FIDUS INVESTMENT Corp
Form 497
May 26, 2016
Table of Contents

Filed Pursuant to Rule 497
Registration Statement No. 333-202531

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.

Subject to Completion, dated May 26, 2016

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus dated May 2, 2016)

2,500,000 Shares

Common Stock

Fidus Investment Corporation is 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, as amended, or the 1940 Act. We are offering 2,500,000 shares of our common stock.

Our common stock is listed on the Nasdaq Global Select Market under the symbol FDUS. On May 25, 2016, the last reported sale price of our common stock was $15.51 per share. We are required to determine the net asset value per share of our common stock on a quarterly basis. As of March 31, 2016, our net asset value per share was $15.25 per share.

Fidus Investment Advisors, LLC serves as our investment advisor and as our administrator.

We generally invest in securities that would be rated below investment grade if they were rated by rating agencies. Below investment grade securities, which are often referred to as high yield or junk, have speculative characteristics with respect to the issuer s capacity to pay interest and repay principal.

Investing in our common stock is speculative and involves numerous risks, including risks associated with leverage and dilution. For more information regarding these risks, please see Risk Factors beginning on page 12 of the accompanying prospectus.

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

The Securities and Exchange Commission has not approved or disapproved of these securities or determined if this preliminary prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discount payable by us ( )%(1)	$	$
Underwriting discount payable by our investment advisor (%)(1)	$	$
Proceeds, before expenses, to us(1)	$	$

(1) We estimate that we will incur approximately $225,000 in offering expenses in connection with this offering. Fidus Investment Advisers, LLC, our investment advisor, has agreed to bear $ of our offering expenses in connection with this offering. Fidus Investment Advisors, LLC also has agreed to bear $, or $ per share, of the sales load in connection with this offering, which is reflected in the above table. All payments made by our investment advisor will not be subject to reimbursement by us.

The underwriters have the option to purchase up to an additional 375,000 shares of common stock at the public offering price, less the underwriting discount, within 30 days from the date of this preliminary prospectus supplement. If the option is exercised in full, the total public offering price will be $, the total underwriting discount (4.00%) will be $, and the total proceeds to us, before deducting estimated expenses payable by us of $225,000, will be $.

The underwriters expect to deliver the shares on or about May , 2016.

Joint Bookrunning Managers

RAYMOND JAMES **BAIRD** **KEEFE, BRUYETTE & WOODS**

A Stifel Company

Co-Lead Managers

BB&T CAPITAL MARKETS **OPPENHEIMER & CO.**

The date of this prospectus supplement is May , 2016

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

Table of Contents

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 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 UNDERWRITERS 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 UNDERWRITERS 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, Selected Consolidated Financial Data, 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. Together, these documents describe the specific terms of the shares we are offering. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters over-allotment option.

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, as amended, 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 $25.0 million per portfolio company.

Table of Contents

As of March 31, 2016, we had debt and equity investments in 53 portfolio companies with an aggregate fair value of $455.7 million. The weighted average yield on our debt investments as of March 31, 2016 was 13.3%. The weighted average yield was computed using the effective interest rates as of March 31, 2016, 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. 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; 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.

S-2

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.

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 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 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.

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, 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

Table of Contents

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 us, 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 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 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. Renewal of our Investment Advisory Agreement must be approved each year by our board of directors, including a majority of our Independent Directors.

With respect to the administrative agreement with our investment advisor, our board of directors reviews the methodology employed in determining how the expenses are allocated to us. Our board of directors assesses the reasonableness of such reimbursements for expenses allocated to us based on the breadth, depth and quality of such services as compared to the estimated cost to us of obtaining similar services from third-party service providers known to be available. In addition, our board of directors considers whether any third-party service provider would be capable of providing all such services at comparable cost and quality.

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.

Table of Contents

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 operations 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 tax treatment 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;
- 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;

Table of Contents

- 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;
- dilution 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 12 of the accompanying prospectus, for additional discussion of factors you should carefully consider before deciding to invest in our securities.

Recent Developments

In April 2016, we placed our subordinated loan investment in Pinnergy, Ltd., a provider of fluid management and drilling services for oil and gas wells located throughout Texas and Louisiana, on non-accrual status given the increased risk and uncertainty associated with this investment due to difficult industry conditions. Such investment had an aggregate cost and fair value of $19.9 million and $12.1 million, respectively, as of March 31, 2016.

