FIDUS INVESTMENT Corp
Form 497
August 22, 2014
Table of Contents

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PROSPECTUS SUPPLEMENT

(to Prospectus dated April 29, 2014)

$50,000,000

Fidus Investment Corporation

Common Stock

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, or the 1940 Act. 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 have entered into equity distribution agreements, dated August 21, 2014, with Raymond James & Associates, Inc. and Robert W. Baird & Co. Incorporated, each a Sales Agent and, collectively, the Sales Agents, pursuant to one master agreement (the equity distribution agreement) relating to the shares of common stock offered by this prospectus supplement and the accompanying prospectus.

The equity distribution agreement provide that we may offer and sell shares of our common stock having an aggregate offering price of up to $50,000,000 from time to time through the Sales Agents. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act of 1933, as amended, or the Securities Act, including sales made directly on the NASDAQ Global Select Market, or NASDAQ or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices. As of the date of this prospectus supplement, we have not sold any shares of our common stock under the equity distribution agreement.

The sales agents are not required to sell any specific number or dollar amount of shares of our common stock, but as instructed by us will make all sales using commercially reasonable efforts, consistent with their normal trading and sales practices, as our sales agents and subject to the terms of the equity distribution agreement. From time to time during the terms of the equity distribution agreement, we may deliver a placement notice to one of the sales agents specifying the length of the selling period, the amount of shares to be sold and the minimum price below which sales may not be made. Shares of our common stock to which this prospectus supplement relates will be sold only through one sales agent on any given day. The offering of shares of common stock pursuant to the equity distribution agreement will terminate upon the earlier of (1) the sale of shares having an aggregate offering price of $50,000,000 or (2) the termination of the equity distribution agreements. Under the terms of the equity distribution agreement, the Sales Agents will receive a commission equal to 1.50% of the gross sales price of any shares of our common stock sold through the Sales Agents under the equity distribution agreement. As of the date of this prospectus supplement, we have not sold any shares of our common stock under the equity distribution agreements. See Plan of Distribution beginning on page S-11 of this prospectus supplement.

Our common stock is listed on NASDAQ under the trading symbol FDUS. The last sale price, as reported on NASDAQ on August 19, 2014, was $18.49 per share. The net asset value per share of our common stock at June 30, 2014 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $15.09. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less commissions paid to the Sales Agents, will not be less than the net asset value per share of our common stock at the time of such sale.

This prospectus supplement and the accompanying prospectus, contain important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus supplement and the accompanying prospectus before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or SEC. The SEC also maintains a website at *http://www.sec.gov* that contains such information. This information is also available free of charge by contacting us at 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201, Attention: Investor Relations, or by calling us at (847) 859-3940 or on our website at *www.fidusinv.com*. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus supplement, and the accompanying prospectus.

Investing in our common stock involves a high degree of risk, including risks arising from our use of leverage. Before buying any shares, you should read the discussion of the material risks of investing in our common stock in Risk Factors beginning on page 11 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

RAYMOND JAMES **BAIRD**

The date of this prospectus supplement is August 21, 2014

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

	Page
PROSPECTUS SUPPLEMENT SUMMARY	S-1
THE OFFERING	S-6
FEES AND EXPENSES	S-8
SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS	S-11
PLAN OF DISTRIBUTION	S-12
USE OF PROCEEDS	S-13
CAPITALIZATION	S-14
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	S-15
SALE OF COMMON STOCK BELOW NET ASSET VALUE	S-29
PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS	S-30
LEGAL MATTERS	S-32
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	S-32
AVAILABLE INFORMATION	S-32
INDEX TO FINANCIAL STATEMENTS	SF-1

Prospectus

SUMMARY	1
FEES AND EXPENSES	8
RISK FACTORS	11
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	38
USE OF PROCEEDS	39
FORMATION TRANSACTIONS	40
PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS	41
SELECTED FINANCIAL DATA	43
SELECTED QUARTERLY FINANCIAL DATA	45
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL INFORMATION AND RESULTS OF OPERATIONS	46
SENIOR SECURITIES	60
THE COMPANY	61
PORTFOLIO COMPANIES	71
MANAGEMENT	75
MANAGEMENT AND OTHER AGREEMENTS	86
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	94
CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS	96
SALES OF COMMON STOCK BELOW NET ASSET VALUE	97
DIVIDEND REINVESTMENT PLAN	101
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS	103
DESCRIPTION OF OUR CAPITAL STOCK	113
DESCRIPTION OF OUR PREFERRED STOCK	119
DESCRIPTION OF OUR SUBSCRIPTION RIGHTS	120
DESCRIPTION OF OUR DEBT SECURITIES	121
REGULATION	133
PLAN OF DISTRIBUTION	139
CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR	141
BROKERAGE ALLOCATION AND OTHER PRACTICES	141
LEGAL MATTERS	141
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	141
AVAILABLE INFORMATION	141
PRIVACY NOTICE	142
INDEX TO FINANCIAL STATEMENTS	F-1

