

FIDUS INVESTMENT Corp  
Form 10-K  
February 28, 2019  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2018**

**OR**

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

**For the transition period from                      to**

**Commission file number: 814-00861**

**FIDUS INVESTMENT CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

**Maryland**  
(State or Other Jurisdiction of

**27-5017321**  
(I.R.S. Employer

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**Incorporation or Organization)**  
**1603 Orrington Avenue, Suite 1005**

**Identification No.)**

**Evanston, Illinois**  
**(Address of Principal Executive Offices)**

**60201**  
**(Zip Code)**

**(847) 859-3940**

**(Registrant's Telephone Number, including Area Code)**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, par value \$0.001 per share	The NASDAQ Global Select Market
5.875% Notes due 2023	The NASDAQ Global Select Market
6.000% Notes due 2024	The NASDAQ Global Select Market

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.406) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

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The aggregate market value of common stock held by non-affiliates of the registrant on June 29, 2018 based on the closing price on that date of \$14.21 on the NASDAQ Global Select Market was \$343,229,917. For the purpose of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates. There were 24,463,119 shares of the registrant's common stock outstanding as of February 26, 2019.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's proxy statement to be filed with the U.S. Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2019 Annual Meeting of Stockholders, which will be filed subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K. Such proxy statement will be filed with the U.S. Securities and Exchange Commission not later than 120 days following the end of the registrant's fiscal year ended December 31, 2018.

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**SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

This Annual Report on Form 10-K ( Annual Report ) contains 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 words and similar expressions identify forward-looking statements. The forward-looking statements contained in this Annual Report on Form 10-K 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;

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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 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;

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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 this Annual Report on Form 10-K for the year ended December 31, 2018 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 later prove to 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 Annual Report 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 Item 1A entitled "Risk Factors" in Part 1 and elsewhere in this Annual Report. You should not place undue reliance on these forward-looking statements as a prediction of actual results, which apply only as of the date of this Annual Report. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements and projections contained in this Annual Report are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the Securities Act.

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**PART I**

*Except as otherwise specified, references to we, us, our, Fidus and FIC refer to Fidus Investment Corporation and its consolidated subsidiaries. Some of the statements in this Annual Report constitute forward-looking statements, which apply to us and relate to future events, future performance or financial condition. The forward-looking statements involve risks and uncertainties for us and actual results could differ materially from those projected in the forward-looking statements for any reason, including those factors discussed in Risk Factors and elsewhere in this report.*

**Item 1. Business.**

**GENERAL**

Fidus Investment Corporation, a Maryland Corporation, operates as an externally managed business development company ( BDC ) under the Investment Company Act of 1940 ( 1940 Act ). FIC completed its initial public offering, or IPO, in June 2011. In addition, FIC has elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ). As of December 31, 2018, our shares were listed on the NASDAQ Global Select Market under the symbol FDUS.

FIC may make investments directly or through its two wholly-owned investment company subsidiaries, Fidus Mezzanine Capital, L.P. ( Fund I ) and Fidus Mezzanine Capital II, L.P. ( Fund II )(collectively Fund I and Fund II are referred to as the Funds ). Fidus Investment GP, LLC, the general partner of the Funds, is also a wholly owned subsidiary of FIC. The Funds are licensed by the U.S. Small Business Administration (the SBA ) as small business investment companies ( SBICs ). The Funds utilize the proceeds of the issuance of SBA-guaranteed debentures to enhance returns to our stockholders. We believe that utilizing both FIC and the Funds as investment vehicles provides us with access to a broader array of investment opportunities. Given our access to lower cost capital through the SBA s SBIC debenture program, we expect that the majority of our investments will continue to be made through the Funds until the Funds reach their borrowing limit under the program. For three or more SBICs under common control, the maximum amount of outstanding SBA debentures cannot exceed \$350.0 million.

**Overview of our Business**

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 \$5.0 million and \$30.0 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 \$30.0 million per portfolio company.

As of December 31, 2018, we had debt and equity investments in 63 portfolio companies with an aggregate fair value of \$643.0 million. The weighted average yield on our debt investments as of December 31, 2018 was 12.6%. The weighted average yield of our debt investments is not the same as a return on investment for our



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stockholders but, rather, relates to a portion of our investment portfolio and is calculated before the payment of all of our fees and expenses. The weighted average yield was computed using the effective interest rates as of December 31, 2018, including accretion of original issue discount (OID) 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.

### **Available Information**

Our headquarters are in Evanston, Illinois, and our internet address is [www.fidus.com](http://www.fidus.com). We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report. We make available free of charge through our website our proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the U.S. Securities and Exchange Commission (the SEC). You may read and copy all materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information regarding the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers, like us, that file electronically with the SEC. Copies of this Annual Report and other reports are also available without charge by contacting us in writing at 1603 Orrington Avenue, Suite 1005, Evanston, Illinois 60201, Attention: Investor Relations.

