inputs is estimated at \$213,500 and \$173,500, respectively, which is the same as the Company's carrying value of the debentures.



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**FIDUS INVESTMENT CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except shares and per share data)**

**Note 5. Related Party Transactions**

*Investment Advisory Agreement:* Concurrent with the Formation Transactions, the Company entered into the Investment Advisory Agreement with the Investment Advisor. On June 3, 2015, the Board approved the renewal of the Investment Advisory Agreement through June 20, 2016. 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. During the year ended December 31, 2014, the Investment Advisor waived \$13 of the base management fee attributable to a portfolio investment that funded into escrow on September 30, 2014 but did not close until after the end of the quarter. The base management fee under the Investment Advisory Agreement for the years ended December 31, 2015, 2014 and 2013 totaled \$7,545, \$5,899 and \$5,261, respectively.

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

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

Pre-incentive fee net investment income, expressed as a rate of return on the value of the Company's weighted average net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed hurdle rate of 2.0% per

quarter. If market interest rates rise, 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.

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**FIDUS INVESTMENT CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except shares and per share data)**

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

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

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

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

The sum of the calculations above equals the income incentive fee. The income incentive fee is appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the calendar quarter. The income incentive fee for the years ended December 31, 2015, 2014 and 2013 totaled \$6,582, \$5,588 and \$5,211, respectively.

The second part of the incentive fee is a capital gains incentive fee that is determined and paid in arrears as of the end of each fiscal year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.0% of the net capital gains as of the end of the fiscal year. In determining the capital gains incentive fee to be paid to the Investment Advisor, the Company calculates the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since the Formation Transactions, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in the Company's portfolio. At the end of the applicable year, the amount of capital gains that serves as the basis for the calculation of the capital gains incentive fee to be paid equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate unrealized capital depreciation, with respect to the Company's portfolio of investments. If this number is positive at the end of such year, then the capital gains incentive fee to be paid for such year equals 20.0% of such amount, less the aggregate amount of any capital gains incentive fees paid in all prior years. As of both December 31, 2015 and 2014, the capital gains incentive fee payable was \$0. The aggregate amount of capital gains incentive fees paid from the IPO through December 31, 2015 is \$348.

In addition, the Company accrues, but does not pay, a capital gains incentive fee in connection with any unrealized capital appreciation, as appropriate. If, on a cumulative basis, the sum of net realized gains/(losses) plus net unrealized

appreciation/(depreciation) decreases during a period, the Company will reverse any excess capital gains incentive fee previously accrued such that the amount of capital gains incentive fee accrued is no more than 20.0% of the sum of net realized gains/(losses) plus net unrealized appreciation/(depreciation). During the years ended December 31, 2015 and 2014, the Company reversed previously accrued capital gains incentive fees of \$101 and \$731, respectively. During the year ended December 31, 2013, the Company accrued capital gains incentive fees of \$1,581.

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

Unless terminated earlier as described below, the Investment Advisory Agreement will continue in effect from year to year if approved annually by the Board or by the affirmative vote of the holders of a majority of the

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

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

*Administration Agreement:* Concurrent with the Formation Transactions, the Company also entered into an administration agreement (the Administration Agreement) with the Investment Advisor. On June 3, 2015, the Board approved the renewal of the Administrative Agreement through June 20, 2016. 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 and the Company reimburses the Investment Advisor for fees and expenses incurred with providing such services. In addition, the Company reimburses the Investment Advisor for fees and expenses incurred while performing due diligence on the Company's prospective portfolio companies. Under the Administration Agreement, administrative expenses for services provided for the years ended December 31, 2015, 2014 and 2013 totaled \$1,465, \$1,772 and \$1,155, respectively. Accrued administrative expenses are reported in the due to affiliates line in the consolidated statements of assets and liabilities.

**Note 6. Debt**

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

On December 19, 2014, FIC amended the Credit Facility to (i) increase the commitment from \$30,000 to \$50,000 (ii) allow FIC to buy-back up to \$10,000 of the Company's common stock subject to the satisfaction of specified financial covenants and conditions. The Credit Facility continues to have an accordion feature which allows for an increase in the total commitment up to \$75,000.