Table of Contents

ABOUT THE PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of the common stock we are offering and certain other matters relating to us. The second part, the accompanying prospectus, gives more general information about the securities that we may offer from time to time, some of which may not apply to the common stock offered by this preliminary prospectus supplement. For information about our common stock, see Description of Our Capital Stock in the accompanying prospectus.

If information varies between this prospectus supplement and the accompanying prospectus, you should rely only on such information in this prospectus supplement. The information contained in this prospectus supplement supersedes any inconsistent information included in the accompanying prospectus. In various places in this prospectus supplement and the accompanying prospectus, we refer you to other sections of such documents for additional information by indicating the caption heading of such other sections. The page on which each principal caption included in this prospectus supplement and the accompanying prospectus can be found is listed in the table of contents above. All such cross references in this prospectus supplement are to captions contained in this prospectus supplement and not in the accompanying prospectus, unless otherwise stated.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS. WE HAVE NOT, AND THE SALES AGENTS HAVE NOT, AUTHORIZED ANY OTHER PERSON TO PROVIDE YOU WITH DIFFERENT OR ADDITIONAL INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR ADDITIONAL INFORMATION, YOU SHOULD NOT RELY ON IT. WE ARE NOT, AND THE SALES AGENTS ARE NOT, MAKING AN OFFER TO SELL THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. YOU SHOULD ASSUME THAT THE INFORMATION APPEARING IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS IS ACCURATE ONLY AS OF THEIR RESPECTIVE DATES, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS OR ANY SALES OF THE SECURITIES. OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THOSE DATES.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights some of the information in this prospectus supplement. It is not complete and may not contain all of the information that you may want to consider. You should read the entire prospectus supplement and the accompanying prospectus carefully, including Risk Factors, Capitalization, Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements contained elsewhere in this prospectus supplement and the accompanying prospectus.

Fidus Investment Corporation is a Maryland corporation, formed on February 14, 2011, for the purpose of acquiring 100.0% of the equity interests in Fidus Mezzanine Capital, L.P., or Fund I, and its general partner, Fidus Mezzanine Capital GP, LLC, or FMCGP, raising capital in its initial public offering, or IPO, which was completed in June 2011, and thereafter, operating as an externally managed business development company, or BDC, under the Investment Company Act of 1940, or the 1940 Act. Fund I is licensed as a small business investment company, or SBIC, by the United States Small Business Administration, or SBA. Simultaneously with the consummation of our IPO, we acquired all of the equity interests in Fund I and its former general partner as described elsewhere in this prospectus supplement under Formation Transactions, whereby Fund I became our wholly-owned subsidiary. On March 29, 2013, we commenced operations of a new wholly-owned investment fund, Fidus Mezzanine Capital II, L.P., or Fund II, and on May 28, 2013, were granted a second license by the SBA to operate Fund II as an SBIC. Collectively, Fund I and Fund II are referred to as the Funds. Unless otherwise noted in this prospectus supplement the terms we, us, our, the Company, Fidus and FIC refer to Fidus Investment Corporation and its consolidated subsidiaries.

As used in this prospectus supplement the term our investment advisor refers to Fidus Capital, LLC prior to the Formation Transactions and Fidus Investment Advisors, LLC after the Formation Transactions. The investment professionals of Fidus Investment Advisors, LLC were also the investment professionals of Fidus Capital, LLC.

Fidus Investment Corporation

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 $20.0 million per portfolio company.

As of June 30, 2014, we had debt and equity investments in 37 portfolio companies with an aggregate fair value of $310.5 million. The weighted average yield on our debt investments as of June 30, 2014 was 14.0% (computed using the effective interest rates as of June 30, 2014, including accretion of original issue discount and loan origination fees, but excluding any debt investments on non-accrual status). There can be no assurance that the weighted average yield will remain at its current level.