### **Our Advisor**

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

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

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

Fidus Investment Advisors, LLC is a Delaware limited liability company that is registered as an investment advisor under the Investment Advisers Act of 1940, as amended, or the Advisers Act. In addition, Fidus Investment Advisors, LLC serves as our administrator and provides us with office space, equipment and clerical, book-keeping and record-keeping services pursuant to an administration agreement, which we refer to as the Administration Agreement.

## **Business Strategy**

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

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

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

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

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

*Actively Managing our Portfolio.* We believe that our investment advisor's initial and ongoing portfolio review process allows us to effectively monitor the performance and prospects of our portfolio companies. We seek to obtain board observation rights or board seats with respect to our portfolio companies, and we conduct monthly financial reviews and have regular discussions with portfolio company management. We structure our investments with a comprehensive set of financial maintenance, affirmative and negative covenants. We believe that active monitoring of our portfolio companies' compliance with covenants provides us with an early warning of any financial difficulty and enhances our ability to protect our invested capital.

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

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

## **Investments**

We seek to create a diversified investment portfolio that primarily includes loans and, to a lesser extent, equity securities. Our investments typically range between \$5.0 million to \$30.0 million per portfolio company, although this investment size may vary proportionately with the size of our capital base. Our investment objective is to provide attractive risk-adjusted returns by generating both current income from our debt investments and capital appreciation from our equity related investments. We may invest in the equity securities of our portfolio companies, such as preferred stock, common stock, warrants and other equity interests, either directly or in conjunction with our debt investments.

*Second Lien Debt.* The majority of our debt investments take the form of second lien debt, which includes senior subordinated notes. Second lien debt investments obtain security interests in the assets of the portfolio company as collateral in support of the repayment of such loans. Second lien debt typically is senior on a lien basis to other liabilities in the issuer's capital structure and has the benefit of a security interest over assets of the issuer, though ranking junior to first lien debt secured by those assets. First lien lenders and second lien lenders typically have separate liens on the collateral, and an intercreditor agreement provides the first lien lenders with priority over the second lien lenders' liens on the collateral. These loans typically provide for no contractual loan

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amortization, with all amortization deferred until loan maturity, and may include payment-in-kind ( PIK ) interest, which increases the principal balance over the term and, coupled with the deferred principal payment provision, increases credit risk exposure over the life of the loan.

*Subordinated Debt.* These investments are typically structured as unsecured, subordinated notes. Structurally, subordinated debt usually ranks subordinate in priority of payment to first lien and second lien debt and may not have the benefit of financial covenants common in first lien and second lien debt. Subordinated debt may rank junior as it relates to proceeds in certain liquidations where it does not have the benefit of a lien in specific collateral held by creditors (typically first lien and/or second lien) who have a perfected security interest in such collateral. However, subordinated debt ranks senior to common and preferred equity in an issuer's capital structure. These loans typically have relatively higher fixed interest rates (often representing a combination of cash pay and PIK interest) and amortization of principal deferred to maturity. The PIK feature (meaning a feature allowing for the payment of interest in the form of additional principal amount of the loan instead of in cash), which effectively operates as negative amortization of loan principal, coupled with the deferred principal payment provision, increases credit risk exposure over the life of the loan.

*First Lien Debt.* To a lesser extent, we also structure some of our debt investments as senior secured or first lien debt investments. First lien debt investments are secured by a first priority lien on existing and future assets of the borrower and may take the form of term loans or revolving lines of credit. First lien debt is typically senior on a lien basis to other liabilities in the issuer's capital structure and has the benefit of a first-priority security interest in assets of the issuer. The security interest ranks above the security interest of any second lien lenders in those assets. Our first lien debt may include stand-alone first lien loans, last out first lien loans, or unitranche loans. Stand-alone first lien loans are traditional first lien loans. All lenders in the facility have equal rights to the collateral that is subject to the first-priority security interest. Last out first lien loans have a secondary priority behind super-senior first out first lien loans in the collateral securing the loans in certain circumstances. The arrangements for a last out first lien loan are set forth in an agreement among lenders, which provides lenders with first out and last out payment streams based on a single lien on the collateral. Since the first out lenders generally have priority over the last out lenders for receiving payment under certain specified events of default, or upon the occurrence of other triggering events under intercreditor agreements or agreements among lenders, the last out lenders bear a greater risk and, in exchange, receive a higher effective interest rate, through arrangements among the lenders, than the first out lenders or lenders in stand-alone first lien loans. Agreements among lenders also typically provide greater voting rights to the last out lenders than the intercreditor agreements to which second lien lenders often are subject.