Amounts available to borrow under the Credit Facility are subject to a minimum borrowing/collateral base that applies an advance rate to certain investments held by the Company. The Company is subject to limitations with respect to the investments securing the Credit Facility, including, but not limited to, restrictions on sector concentrations, loan size,

payment frequency and status and collateral interests, as well as restrictions on portfolio company leverage, which may also affect the borrowing base and therefore amounts available to borrow.

Borrowings under the Credit Facility bear interest, subject to the Company's election, on a per annum basis equal to (i) the alternate base rate plus 2.5% or (ii) the applicable LIBOR rate plus 3.5%. The alternate base rate

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**FIDUS INVESTMENT CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except shares and per share data)**

is equal to the greater of (i) prime rate, (ii) the federal funds rate plus 0.5% or (iii) the three-month LIBOR rate plus 1.0%. The Company pays a commitment fee between 0.5% and 1.0% per annum based on the size of the unused portion of the Credit Facility.

The Company has made customary representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities. These covenants are subject to important limitations and exceptions that are described in the documents governing the Credit Facility. As of December 31, 2015 and 2014, the Company was in compliance in all material respect with the terms of the Credit Facility.

As of December 31, 2015 and 2014, the Company had outstanding borrowings under the Credit Facility of \$15,500 and \$10,000, respectively. For the years ended December 31, 2015, 2014 and 2013, interest and financing expenses related to the Credit Facility amounted to \$1,069, \$325 and \$0, respectively. As of December 31, 2015 and 2014, accrued interest and fees payable related to the Credit Facility totaled \$101 and \$97, respectively.

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

Under the SBA debenture program, the SBA commits to purchase debentures issued by SBICs and such debentures are guaranteed by the SBA. The SBA has made commitments to purchase \$225,000 of SBA debentures from the Company on or before September 30, 2019. Unused commitments as of December 31, 2015 and 2014 were \$11,500 and \$51,500, respectively. The SBA may limit the amount that may be drawn each year under these commitments, and each issuance of leverage is conditioned on the Company's full compliance, as determined by the SBA, with the terms and conditions set forth in the SBIC Act.

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

As of December 31, 2015 and 2014, the Company's issued and outstanding SBA debentures mature as follows:

<b>Pooling Date <sup>(1)</sup></b>	<b>Maturity Date</b>	<b>Fixed Interest Rate</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
3/26/2008	3/1/2018	6.188%	\$ 24,750	\$ 24,750
9/24/2008	9/1/2018	6.442	11,950	11,950
3/25/2009	3/1/2019	5.337	19,750	19,750
9/23/2009	9/1/2019	4.950	10,000	10,000
3/24/2010	3/1/2020	4.825	13,000	13,000
9/22/2010	9/1/2020	3.932	12,500	12,500
3/29/2011	3/1/2021	4.801	1,550	1,550
9/21/2011	9/1/2021	3.594	3,250	3,250
3/21/2012	3/1/2022	3.483	3,250	3,250
3/21/2012	3/1/2022	3.051	19,000	19,000
9/19/2012	9/1/2022	2.530	11,000	11,000
9/19/2012	9/1/2022	3.049	11,500	11,500
3/27/2013	3/1/2023	3.155	3,000	3,000
9/24/2014	9/1/2024	3.775	1,000	1,000
3/25/2015	3/1/2025	3.321	1,000	1,000
3/25/2015	3/1/2025	3.321	1,000	1,000
3/25/2015	3/1/2025	3.321	1,000	1,000
3/25/2015	3/1/2025	3.321	1,500	1,500
3/25/2015	3/1/2025	3.321	1,000	1,000
3/25/2015	3/1/2025	3.277	6,000	6,000
3/25/2015	3/1/2025	3.277	7,500	7,500
3/25/2015	3/1/2025	3.277	2,500	2,500
3/25/2015	3/1/2025	3.277	1,500	1,500
3/25/2015	3/1/2025	3.277	5,000	5,000
9/23/2015	9/1/2025	3.571	5,000	
9/23/2015	9/1/2025	3.571	1,000	
9/23/2015	9/1/2025	3.571	200	
9/23/2015	9/1/2025	3.571	500	
9/23/2015	9/1/2025	3.571	10,000	
(2)	(2)	(2)	7,000	
(2)	(2)	(2)	500	
(2)	(2)	(2)	5,000	
(2)	(2)	(2)	2,500	
(2)	(2)	(2)	1,000	