Table of Contents

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. From our perspective, lower middle-market companies have faced difficulty raising debt capital in both the capital markets and private markets. As a result of the difficulties in the credit markets and fewer sources of capital for lower middle-market companies, we see opportunities for improved risk-adjusted returns. Furthermore, we believe with a large pool of uninvested private equity capital seeking debt capital to complete transactions and a substantial supply of refinancing opportunities, there is an opportunity to attain appealing risk-adjusted returns on debt and equity investments. See The Company in the accompanying prospectus for more information.

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;
- Capitalizing on our strong transaction sourcing network;
- Serving as a value-added partner with customized financing solutions;
- Employing rigorous due diligence and underwriting processes focused on capital preservation;
- Actively managing our portfolio;
- Maintaining portfolio diversification; and
- Benefiting from lower cost of capital through our SBIC subsidiaries.

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 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.

Table of Contents

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

Significant Invested Capital. 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 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 a steady stream of cash flow to repay our debt investments and reinvest in their respective businesses. In addition, we seek to invest in portfolio companies whose business models and expected future cash flows offer attractive exit possibilities for our 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 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.

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 Fidus 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, 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, credit 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. For information regarding the people who control our investment advisor and their affiliations with the Company, see Certain Relationships and Related Transactions Investment Advisory Agreement in the accompanying prospectus.

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 previously paid capital gain incentive fees. 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 and the related conflicts of interest, see Management and Other Agreements Investment Advisory Agreement and Certain Relationships and Related Transactions Conflicts of Interest in the accompanying prospectus.

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.

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.

Operating and Regulatory Structure

Our investment activities are managed by our investment advisor and supervised by our board of directors, a majority of whom are not interested persons of us, our investment advisor or its affiliates.

As a BDC, we are required to comply with certain regulatory requirements. For example, while we are permitted to finance investments using leverage, which may include the issuance of shares of preferred stock, or notes and other borrowings, our ability to use leverage is limited in significant respects. See Regulation in the accompanying prospectus. Any decision on our part to use leverage will depend upon our assessment of the attractiveness of available investment opportunities in relation to the costs and perceived risks of such leverage. The use of leverage to finance investments creates certain risks and potential conflicts of interest. 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 and Risk Factors Risks Relating to Our Business and Structure Because we borrow money and may in the future issue additional senior securities including preferred stock and debt securities, the potential for gain or loss on amounts invested in us is magnified and may increase the risk of investing in us in the accompanying prospectus.

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. In order to maintain our status as a RIC, we must satisfy certain source of income, asset diversification and distribution requirements. See Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

Risk Factors

The value of our assets, as well as the market price of our shares, will fluctuate. Our investments may be risky, and you may lose part of or all of your investment in us. Investing in our securities involves other risks, including the following:

- our dependence on key personnel of our investment advisor and our executive officers;
- our ability to maintain or develop referral relationships;
- our use of leverage;
- the availability of additional capital on attractive terms or at all;

Table of Contents

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

See Risk Factors beginning on page 11 of the accompanying prospectus, for additional discussion of factors you should carefully consider before deciding to invest in our securities.

Recent Developments

On July 3, 2014, we invested $10.5 million in the subordinated notes and common equity of US GreenFiber, LLC, a leading manufacturer of recycled fiber insulation products for use in residential property applications across the U.S.

On July 21, 2014, we purchased a $1.0 million loan participation in the senior secured loan of Paramount Building Solutions, LLC, a leading provider of outsourced janitorial and floor care services to big box retailers nationwide.

On July 24, 2014, we funded $0.4 million of the senior secured loan commitment to Restaurant Finance Co., LLC. On July 31, 2014, we increased the senior secured loan commitment to Restaurant Finance Co., LLC to $10.5 million. On August 5, 2014, we funded an additional $0.1 million of the senior secured loan commitment to Restaurant Finance Co., LLC.

On August 5, 2014, the Board declared a regular quarterly dividend of $0.38 per share, which is payable on September 26, 2014 to stockholders of record as of September 12, 2014.

On August 7, 2014, we invested $20.0 million in the subordinated notes of Pinnergy, Ltd., a leading provider of fluid management and drilling services for oil and gas wells located throughout Texas and Louisiana.