Many of our debt investments also include excess cash flow sweep features, whereby principal repayment may be required before maturity if the portfolio company achieves certain defined operating targets. Additionally, our debt investments typically have principal prepayment penalties in the early years of the loan. The majority of our debt investments provide for a fixed interest rate.

*Equity Securities.* Our equity securities typically consist of either a direct minority equity investment in common or preferred stock or membership/partnership interests of a portfolio company, or we may receive warrants to buy a minority equity interest in a portfolio company in connection with a debt investment. Warrants we receive with our debt investments typically require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. Our equity investments are typically not control-oriented investments, and in many cases, we acquire equity securities as part of a group of private equity investors in which we are not the lead investor. We may structure such equity investments to include provisions protecting our rights as a minority-interest holder, as well as a put, or right to sell such securities back to the issuer, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights. Our equity investments typically are made in connection with debt investments to the same portfolio companies.

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

aerospace & defense;	infrastructure;
business services;	logistics & transportation;
consumer products / multi-unit;	niche manufacturing;
energy services;	software & tech-enabled services; and
healthcare products;	valued-added distribution.
industrial;	

As of December 31, 2018, we had investments in 63 portfolio companies with an aggregate fair value of \$643.0 million. As of December 31, 2017, we had investments in 63 portfolio companies with an aggregate fair value of \$596.3 million.

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

	Fair Value				Cost			
	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
Midwest	\$ 161.1	25.1%	\$ 168.0	28.2%	\$ 152.6	25.5%	\$ 161.8	28.1%
Southeast	176.8	27.5	130.2	21.8	155.3	25.9	130.7	22.6
Northeast	89.7	13.9	107.8	18.1	84.2	14.1	105.3	18.2
West	62.8	9.8	63.4	10.6	54.5	9.1	54.0	9.3
Southwest	152.6	23.7	126.9	21.3	152.2	25.4	126.0	21.8
Total	\$ 643.0	100.0%	\$ 596.3	100.0%	\$ 598.8	100.0%	\$ 577.8	100.0%

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

	Fair Value		Cost	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Specialty Distribution	13.4%	6.2%	14.1%	6.2%
Business Services	9.7	6.5	10.3	7.3
Information Technology Services	8.5	10.7	8.5	11.0
Component Manufacturing	7.9	6.6	8.9	7.0
Healthcare Services	7.8	10.8		

7.7 of such other business as may properly come before the meeting, we have no knowledge of any matters to be presented at the meeting other than those listed as Proposals 1 through 6 in the notice. However, the enclosed proxy gives discretionary authority in the event that any other matters should be presented.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE This proxy statement is accompanied by a copy of our 2000 Form 10-KSB and our Form 10-QSB for the period ended June 30, 2001. The following information from our 2000 Form 10-KSB (File No. 0-1665), as filed with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, is hereby incorporated by reference into this proxy statement:

- o "Description of Business," included in Item 1 thereof;
- o "Description of Property," included in Item 2 thereof;
- o "Legal Proceedings," included in Item 3 thereof;
- o "Management's Discussion and Analysis or Plan of Operation," included in Item 6 thereof;
- o our consolidated financial statements as of December 31, 2000 and for the years ended December 31, 1999 and

2000, included in Item 7 thereof; and o "Changes in and Disagreements with Accountants," included in Item 8 thereof. The following information from our Form 10-QSB for the period ended June 30, 2001 (File No. 0-1665), as filed with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, is hereby incorporated by reference into this proxy statement:

- o Our consolidated financial statements as of June 30, 2001 and for the six months ended June 30, 2001 and 2000, included in Part I, Item 1 thereof;
- and o "Management's Discussion and Analysis or Plan of Operation," included in Part I, Item 2 thereof.

44 Any statement contained in a document incorporated herein by reference shall be deemed to be modified or superseded for purposes of this proxy statement to the extent that a statement contained herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this proxy statement. Barry Goldstein  
Chief Executive Officer  
Hewlett, New York  
October 25, 2001 45

Appendix A The Board of Directors hereby is vested with the authority to provide for the issuance of the Preferred Stock, at any time and from time to time, in one or more series, each of such series to have such voting powers, designations, preferences and relative participating, optional, conversion and other rights, and such qualifications, limitations or restrictions thereon as expressly provided in the