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(2)	(2)	(2)	800	
(2)	(2)	(2)	2,500	
(2)	(2)	(2)	4,000	
				\$ 213,500      \$ 173,500

- (1) The SBA has two scheduled pooling dates for debentures (in March and in September). Certain debentures funded during the reporting periods may not be pooled until the subsequent pooling date.
- (2) The Company issued \$23,300 in SBA debentures which pool in March 2016, at which time the Company expects the current short-term interest rate will reset to a higher long-term fixed rate.

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

Interest on SBA debentures is payable semi-annually on March 1 and September 1. For the years ended December 31, 2015, 2014 and 2013, interest and financing expenses on outstanding SBA debentures amounted to \$8,359, \$7,182 and \$7,076, respectively. As of December 31, 2015 and 2014, accrued interest and fees payable related to the SBA debentures totaled \$2,739 and \$2,756, respectively.

*Deferred Financing Costs*

Deferred financing costs are amortized into interest and financing expenses on the consolidated statement of operations using the straight-line method, which approximates the effective interest method, over the term of the respective financing instrument. Deferred financing cost amortization for the years ended December 31, 2015, 2014 and 2013 was \$1,010, \$682 and \$512, respectively. Deferred financing costs related to the Credit Facility and SBA debentures as of December 31, 2015 and 2014, were as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
SBA debenture commitment fees	\$ 2,250	\$ 2,250
SBA debenture leverage fees	5,177	4,207
Credit Facility upfront fees	1,239	894
Subtotal	8,666	7,351
Accumulated amortization	(3,794)	(2,784)
Net deferred financing costs	\$ 4,872	\$ 4,567

The weighted average interest rate for all SBA debentures and borrowings outstanding under the Credit Facility as of December 31, 2015 and 2014 was 4.0%, respectively.

**Note 7. Commitments and Contingencies**

*Commitments:* As of December 31, 2015, the Company had six unfunded revolving loan commitments totaling \$4,714 to portfolio companies and three unfunded loan commitments totaling \$5,436 to portfolio companies. As of December 31, 2014, the Company had five unfunded revolving loan commitments totaling \$4,064 to portfolio companies and two unfunded loan commitments totaling \$5,426 to portfolio companies. The commitments are generally subject to the borrowers meeting certain criteria such as compliance with financial and nonfinancial covenants. Since commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

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

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

**Table of Contents****FIDUS INVESTMENT CORPORATION****Notes to Consolidated Financial Statements (Continued)****(In thousands, except shares and per share data)****Note 8. Common Stock**

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

<b>Offering Date</b>	<b>Number of Shares</b>	<b>Gross Proceeds</b>	<b>Underwriting Fees and Commissions and Offering Costs</b>	<b>Offering Price</b>
September 11, 2012	2,472,500	\$ 39,807	\$ 1,855	\$ 16.10
February 8, 2013	1,725,000	30,361	1,504	17.60
September 30, 2014	2,083,414 <sup>(1)</sup>	35,418	1,747	17.00

(1) Includes 83,414 shares purchased by underwriters pursuant to the over-allotment option on October 21, 2014. On August 21, 2014, the Company entered into an equity distribution agreement with Raymond James & Associates, Inc. and Robert W. Baird & Co. Incorporated through which the Company could sell, by means of at-the-market offerings from time to time, shares of the Company's common stock having an aggregate offering price of up to \$50,000 (the ATM Program). The gross proceeds raised, the related sales agent commission, the offering expenses and the average price at which shares were issued under the ATM Program from August 21, 2014 through December 31, 2015 are as follow:

<b>Year Ended December 31, 2014</b>	<b>Number of Shares</b>	<b>Gross Proceeds</b>	<b>Underwriting Fees and Commissions and Offering Costs</b>	<b>Average Offering Price</b>
Third Quarter ended September 30, 2014	153,541	\$ 2,850	\$ 56	\$ 18.56
Fourth Quarter ended December 31, 2014	4,812	80	3	17.00
<b>Total</b>	<b>158,353</b>	<b>\$ 2,930</b>	<b>\$ 59</b>	<b>\$ 18.51</b>

**Year Ended December 31, 2015**

First Quarter ended March 31, 2015	49,193	\$ 819	\$ 16	\$ 16.65
Second Quarter ended June 30, 2015	141,430	2,347	50	16.60
Third Quarter ended September 30, 2015				
Fourth Quarter ended December 31, 2015				
<b>Total</b>	<b>190,623</b>	<b>\$ 3,166</b>	<b>\$ 66</b>	<b>\$ 16.61</b>

The Company issued 59,072, 54,038 and 76,385 shares of common stock under the DRIP during the years ended December 31, 2015, 2014 and 2013, respectively. See Note 9 for additional information regarding the issuance of shares under the DRIP.

As of December 31, 2015 and December 31, 2014, the Company had 16,300,732 and 16,051,037 shares of common stock outstanding, respectively.

Table of Contents**FIDUS INVESTMENT CORPORATION****Notes to Consolidated Financial Statements (Continued)****(In thousands, except shares and per share data)****Note 9. Dividends and Distributions**

The Company's dividends and distributions are recorded on the record date. The following table summarizes the dividends paid since the Company's IPO.

Date Declared	Record Date	Payment Date	Amount Per Share	Total Distribution	Cash Distribution	DRIP Shares Value	DRIP Shares	DRIP Share Issue Price
<b>Fiscal Year Ended December 31, 2011:</b>								
7/28/2011	9/12/2011	9/26/2011	\$ 0.32	\$ 3,016	\$ 3,016	\$		\$
11/2/2011	12/6/2011	12/20/2011	0.32	3,017	3,017			
			\$ 0.64	\$ 6,033	\$ 6,033	\$		
<b>Fiscal Year Ended December 31, 2012:</b>								
2/10/2012	3/14/2012	3/28/2012	\$ 0.34	\$ 3,205	\$ 3,205	\$ (1)	(1)	(1)
4/30/2012	6/13/2012	6/27/2012	0.36	3,394	3,394	(2)	(2)	(2)
7/31/2012	9/11/2012	9/25/2012	0.38	4,522	4,010	512	30,563	16.75
10/29/2012	12/7/2012	12/21/2012	0.38	4,533	4,145	388	23,763	16.35
			\$ 1.46	\$ 15,654	\$ 14,754	\$ 900	54,326	
<b>Fiscal Year Ended December 31, 2013:</b>								
2/22/2013	3/14/2013	3/28/2013	\$ 0.38	\$ 5,198	\$ 4,822	\$ 376	20,501	18.36
5/1/2013	6/12/2013	6/26/2013	0.38	5,206	4,893	313	17,415	17.97
7/31/2013	9/12/2013	9/26/2013	0.38	5,212	4,902	310	15,899	19.51
7/31/2013 <sup>(3)</sup>	9/12/2013	9/26/2013	0.04	549	516	33	1,674	19.51
11/4/2013	12/6/2013	12/20/2013	0.38	5,219	5,003	216	10,448	20.72
11/4/2013 <sup>(3)</sup>	12/6/2013	12/20/2013	0.38	5,219	5,003	216	10,448	20.72
			\$ 1.94	\$ 26,603	\$ 25,139	\$ 1,464	76,385	