On August 8, 2014, we funded $0.3 million of the revolving loan commitment to Oaktree Medical Centre, P.C., an operator of healthcare clinics and toxicology laboratories in the Southeastern U.S. focused on the treatment of patients suffering from chronic pain or actual pre/post-operative conditions.

Table of Contents

THE OFFERING

NASDAQ Symbol	FDUS
Common stock offered by us	Shares of our common stock having an aggregate offering price of up to $50,000,000.
Manner of offering	At the market offering that may be made from time to time through Raymond James & Associates, Inc. and Robert W. Baird & Co. Incorporated, each a Sales Agent and, collectively, the Sales Agents, using commercially reasonable efforts. See Plan of Distribution in this prospectus supplement for more information.
Use of proceeds	If we sell shares of our common stock with an aggregate offering price of $50.0 million at a price of $18.49 per share (the last reported sales price of our common stock on August 19, 2014), we anticipate that our net proceeds, after deducting the sales agent commissions and estimated expenses payable by us will be approximately $48.5 million. We intend to use the net proceeds from this offering to make investments in lower middle-market companies in accordance with our investment objective and strategies and for working capital and general corporate purposes. See Use of Proceeds in this prospectus supplement for more information.
Dividends and Distributions	Our dividends and other distributions, if any, are determined and declared by our board of directors from time to time. Our ability to declare dividends depends on our earnings, our overall financial condition (including our liquidity position), our ability to maintain our qualification as a regulated investment company, or RIC, compliance with applicable BDC regulations, compliance with applicable SBIC regulations and such other factors as our board of directors may deem relevant from time to time. We typically pay quarterly dividends and may pay other distributions to our stockholders out of assets legally available for distribution.
	Our board of directors declared a regular quarterly distribution of $0.38 per share payable on September 26, 2014 to stockholders of record as of September 12, 2014.
	Our board of directors declared two special dividends of $0.05 per share with one paid on July 31, 2014 to stockholders of record as of July 25, 2014 and the other payable on August 29, 2014 to stockholders of record as of August 25, 2014.
Taxation	We have elected to be treated for U.S. federal income tax purposes as a RIC. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders. To maintain our qualification as a RIC and the associated tax benefits, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our net ordinary income and net

	short-term capital gains, if any, in excess of our net long-term capital losses. See Distributions and Material U.S. Federal Income Tax Considerations in the accompanying prospectus.
Effective trading at a discount	Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. The risk that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value. See Risk Factors and Sales of Common Stock Below Net Asset Value in the accompanying prospectus.
Risk factors	See Risk Factors beginning on page 11 of the accompanying prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our common stock.

For additional information regarding our common stock, see Description of Our Capital Stock in the accompanying prospectus.

Table of Contents

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in our common stock will bear, directly or indirectly, based on the assumptions set forth below. We caution you that some of the percentages indicated in the table below are estimates and may vary. Moreover, the information set forth below does not include all transaction costs and expenses that investors may incur in connection with each offering of our common stock pursuant to this prospectus supplement. Except where the context suggests otherwise, whenever this prospectus supplement contains a reference to fees or expenses paid by you, us, the Company or Fidus, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in us.

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)	1.5%(1)
Offering expenses borne by us (as a percentage of offering price)	1.6%(2)
Dividend reinvestment plan expenses	%(3)
Total stockholder transaction expenses paid by us (as a percentage of offering price)	3.1%
Annual expenses (as a percentage of net assets attributable to common stock)[(4)]:	
Base management fee	2.6%(5)
Incentive fees payable under Investment Advisory Agreement	2.4%(6)
Interest payments on borrowed funds	3.8%(7)
Other expenses	2.1%(8)
Total annual expenses	10.9%(9)

(1) Represents the commission with respect to the shares of common stock being sold in this offering. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

(2) The percentage reflects estimated offering expenses of approximately $0.8 million for the estimated duration of this offering.

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

(4) Annual expenses is calculated as a percentage of net assets attributable to common stock because such expenses are ultimately paid by our common stockholders. Offering expenses, if any, will be borne directly or indirectly by our common stockholders. Net assets attributable to common stock equals average net assets for the six months ended June 30, 2014.

(5) Our base management fee is 1.75% of the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts) and are estimated by assuming the base management fee remains consistent with the fees incurred for the six months ended June 30, 2014. We may from time to time decide it is appropriate to change the terms of the Investment Advisory Agreement. Under the 1940 Act, any material change to our Investment Advisory Agreement must be submitted to stockholders for approval. The 2.6% reflected in the table is calculated on our net assets (rather than our total assets). See Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus.