resolution or resolutions duly adopted by the Board of Directors providing for the issuance of such shares or series thereof. The authority which hereby is vested in the Board of Directors shall include, but not be limited to, the authority to provide for the following matters relating to each series of the Preferred Stock: (i) The designation of any series. (ii) The number of shares initially constituting any such series. (iii) The increase, and the decrease to a number not less than the number of the outstanding shares of any such series, of the number of shares constituting such series theretofore fixed. (iv) The rate or rates and the times at which dividends on the shares of Preferred Stock or any series thereof shall be paid, and whether or not such dividends shall be cumulative, and, if such dividends shall be cumulative, the date or dates from and after which they shall accumulate. (v) Whether or not the shares of Preferred Stock or series thereof shall be redeemable, and, if such shares shall be redeemable, the terms and conditions of such redemption, including, but not limited to, the date or dates upon or after which such shares shall be redeemable and the amount per share which shall be payable upon such redemption, which amount may vary under different conditions and at different redemption dates. (vi) The amount payable on the shares of Preferred Stock or series thereof in the event of the voluntary or involuntary liquidation, dissolution or winding up of the Corporation; provided, however, that



the holders of shares ranking senior to other shares shall be entitled to be paid, or to have set apart for payment, not less than the liquidation value of such shares before the holders of shares of the Common Stock or the holders of any other series of Preferred Stock ranking junior to such shares. (vii) Whether or not the shares of Preferred Stock or series thereof shall have voting rights, in addition to the voting rights provided by law, and, if such shares shall have such voting rights, the terms and conditions thereof, including but not limited to the right of the holders of such shares to vote as a separate class either alone or with the holders of shares of one or more other class or series of Preferred Stock and the right to have more than one vote per share. (viii) Whether or not a sinking fund shall be provided for the redemption of the shares of Preferred Stock or series thereof, and, if such a sinking fund shall be provided, the terms and conditions thereof. (ix) Whether or not a purchase fund shall be provided for the shares of Preferred Stock or series thereof, and, if such a purchase fund shall be provided, the terms and conditions thereof. (x) Whether or not the shares of Preferred Stock or series thereof shall have conversion privileges, and, if such shares shall have conversion privileges, the terms and conditions of conversion, including but not limited to any provision for the adjustment of the conversion rate or the conversion price. (xi) Any other relative rights, preferences,

qualifications, limitations and restrictions. Appendix B "THIRD: The nature of the business of the Corporation, and the objects and purposes proposed to be transacted, promoted and carried on by it, shall be to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware." DCAP GROUP, INC. This Proxy is Solicited on Behalf of the Board of Directors The undersigned hereby appoints Barry Goldstein as proxy, with the power to appoint his substitute, and hereby authorizes him to represent and vote, as designated below, all the common shares of DCAP Group, Inc. (the "Company") held of record by the undersigned at the close of business on October 15, 2001 at the Annual Meeting of Stockholders to be held on November 27, 2001 or any adjournment thereof. 1. Election of Directors: FOR all nominees listed below WITHHOLD AUTHORITY to vote (except as marked to the contrary) for all nominees listed below (Instruction: To withhold authority to vote for any individual nominee, strike such nominee's name from the list below.) Barry Goldstein Morton L. Certilman Jay M. Haft Robert M. Wallach 2. Proposal to approve and ratify the sale by the Company and its subsidiaries of assets that may constitute, under Delaware law, substantially all of its assets. FOR \_\_\_\_ AGAINST \_\_\_\_ ABSTAIN \_\_\_\_ 3. Proposal to approve an increase in the number of common shares authorized

to be issued pursuant to the Company's 1998 Stock Option Plan from 2,000,000 to 3,000,000.

FOR \_\_\_\_ AGAINST \_\_\_\_ ABSTAIN \_\_\_\_ 4.

Proposal to approve an amendment to the Company's Certificate of Incorporation to increase the number of authorized common shares from 25,000,000 to 40,000,000.

FOR \_\_\_\_ AGAINST \_\_\_\_ ABSTAIN \_\_\_\_ 5.

Proposal to approve an amendment to the Company's Certificate of Incorporation to provide for the authority to issue up to 1,000,000 preferred shares. FOR \_\_\_\_

AGAINST \_\_\_\_ ABSTAIN \_\_\_\_ 6.

Proposal to approve an amendment to the Company's Certificate of Incorporation to broaden the corporate purposes to include any lawful act or activity for which corporations may be organized under Delaware law. FOR \_\_\_\_ AGAINST \_\_\_\_ ABSTAIN \_\_\_\_ 7.

In his discretion, the proxy is authorized to vote upon such other business as may properly come before the meeting. This proxy, when properly executed, will be voted in the manner directed by the undersigned stockholder.

If no direction is made, this proxy will be voted FOR the election of the named nominees as directors and FOR Proposals 2, 3, 4, 5, and 6.

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED

ENVELOPE. Please sign exactly as name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or

guardian, please give full  
title as such. If a  
corporation, please sign in  
full corporate name by the  
President or other  
authorized officer. If a  
partnership, please sign in  
partnership name by  
authorized person.  
Dated: \_\_\_\_\_,  
2001 Signature Signature  
if held jointly