**Fiscal Year Ended  
December 31,  
2014:**

2/18/2014	3/21/2014	3/31/2014	\$ 0.38	\$ 5,277	\$ 5,028	\$ 199	10,410	19.14
5/5/2014	6/13/2014	6/27/2014	0.38	5,231	5,037	194	9,459	20.44
5/5/2014 <sup>(3)</sup>	7/25/2014	7/31/2014	0.05	689	664	25	1,368	18.66
5/5/2014 <sup>(3)</sup>	8/25/2014	8/29/2014	0.05	689	660	29	1,567	18.48
8/5/2014	9/12/2014	9/26/2014	0.38	5,293	5,095	198	11,562	17.16
11/4/2014	12/5/2014	12/19/2014	0.38	6,092	5,862	230	15,574	14.71
11/4/2014 <sup>(3)</sup>	12/5/2014	12/19/2014	0.10	1,603	1,543	60	4,098	14.71
			\$ 1.72	\$ 24,824	\$ 23,889	\$ 935	54,038	

**Fiscal Year Ended  
December 31,  
2015:**

2/17/2015	3/12/2015	3/26/2015	\$ 0.38	\$ 6,099	\$ 5,886	\$ 213	12,922	16.46
5/5/2015	6/11/2015	6/25/2015	0.38	6,176	5,968	208	12,883	16.18
5/5/2015 <sup>(3)</sup>	6/11/2015	6/25/2015	0.02	325	314	11	678	16.18
8/3/2015	9/17/2015	9/25/2015	0.39	6,345	6,097	248	16,985	14.61
11/2/2015 <sup>(3)</sup>	11/27/2015	12/11/2015	0.04	651	624	27	2,034	13.43
11/2/2015	12/4/2015	12/18/2015	0.39	6,351	6,157	194	13,570	14.29
			\$ 1.60	\$ 25,947	\$ 25,046	\$ 901	59,072	

- (1) Satisfied \$591 of DRIP participation with the purchase of 43,029 shares of common stock in the open market at an average price of \$13.73.
- (2) Satisfied \$600 of DRIP participation with the purchase of 40,196 shares of common stock in the open market at an average price of \$14.94.
- (3) Special dividend.

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

Since the Company's IPO, dividends and distributions to stockholders total \$99,061 or \$7.36 per share.

In addition, during 2013 the Company designated \$8,250, or approximately \$0.60 per share, of the net long-term capital gains as a deemed distribution to stockholders of record as of December 31, 2013. The Company incurred \$2,887, or \$0.21 per share, of U.S. federal income taxes on behalf of stockholders related to this deemed distribution. See Note 12 for further discussion regarding deemed distributions. There were no deemed distributions during the years 2011, 2012, 2014 or 2015.

**Note 10. Financial Highlights**

The following is a schedule of financial highlights for the years ended December 31, 2015, 2014, 2013, 2012 and 2011:

	<b>Year Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Per share data:</b>					
Net asset value at beginning of period <sup>(1)</sup>	\$ 15.16	\$ 15.35	\$ 15.32	\$ 14.90	\$ 13.33
Net investment income <sup>(2)</sup>	1.64	1.62	1.43	1.54	1.22
Net realized gain (loss) on investments, net of tax benefit (refund) <sup>(2)</sup>	0.58	(1.18)	2.22	0.19	(1.31)
Net unrealized (depreciation) appreciation on investments <sup>(2)</sup>	(0.62)	0.92	(1.64)	0.18	1.72
Total increase from investment operations <sup>(2)</sup>	1.60	1.36	2.01	1.91	1.63
Capital contributions from partners					0.74
Capital distributions to partners					(0.16)
Accretive effect of share issuance above NAV	0.02	0.19	0.18	0.03	
Dividends to stockholders	(1.60)	(1.72)	(1.94)	(1.46)	(0.64)
Taxes paid on deemed distribution			(0.21)		
Other <sup>(3)</sup>	(0.01)	(0.02)	(0.01)	(0.06)	