(6) This item represents an estimate of our investment advisor s incentive fees assuming the incentive fee related to pre-incentive fee net investment income remains consistent with the fees incurred on pre-incentive fee net investment income for the six months ended June 30, 2014. The estimate also assumes that the capital gains incentive fees payable at the end of the 2014 calendar year will be based on the actual cumulative realized capital gains net of cumulative realized losses and unrealized capital depreciation as of December 31, 2014, which we believe is consistent with no capital gains incentive fees payable as of June 30, 2014.

S-8

The incentive fee consists of two parts:

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

The second part, payable annually in arrears, equals 20.0% of our realized capital gains net of realized capital losses and unrealized capital depreciation, if any, on a cumulative basis from inception through the end of the fiscal year (or upon the termination of the Investment Advisory Agreement, as of the termination date), less the aggregate amount of any previously paid capital gain incentive fees. We accrue, but do not pay, a capital gains incentive fee in connection with any net unrealized capital appreciation, as appropriate. For the six months ended June 30, 2014, we reversed $0.8 million in capital gains incentive fee accruals in accordance with generally accepted accounting principles.

See Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus.

(7) Interest payments on borrowed funds represents our annualized interest payments on SBA debentures as of June 30, 2014, adjusted for projected increases in outstanding SBA debentures. As of June 30, 2014, we had outstanding SBA debentures of $145.5 million, and unfunded commitments from the SBA to purchase up to an additional of $29.5 million SBA debentures. This item is based on the sum of (i) actual interest expense for the six months ended June 30, 2014, plus (ii) an estimated increase in outstanding SBA debentures of $29.5 million at a fixed rate of 4.5% and (iii) an estimate of commitment fees incurred under the Credit Facility. We intend to incur additional leverage within the next 12 months. If, in the future, we borrow under the Credit Facility or issue any debt securities, interest payments on borrowed funds will include estimated annual interest payments for any amounts outstanding under the Credit Facility or any debt securities we may issue. The amount of leverage that we employ at any particular time will depend on, among other things, our board of directors assessment of market and other factors at the time of any proposed borrowing.

(8) Other expenses represent our estimated annual operating expenses, including professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan and payments under the Administration Agreement based on our allocable portion of overhead and other expenses incurred by our administrator. See Management and Other Agreements Administration Agreement in the accompanying prospectus. Other expenses exclude interest payments on borrowed funds, and if we issue debt securities or preferred stock, interest payments on debt securities and distributions with respect to preferred stock. We currently do not have any class of securities outstanding other than common stock. Other expenses are based on actual other expenses for the six months ended June 30, 2014.

(9) Total annual expenses as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. The SEC requires that the total annual expenses percentage be calculated as a percentage of net assets, rather than the total assets including assets that have been purchased with borrowed amounts. If the total annual expenses percentage were calculated instead as a percentage of average consolidated total assets for the six months ended June 30, 2014, our total annual expenses would be 7.3% of average consolidated total assets.

Table of Contents

Example

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

	1 year	3 years	5 years	10 years
You would pay the following expenses on a $1,000 investment, assuming a 5.0% annual return	$ 112	$ 315	$ 493	$ 852

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. The incentive fee under the Investment Advisory Agreement, which, assuming a 5.0% annual return, would either not be payable or have an insignificant impact on the expense amounts shown above, is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all distributions at net asset value, if our board of directors authorizes and we declare a cash dividend, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See Dividend Reinvestment Plan in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

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

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our dependence on key personnel of our investment advisor and our executive officers;
- our ability to maintain or develop referral relationships;
- our use of leverage;
- the availability of additional capital on attractive terms or at all;
- uncertain valuations of our portfolio investments;
- competition for investment opportunities;
- actual and potential conflicts of interest with our investment advisor;
- other potential conflicts of interest;
- SBA regulations affecting our wholly-owned SBIC subsidiaries;
- changes in interest rates;
- the impact of a protracted decline in the liquidity of credit markets on our business and portfolio investments;
- our ability to maintain our status as a RIC and as a BDC;
- the timing, form and amount of any distributions from our portfolio companies;
- changes in laws or regulations applicable to us;

dilution risks related to our ability to issue shares below our current net asset value;

possible resignation of our investment advisor or administrator;

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

risks associated with investing in lower middle-market companies;

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

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