On May 2, 2016, our board of directors declared a regular quarterly dividend of $0.39 per share, which is payable on June 24, 2016 to stockholders of record as of June 10, 2016.

THE OFFERING

NASDAQ Symbol	FDUS
Common stock offered by us	2,500,000 shares of our common stock. To the extent that the underwriters sell more than 2,500,000 shares, we have granted the underwriters the option to purchase up to an additional 375,000 shares on the same terms within 30 days of the date of this prospectus.

Common stock outstanding prior to this offering	16,312,363 shares
Common stock to be outstanding after this offering(1)	18,812,363 shares

Table of Contents

Use of proceeds	The net proceeds from this offering (without exercise of the underwriters over-allotment option and before deducting estimated expenses payable by us of approximately $225,000) will be $. Fidus Investment Advisers, LLC, our investment advisor, has agreed to bear $ of our offering expenses and $ of the sales load in connection with this offering, both of which will not be subject to reimbursement by us. If the underwriters option to purchase additional shares is exercised in full, our investment advisor will bear an aggregate of $ of our offering costs and $ of the sales load in connection with this offering, both of which will not be subject to reimbursement by us.
	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, to repay the outstanding indebtedness under our Credit Facility, to increase our borrowing capacity under the SBIC Debenture Program and for working capital and general corporate purposes. See Use of Proceeds in this prospectus supplement for more information.
Dividends and Distributions	We pay quarterly distributions to our stockholders out of assets legally available for distribution. Our distributions, if any, will be determined by our board of directors. Our ability to declare distributions depends on our earnings, our overall financial condition (including our liquidity position), qualification for or maintenance of our RIC status and such other factors as our board of directors may deem relevant from time to time.
	When we make distributions, we will be required to determine the extent to which such distributions are paid out of current or accumulated earnings, recognized capital gains or capital. To the extent there is a return of capital, investors will be required to reduce their basis in our stock for U.S. federal income tax purposes. In the future, our distributions may include a return of capital.
Taxation	We have elected to be treated as a RIC for U.S. federal income tax purposes. Accordingly, we generally will not 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 tax treatment 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 realized net ordinary income and realized 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.

Table of Contents

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 12 of the accompanying prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our common stock.

(1) The number of shares of common stock to be outstanding after this offering excludes 375,000 shares of common stock that the underwriters have an option to purchase.

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. 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 u

Stockholder transaction expenses:	
Sales load borne by us (as a percentage of offering price)	%(1)
Offering expenses borne by us (as a percentage of offering price)	%(2)
Dividend reinvestment plan expenses	(3)
Total stockholder transaction expenses paid by us (as a percentage of offering price)	%
Annual expenses (as a percentage of net assets attributable to common stock)(4):	
Base management fee	3.2%(5)
Incentive fees payable under Investment Advisory Agreement	2.9%(6)
Interest payments on borrowed funds	3.9%(7)
Other expenses	1.8%(8)
Total annual expenses	11.8%(9)

(1) Represents the sales load to be paid by us with respect to the shares of common stock to be sold by us in this offering for which the calculation is adjusted. Our investment advisor has agreed to bear $ per share, or approximately % of the sales load in connection with this offering, which is not reflected in the above table and will not be subject to reimbursement by us.

(2) The offering expenses of this offering borne by us are estimated to be approximately $0.2 million. If the underwriters exercise their over-allotment option in full, the offering expenses borne by us (as a percentage of the offering price) will be %. Fidus Investment Advisers, LLC, our investment advisor, has agreed to bear $ of our offering expenses in connection with this offering. All payments made by our investment advisor will not be subject to reimbursement by us.

(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 three months ended March 31, 2016.

(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 three months ended March 31, 2016. 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 3.2% 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 three months ended March 31, 2016. The estimate also assumes that the capital gains incentive fees payable at the end of the 2016 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, 2016, which we believe is consistent with no capital gains incentive fees payable as of March 31, 2016.

Table of Contents

The incentive fee consists of two parts:

The first, payable quarterly in arrears, equals 20.0% of our pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets, (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 three months ended March 31, 2016, we accrued $0.1 million in capital gains incentive fees in accordance with generally accepted accounting principles.