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Net asset value at end of period	\$ 15.17	\$ 15.16	\$ 15.35	\$ 15.32	\$ 14.90
Market value at end of period	\$ 13.69	\$ 14.85	\$ 21.74	\$ 16.45	\$ 12.97
Shares outstanding at end of period	16,300,732	16,051,037	13,755,232	11,953,847	9,427,021
Weighted average shares outstanding during the period <sup>(1)</sup>	16,201,449	14,346,438	13,524,368	10,185,627	9,427,021
<b>Ratios to average net assets:</b>					
Expenses other than incentive fee	8.5%	7.9%	7.4%	8.4%	7.5%
Incentive fee <sup>(4)</sup>	2.6%	2.2%	3.2%	3.1%	1.2%
Total expenses	11.1%	10.1%	10.6%	11.5%	8.7%
Net investment income	10.8%	10.5%	9.2%	10.0%	8.5%
Total return <sup>(5)</sup>	3.0%	(23.8)%	44.0%	38.1%	(9.3)%
Net assets at end of period	\$ 247,362	\$ 243,263	\$ 211,125	\$ 183,091	\$ 140,482
Average debt outstanding	\$ 199,340	\$ 152,700	\$ 144,500	\$ 126,050	\$ 97,050
Average debt per share <sup>(1)</sup> <sup>(2)</sup>	\$ 12.30	\$ 10.64	\$ 10.68	\$ 12.38	\$ 10.29
Portfolio turnover ratio	22.5%	18.9%	44.9%	10.7%	14.0%

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

- (1) Net asset value per share as of January 1, 2011, weighted average shares outstanding and average debt per share for the year ended December 31, 2011 are presented as if the IPO (including the over-allotment) and Formation Transactions had occurred on January 1, 2011. See Note 2 for a further description of the basis of presentation of the Company's consolidated financial statements.
- (2) Weighted average per share data.
- (3) Represents the impact of different share amounts used in calculating per share data as a result of calculating certain per share data based on weighted average shares outstanding during the period and certain per share data based on the shares outstanding as of a period end or transaction date.
- (4) The Investment Advisor voluntarily waived \$83 of incentive fees for the period June 21, 2011 through June 30, 2011. Incentive fee for the period July 1, 2011 through December 31, 2011 is not annualized.
- (5) The total return for the years ended December 31, 2015, 2014, 2013 and 2012 equals the change in the market value of the Company's common stock per share during the period plus dividends paid per share during the period, divided by the market value per share at the beginning of the period. The total return for the year ended December 31, 2011 equals the change in the market value at the end of the period of the Company's common stock from the IPO price of \$15.00 per share plus dividends paid per share during the period, divided by the IPO price and is not annualized.

**Note 11. Selected Quarterly Financial Data (unaudited)**

	<b>March 31, 2015</b>	<b>June 30, 2015</b>	<b>September 30, 2015</b>	<b>December 31, 2015</b>
Total investment income	\$ 12,838	\$ 12,799	\$ 13,557	\$ 15,075
Net investment income	6,229	6,039	7,050	7,175
Net increase in net assets from operations	6,409	6,246	5,487	7,835
Net investment income per share	0.39	0.37	0.43	0.44
Net increase in net assets from operations per share	0.40	0.39	0.34	0.48
Net asset value per share at end of period	15.18	15.18	15.12	15.17

	<b>March 31, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>December 31, 2014</b>
Total investment income	\$ 10,559	\$ 10,581	\$ 11,324	\$ 13,652
Net investment income	5,444	5,509	5,627	6,701
Net increase in net assets from operations	3,378	3,428	5,301	7,378
Net investment income per share	0.40	0.40	0.41	0.42
	0.25	0.25	0.38	0.46

Net increase in net assets from operations per share

Net asset value per share at end of period	15.22	15.09	15.18	15.16
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**Note 12. Income Taxes**