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

(7) As of March 31, 2016, we had outstanding SBA debentures of $214.0 million, and unfunded commitments from the SBA to purchase up to an additional of $11.0 million SBA debentures, as well as $11.0 million in outstanding borrowings under the Credit Facility, which has total commitment of $50.0 million. Interest payments on borrowed funds is based on estimated annual interest and fee expenses on outstanding SBA debentures and borrowings under the Credit Facility as of March 31, 2016 with a weighted average interest rate of 4.1%. We have estimated the annual interest expense on borrowed funds and caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing, which may be substantially higher than the estimate provided in this table.

(8) Other expenses represent our estimated annual operating expenses, as a percentage of net assets attributable to common shares estimated for the current year, 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 three months ended March 31, 2016.

(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 (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period), 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 three months ended March 31, 2016, our total annual expenses would be 6.1% of average consolidated total assets.

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	$ 121	$ 338	$ 525	$ 888
You would pay the following expenses on a $1,000 investment, assuming a 5.0% annual return resulting entirely from net realized capital gains (all of which is subject to our incentive fee on capital gains)	$ 128	$ 355	$ 548	$ 913

Table of Contents

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.

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, will, may, continue, believes, seeks, estimates, would, should, targets, projects and variations of these w expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financing and investments;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of increased competition;

- the ability of our investment advisor to identify suitable investments for us and to monitor and administer our investments;
- the ability of our investment advisor to attract and retain highly talented professionals;
- our regulatory structure and tax status;
- our ability to operate as a BDC, a SBIC and a RIC;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the timing, form and amount of any dividend distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

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:

- an economic downturn could impair our portfolio companies ability to continue to operate, which could lead to the loss of value in of some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;
- interest rate volatility could adversely affect our results, particularly because we use leverage as part of our investment strategy;
- currency fluctuations could adversely affect the results of our investments in portfolio companies with foreign operations; and,
- the risks, uncertainties and other factors we identify in Item 1A. Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2015 and in our other filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in Risk Factors and elsewhere in the accompanying prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. The forward-looking statements and projections contained in this prospectus supplement and accompanying prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the Securities Act.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of 2,500,000 shares of common stock we are offering will be approximately $ million, and approximately $ million if the underwriters over-allotment option is exercised in full, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. Our investment advisor has agreed to bear $, or approximately % of the sales load and $, or approximately % of the offering expenses in connection with this offering, both of which will not be subject to reimbursement by us. We may change the size of this offering based on demand and market conditions.

We intend to use the net proceeds of this offering to invest in lower middle-market companies in accordance with our investment objective and strategies, to repay the outstanding indebtedness under our Credit Facility, to increase our borrowing capacity under the SBIC Debenture Program and for working capital and general corporate purposes. As of May 25, 2016, there were $10.0 million of outstanding borrowings under our Credit Facility that had an interest rate of 3.9% and a maturity date of June 16, 2018, which may be extended by mutual agreement.

Pending such use, we will invest the net proceeds of this offering primarily in cash, cash equivalents, U.S. Government securities and other high-quality debt instruments that mature in one year or less, or temporary investments, as appropriate. These securities may have lower yields than our other investments and accordingly result in lower distributions, if any, by us during such period. See Regulation Temporary Investments in the accompanying prospectus. 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.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2016:

- on an actual basis as of March 31, 2016; and

- on an as-adjusted basis giving effect to the sale of 2,500,000 shares of our common stock at a price of $ per share. Our investment advisor has agreed to bear $, or approximately % of the sales load and $, or approximately % of the offering expenses in connection with this offering, both of which are not reflected in the below table and will not be subject to reimbursement by us.

Table of Contents

This table should be read in conjunction with our Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus.