The Company has elected to be treated for federal income tax purposes as a RIC, whereby the Company generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that the Company distributes to its stockholders as dividends. The Company must generally distribute at least 90% of its investment company taxable income to maintain its RIC status. As part of maintaining RIC status, undistributed taxable income pertaining to a given fiscal year may be distributed up to 12 months subsequent to the end of that fiscal year, provided such dividends are declared prior to the later of the filing of the federal income tax return for the prior year or the 15th day of the 9th month following the prior tax year. Such taxable income carried forward to the next tax year will be subject to excise tax equal to 4% of the amount by which (i) 98% of the Company's ordinary income recognized during a calendar year and (ii) 98.2% of the Company's long term

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

capital gains, as defined by Subchapter M of the Code, recognized for the one year period ending October 31<sup>st</sup> of a calendar year exceeds the respective distributions for the year. For the years ended December 31, 2015, 2014 and 2013, the excise tax provision (benefit) was \$395, \$340 and \$348, respectively. Excise tax is included as a component of income tax provision and income tax (provision) on realized gains on investments, depending on the character of the underlying taxable income, on the consolidated statements of operations.

The Taxable Subsidiaries hold certain portfolio investments for the Company. The Taxable Subsidiaries are consolidated for financial reporting purposes, and the portfolio investments held by the Taxable Subsidiaries are included in the Company's consolidated financial statements. The principal purpose of the Taxable Subsidiaries are to permit the Company to hold equity investments in portfolio companies which are pass through entities for federal income tax purposes in order to comply with the source-of-income requirements contained in the RIC tax provisions of Subchapter M of the Code. The Taxable Subsidiaries are not consolidated for federal income tax purposes and may generate income tax expense or income tax benefit as a result of their ownership of various portfolio investments. The Company classifies interest and penalties, if any, as a component of income tax provision on the consolidated statements of operations. For the years ended December 31, 2015, 2014 and 2013, income tax expense at the taxable subsidiaries was \$34, \$28, and \$391, respectively. Income tax expense is included as a component of the income tax provisions on the consolidated statements of operations.

Listed below is a reconciliation of net increase in net assets resulting from operations on the consolidated statements of operations to taxable income and to total distributions declared to common stockholders for the years ended December 31, 2015, 2014 and 2013.

	<b>2015</b> <sup>(1)</sup>	<b>2014</b>	<b>2013</b>
Net increase in net assets resulting from operations	\$ 25,977	\$ 19,485	\$ 27,203
Net change in unrealized depreciation (appreciation) on investments	10,086	(13,250)	22,188
Permanent book income and tax income differences	1,190	367	2,062
Temporary book income and tax income differences	(6,545)	5,391	636
Capital loss carry forward (utilization)	(3,713)	11,288	(2,408)
Taxable income	26,995	23,281	49,681
Taxable income earned in prior year and carried forward for distribution in current year	13,843	15,386	558
Taxable income earned in current period and carried forward for distribution in following year	(14,891)	(13,843)	(15,386)
Deemed distribution			(8,250)
Total distributions to common stockholders	\$ 25,947	\$ 24,824	\$ 26,603

- (1) The Company's taxable income for 2015 is an estimate and will not be finalized until the Company files its 2015 federal income tax return in 2016. Therefore, the Company's actual taxable income, and the Company's actual taxable income that was earned in 2015 and carried forward for distribution in 2016, may be different than this estimate.

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

For tax purposes, distributions paid to stockholders are reported as ordinary income, long term capital gains, qualified dividends, return of capital or a combination thereof. The tax character of distributions paid for the years ended December 31, 2015, 2014 and 2013 was as follows:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Ordinary income	\$ 25,639	\$ 14,242	\$ 15,282
Long term capital gains		10,389	10,000
Qualified dividends	308	193	1,321
Total distributions	\$ 25,947	\$ 24,824	\$ 26,603

The Company estimates that it generated undistributed ordinary taxable income of approximately \$14,891, or \$0.91 per share during 2015 that will be carried forward and distributed in 2016. Ordinary dividend distributions from a RIC do not qualify for the preferential federal income tax rate on dividend income from certain domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the form of qualifying dividends from domestic corporations and qualified foreign corporations.

The Company may distribute a portion of its realized net long term capital gains in excess of realized net short term capital losses to its stockholders, but may also decide to retain a portion, or all, of its net capital gains and elect to make a deemed distribution to its stockholders. For the year ended December 31, 2013, the Company elected to designate retained net capital gains of \$8,250, or approximately \$0.60 per share, as a deemed distribution, which was allocated to stockholders of record as of December 31, 2013. The Company incurred U.S. federal income taxes of \$2,887, or approximately \$0.21 per share, on behalf of stockholders related to this deemed distribution. Such U.S. federal income taxes were paid in January 2014. For the years ended December 31, 2015 and 2014, the Company did not elect to designate retained net capital gains as a deemed distribution.

As of December 31, 2015, 2014 and 2013, the tax basis components of distributable earnings were as follows:

	<b>2015 <sup>(1)</sup></b>	<b>2014</b>	<b>2013</b>
Undistributed ordinary income	\$ 14,891	\$ 13,733	\$ 4,865
Undistributed qualified income		110	132
Undistributed long term capital gains			10,389
Unrealized appreciation (depreciation) <sup>(2)</sup>	(6,703)	3,805	(9,445)
Temporary book/tax differences	425	(6,121)	(1,073)
Capital loss carry forward	(7,574)	(11,288)	

Total distributable earnings	\$ 1,039	\$ 239	\$ 4,868
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- (1) The Company's undistributed earnings for 2015 is an estimate and will not be finally determined until the Company files its 2015 federal income tax return in 2016. Therefore, the Company's actual distributable earnings may be different than this estimate.
- (2) In addition, there is net unrealized appreciation of \$1,633, \$1,211 and \$1,211 included in additional paid in capital as of December 31, 2015, 2014 and 2013, respectively, that was recognized prior to the Formation Transactions.

For federal income tax purposes, the cost of investments owned at December 31, 2015 and 2014 was approximately \$448,889 and \$397,698, respectively.

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Distributions from net investment income and net realized capital gains are determined in accordance with U.S. federal tax regulations, which may differ from amounts determined in accordance with GAAP and those differences could be material. These permanent book-to-tax differences are reclassified on the consolidated statements of changes in net assets to reflect their tax character but have no impact on total net assets. The following permanent book-to-tax differences were reclassified on the consolidated statements of changes in net assets for the years ended December 31, 2015, 2014 and 2013.

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Additional paid in capital	\$ (770)	\$ (590)	\$ (7,057)
Undistributed net investment income	908	366	73
Accumulated net realized (loss) gain on investments, net of taxes	(138)	224	6,984

**Note 13. Subsequent Events**

On January 15, 2016, the Company invested \$10,500 in the subordinated notes and common equity of OMC Investors, LLC, doing business as Ohio Medical Corporation, a manufacturer and distributor of medical suction and oxygen therapy products and source equipment.

On January 29, 2016, the Company exited its debt and warrant investments in Continental Anesthesia Management, LLC in connection with the sale of the portfolio company. The Company received payment in full on its subordinated notes and recognized a loss of approximately \$275 on its warrant investment.

On February 1, 2016, the Company exited its debt and equity investments in X5 Opco LLC. The Company received payment in full on its senior secured loan, including a prepayment penalty, and sold its equity at a price approximating cost.

On February 16, 2016, the Company exited its debt investment in Stagnito Partners, LLC. The Company received payment in full on its senior secured loan, including a prepayment penalty.

On February 16, 2016, the Board declared a regular quarterly dividend of \$0.39 per share payable on March 25, 2016 to stockholders of record as of March 11, 2016.



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**Fidus Investment Corporation**

**2,800,000 Shares**

**Common Stock**

**Prospectus Supplement**

*Joint Book Running Managers*

**Raymond James**

**Baird**

**Keefe, Bruyette & Woods**

*A Stifel Company*

*Co-Lead Managers*

**D.A. Davidson & Co.**

**Janney Montgomery Scott**

**Oppenheimer & Co.**

November 29, 2016