	As of March 31, 2016	
	Actual	As Adjusted(1)
	(Unaudited)	
ASSETS		
Cash and cash equivalents	$ 13,041	$
Investments, at fair value	455,682	455,682
Other assets	6,824	6,824
Total assets	$ 475,547	$
LIABILITIES		
SBA debentures, net of deferred financing costs	$ 210,067	$ 210,067
Credit Facility, net of deferred financing costs	10,321	
Other liabilities	6,434	6,434
Total liabilities	226,822	
NET ASSETS		
Common stock, $0.001 par value (100,000,000 shares authorized, 16,312,363 shares issued and outstanding, actual; 18,812,363(1) shares issued and outstanding, as adjusted)	16	
Additional paid-in capital(2)	246,487	
Undistributed net investment income	14,612	14,612
Accumulated net realized (loss) on investments, net of taxes and distributions	(6,684)	(6,684)
Accumulated net unrealized (depreciation) on investments	(5,706)	(5,706)
Total net assets	248,725	
Total liabilities and net assets	$ 475,547	$
Net asset value per common share	$ 15.25	$

(1) Excludes up to 375,000 shares of our common stock issuable upon exercise of the underwriters over-allotment option.
(2) Pro forma additional paid-in capital has been reduced by the estimated costs of the offering payable by us and the underwriting discount.

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 on the Nasdaq Global Select Market. Prior to June 21, 2011, there was no established public trading market for our common stock. 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.

Period	NAV Per Share(1)	High Closing Sales Price	Low Closing Sales Price	Premium / (Discount) of High Sales Price to NAV(2)	Premium / (Discount) of Low Sales Price to NAV(2)	Distributions Per Share(3)
Year ended December 31, 2016						
First quarter	$ 15.25	$ 15.51	$ 11.91	1.7%	(21.9)%	$ 0.39
Second quarter (through May 25, 2016)	*	15.96	15.03	*	*	0.39
Year ended December 31, 2015						
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
Year ended December 31, 2014						
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.

* Not determinable at time of filing.

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,

Table of Contents

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, 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 Fidus Investment Corporation (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, our 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 and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this prospectus supplement and the accompanying prospectus.

	Three Months Ended March 31, 2016	Year Ended December 31, 2015	2014	2013	2012	2011
		(Dollars in Thousands)				
Statement of operations data:						
Total investment income	$ 14,691	$ 54,269	$ 46,116	$ 41,792	$ 33,849	$ 23,387
Interest and financing expenses	2,600	9,428	7,507	7,076	6,422	5,488
Management fees, net	1,983	7,545	5,899	5,261	4,237	3,182
Incentive fees	1,880	6,481	4,857	6,792	4,839	1,609
All other expenses	1,121	3,932	4,189	3,121	2,660	1,551
Net investment income before income taxes	7,107	27,386	23,664	19,542	15,691	11,557
Income tax provision	25	390	383	246	4	24
Net investment income	7,082	26,493	23,281	19,296	15,687	11,533
Net realized (losses) gains on investments	(310)	9,531	(17,029)	30,588	1,975	(12,318)
Net change in unrealized appreciation (depreciation) on investments	768	(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	$ 7,540	$ 25,977	$ 19,485	$ 27,203	$ 19,411	$ 15,386
Per share data(1):						
Net asset value (at end of period)	$ 15.25	$ 15.17	$ 15.16	$ 15.35	$ 15.32	$ 14.90
Net investment income	$ 0.43	$ 1.64	$ 1.62	$ 1.43	$ 1.54	$ 1.22
Net gain (loss) on investments	$ 0.03	$ (0.04)	$ (0.26)	$ 0.58	$ 0.37	$ 0.40
Net increase in net assets resulting from operations	$ 0.46	$ 1.60	$ 1.36	$ 2.01	$ 1.91	$ 1.63
Dividends (post initial public offering)	$ 0.39	$ 1.60	$ 1.72	$ 1.94	$ 1.46	$ 0.64
Other data:						
Weighted average annual yield on debt investments(2)	13.3%	13.3%	13.4%	14.5%	15.3%	15.3%
Number of portfolio companies at period end	53	53	42	37	30	23
Expense ratios (as percentage of average net assets):						
Operating expenses	2.0%	7.3%	6.7%	7.2%	7.4%	4.7%
Interest expense	1.0%	3.8%	3.4%	3.4%	4.1%	4.0%

S-17

(1) Per share data and average net assets are presented as if the Formation Transactions 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 investments on non-accrual status, if any.

	March 31, 2016 (Unaudited)	As of December 31, 2015	2014	2013	2012	2011
			(Dollars in Thousands)			
Statement of assets and liabilities data:						
Total investments at fair value	$ 455,682	$ 443,269	$ 396,355	$ 306,981	$ 274,249	$ 204,745
Total assets(1)	475,547	480,668	431,020	364,110	330,435	245,956
Borrowings	225,000	229,000	183,500	144,500	144,500	104,000
Total net assets	248,725	247,362	243,263	211,125	183,091	140,482

(1) Prior to the adoption of Accounting Standards Update (ASU) 2015-03, *Interest Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, on January 1, 2016, we presented deferred financing costs as an asset on the consolidated statements of assets and liabilities. Upon adoption of ASU 2015-03, we reclassified these deferred costs to a direct offset of the related debt liability on the consolidated statements of assets and liabilities. The new guidance is applied retrospectively to each prior period presented. Total assets presented here exclude $4,872, $4,567, $3,152, $3,414 and $2,687 of deferred financing costs presented as an asset as of December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

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

Overview

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

FIC was formed as a Maryland corporation on February 14, 2011. We completed our 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, FIC acquired all of the limited partnership interests of Fund I and membership interests of FMCGP through the Formation Transactions, resulting in Fund I becoming our wholly-owned SBIC subsidiary. Immediately following the Formation Transactions, we and Fund I elected to be treated as BDCs under the 1940 Act and our investment activities have been managed by Fidus Investment Advisors, LLC, our investment advisor, and supervised by our board of directors, a majority of whom are independent of us. On March 29, 2013, we commenced operations of a second wholly-owned subsidiary, Fund II.

Table of Contents

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 $11.0 million of remaining borrowing capacity under the SBIC Debenture Program and intend to fully utilize such capacity over the ensuing 3-6 months.

Revenues: We generate revenue in the form of interest income on debt investments and capital gains and distributions, if any, on equity investments. Our debt investments, whether in the form of mezzanine, senior secured or unitranche loans, typically have terms of five to seven years and bear interest at a fixed rate but may bear interest at a floating rate. In some instances, we receive payments on our debt investments based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our debt investments prior to their scheduled maturity dates. The frequency or volume of these repayments fluctuates significantly from period to period. Our portfolio activity may reflect the proceeds of sales of securities. In some cases, our investments provide for deferred interest payments or PIK interest. The principal amount of loans and any accrued but unpaid interest generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, amendment, or structuring fees and fees for providing managerial assistance. Loan origination fees, original issue discount and market discount or premium, if any, are capitalized, and we accrete or amortize such amounts into interest income. We record prepayment premiums on loans as fee income. Interest and dividend income is recorded on the accrual basis to the extent that we expect to collect such amounts. Loans or preferred equity securities are placed on non-accrual status when principal, interest or dividend payments become materially past due, or when there is reasonable doubt that principal, interest or dividends will be collected. See Critical Accounting Policies and Use of Estimates Revenue Recognition. Interest and dividend income is accrued based upon the outstanding principal amount and contractual terms of debt and preferred equity investments. Interest is accrued on a daily basis. Dividend income is recorded as dividends are declared or at the point an obligation exists for the portfolio company to make a distribution. Distributions of earnings from portfolio companies are evaluated to determine if the distribution is a distribution of earnings or a return of capital.

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

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

- organization;
- calculating our net asset value (including the cost and expenses of any independent valuation firm);

Table of Contents

fees and expenses incurred by our investment advisor under the Investment Advisory Agreement or payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for us and in monitoring our investments and performing due diligence on our prospective portfolio companies or otherwise relating to, or associated with, evaluating and making investments;

interest payable on debt, if any, incurred to finance our investments;

offerings of our common stock and other securities;

investment advisory fees and management fees;

administration fees and expenses, if any, payable under the Administration Agreement (including payments under the Administration Agreement between us and our investment advisor based upon our allocable portion of our investment advisor s overhead in performing its obligations under the Administration Agreement, including rent and the allocable portion of the cost of our officers, including our chief compliance officer, our chief financial officer, and their respective staffs);

transfer agent, dividend agent and custodial fees and expenses;

federal and state registration fees;

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

U.S. federal, state and local taxes;

Independent Directors fees and expenses;

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

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

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

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

proxy voting expenses; and

all other expenses reasonably incurred by us or our investment advisor in connection with administering our business.

Portfolio Composition, Investment Activity and Yield

During the three months ended March 31, 2016, we invested $42.3 million in debt and equity investments, including three new portfolio companies. These investments consisted of

Table of Contents

subordinated notes ($39.3 million, or 92.9%), senior secured loans ($1.4 million, or 3.2%), and equity securities ($1.6 million, or 3.9%). During the three months ended March 31, 2016 we received proceeds from sales or repayments, including principal, return of capital dividends and net realized gains (losses), of $31.6 million. During the three months ended March 31, 2015, we invested $39.6 million in debt and equity investments, including five new portfolio companies. These investments consisted of subordinated notes ($24.8 million, or 62.7%), senior secured loans ($12.8 million, or 32.3%), equity securities ($1.8 million, or 4.5%), and warrants ($0.2 million, or 0.5%). During the three months ended March 31, 2015 we received proceeds from sales or repayments, including principal, return of capital dividends and net realized gains (losses), of $24.7 million.

As of March 31, 2016, the fair value of our investment portfolio totaled $455.7 million and consisted of 53 portfolio companies. As of March 31, 2016, one debt investment bore interest at a variable rate, which represented $8.5 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 $4.3 million as of March 31, 2016. As of March 31, 2016, our average portfolio company investment at amortized cost was $9.2 million (which excludes three investments in portfolio companies that sold their operations and are in the process of winding down).

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).

The weighted average yield on debt investments as of both March 31, 2016 and December 31, 2015 was 13.3%. The weighted average yields were computed using the effective interest rates for debt investments at cost as of both March 31, 2016 and December 31, 2015, 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:

	Fair Value				Cost			
	March 31, 2016		December 31, 2015		March 31, 2016		December 31, 2015	
	(dollars in thousands)							
Subordinated notes	$ 329,715	72.4%	$ 300,467	67.8%	$ 342,857	74.5%	$ 309,899	69.2%
Senior secured loans	64,712	14.2	88,485	20.0	66,502	14.5	88,505	19.7
Equity	51,515	11.3	44,899	10.1	43,617	9.5	42,651	9.5
Warrants	9,555	2.1	9,233	2.1	6,822	1.5	7,098	1.6
Royalty rights	185		185		185		185	
Total	$ 455,682	100.0%	$ 443,269	100.0%	$ 459,983	100.0%	$ 448,338	100.0%

Table of Contents

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			
	March 31, 2016		December 31, 2015		March 31, 2016		December 31, 2015	
	(dollars in thousands)							
Midwest	$ 129,809	28.5%	$ 119,291	26.8%	$ 123,129	26.8%	$ 116,015	25.9%
Northeast	105,611	23.2	93,430	21.1	103,947	22.6	92,492	20.6
Southeast	104,926	23.0	107,975	24.4	115,351	25.1	113,430	25.3
West	72,201	15.8	84,648	19.1	63,612	13.8	77,028	17.2
Southwest	43,135	9.5	37,925	8.6	53,944	11.7	49,373	11.0
Total	$ 455,682	100.0%	$ 443,269	100.0%	$ 459,983	100.0%	$ 448,338	100.0%

Table of Contents

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

	Fair Value		Cost	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Healthcare products	13.6%	11.4%	12.4%	10.4%
Aerospace & defense manufacturing	10.2	10.5	8.5	8.7
Transportation services	9.0	8.1	8.4	7.6
Healthcare services	8.7	11.1	8.8	11.2
Specialty distribution	8.0	8.0	7.5	7.7
Consumer products	5.1	5.1	4.8	5.0
Utility equipment manufacturing	4.4	4.6	4.4	4.6
Building products manufacturing	4.0	4.0	3.5	3.6
Industrial cleaning & coatings	3.9	3.9	4.0	4.1
Business services	3.7	5.4	4.2	5.7
Capital equipment manufacturing	3.0		3.0	
Information technology services	2.9	3.0	3.1	3.2
Financial services	2.9	3.1	2.6	2.8
Oil & gas services	2.7	3.7	4.4	4.5
Promotional products	2.6		2.6	
Safety products manufacturing	2.4	2.4	2.3	2.4
Component manufacturing	2.2	3.8		