As filed with the Securities and Exchange Commission on June 4, 2010

Securities Act File No. 333-166012

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form N-2

**REGISTRATION STATEMENT**
**UNDER**
**THE SECURITIES ACT OF 1933**
**☑ Pre-Effective Amendment No. 1**
**o Post-Effective Amendment No.**

# Fifth Street Finance Corp.

*(Exact name of registrant as specified in charter)*

**10 Bank Street, Suite 1210**
**White Plains, NY 10606**
**(914) 286-6800**
*(Address and telephone number, including area code, of principal executive offices)*

**Leonard M. Tannenbaum**
**Fifth Street Finance Corp.**
**10 Bank Street, Suite 1210**
**White Plains, NY 10606**
*(Name and address of agent for service)*

***Copies to:***

**Steven B. Boehm, Esq.**
**Harry S. Pangas, Esq.**
**Sutherland Asbill & Brennan LLP**
**1275 Pennsylvania Avenue, NW**
**Washington, DC 20004-2415**
**Tel: (202) 383-0100**
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**Approximate date of proposed public offering:** From time to time after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. ☑

It is proposed that this filing will become effective (check appropriate box):

o when declared effective pursuant to Section 8(c).

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

| Title of Securities Being Registered | Amount Being Registered(1) | Proposed Maximum Aggregate Offering Price(2) | Amount of Registration Fee(3) |
|---|---|---|---|
| Common Stock, $0.01 par value per share | $227,484,975 | $500,000,000 | $16,220 |

(1) In reliance upon Rule 429 under the Securities Act of 1933, this amount is in addition to the securities previously registered by the Registrant under a registration statement on Form N-2 (File No. 333-159720). All amounts unsold under the prospectus contained in such prior Registration Statement (a total of $272,515,025) are carried forward into this Registration Statement, and the prospectus contained as a part of this Registration Statement shall be deemed to be combined with the prospectus contained in the above-referenced registration statement, which has previously been filed.

(2) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(o) of the Securities Act of 1933, as amended.

(3) Previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

The information in this preliminary prospectus is not complete and may be changed. The securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED JUNE 4, 2010**

**$500,000,000**

# Fifth Street Finance Corp.

## Common Stock

We may offer, from time to time, up to $500,000,000 of shares of our common stock, $0.01 par value per share, in one or more offerings. Our common stock may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our common stock.

The offering price per share of our common stock, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering.

Our common stock may be offered directly to one or more purchasers through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our common stock, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See “Plan of Distribution.” We may not sell any of our common stock through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such common stock.

We are a specialty finance company that lends to and invests in small and mid-sized companies in connection with investments by private equity sponsors. Our investment objective is to maximize our portfolio’s total return by generating current income from our debt investments and capital appreciation from our equity investments.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. We are managed by Fifth Street Management LLC, whose six principals collectively have over 50 years, and individually have between four years and 14 years, of experience lending to and investing in small and mid-sized companies, and 2 years of experience managing a business development company.

Our common stock is listed on the New York Stock Exchange under the symbol “FSC.” On June 3, 2010, and March 31, 2010, the last reported sale price of our common stock on the New York Stock Exchange was $11.87 and $11.61, respectively. We are required to determine the net asset value per share of our common stock on a quarterly basis. Our net asset value per share of our common stock as of March 31, 2010 was $10.70.

**Investing in our common stock involves a high degree of risk, and should be considered highly speculative. See “Risk Factors” beginning on page 14 to read about factors you should consider, including the risk of leverage, before investing in our common stock.**

This prospectus and any accompanying prospectus supplement contain important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus and any accompanying prospectus supplement before investing and keep them for future reference. We file periodic reports, current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 10 Bank Street, Suite 1210, White Plains, NY 10606 or by telephone at (914) 286-6800 or on our website at *www.fifthstreetfinance.com*. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus. The Securities and Exchange Commission also maintains a website at www.sec.gov that contains such information.

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

Prospectus dated , 2010

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or SEC, using the "shelf" registration process. Under the shelf registration process, we may offer, from time to time, up to $500,000,000 of shares of our common stock on terms to be determined at the time of the offering. This prospectus provides you with a general description of the common stock that we may offer. Each time we use this prospectus to offer common stock, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any accompanying prospectus supplement together with the additional information described under "Available Information" and "Risk Factors" before you make an investment decision.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus or any accompanying supplement to this prospectus. You must not rely on any unauthorized information or representations not contained in this prospectus or any accompanying prospectus supplement as if we had authorized it. This prospectus and any accompanying prospectus supplement do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus and any accompanying prospectus supplement is accurate as of the dates on their covers. Our financial condition, results of operations and prospects may have changed since that date. To the extent required by law, we will amend or supplement the information contained in this prospectus and any accompanying prospectus supplement to reflect any material changes to such information subsequent to the date of the prospectus and any accompanying prospectus supplement and prior to the completion of any offering pursuant to the prospectus and any accompanying prospectus supplement.

## PROSPECTUS SUMMARY

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read the entire prospectus carefully, including the section entitled "Risk Factors" before making a decision to invest in our common stock.*

*We commenced operations on February 15, 2007 as Fifth Street Mezzanine Partners III, L.P., a Delaware limited partnership. Effective as of January 2, 2008, Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp., a Delaware corporation. Unless otherwise noted, the terms "we," "us," "our" and "Fifth Street" refer to Fifth Street Mezzanine Partners III, L.P. prior to the merger date and Fifth Street Finance Corp. on and after the merger date. In addition, the terms "Fifth Street Management" and "investment adviser" refer to Fifth Street Management LLC, our external investment adviser.*

**Fifth Street Finance Corp.**

We are a specialty finance company that lends to and invests in small and mid-sized companies in connection with investments by private equity sponsors. We define small and mid-sized companies as those with annual revenues between $25 million and $250 million. Our investment objective is to maximize our portfolio's total return by generating current income from our debt investments and capital appreciation from our equity investments. We are externally managed and advised by Fifth Street Management, whose six principals collectively have over 50 years, and individually have between four years and 14 years, of experience lending to and investing in small and mid-sized companies, and 2 years of experience managing a business development company. Fifth Street Management is an affiliate of Fifth Street Capital LLC, a private investment firm founded and managed by our chief executive officer, and Fifth Street Management's managing partner, Leonard M. Tannenbaum, who has led the investment of over $800 million in small and mid-sized companies, including the investments made by Fifth Street, since 1998.

As of March 31, 2010, we had originated $520.8 million of funded debt and equity investments and our portfolio totaled $460.9 million at fair value and was comprised of 34 investments, 31 of which were in operating companies and three of which were in private equity funds. The three investments in private equity funds represented less than 1% of the fair value of our assets at March 31, 2010. The 31 debt investments in our portfolio as of March 31, 2010 had a weighted average debt to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiple of 3.3x calculated at the time of origination of the investment. The weighted average annual yield of our debt investments as of March 31, 2010 was approximately 15.0%, of which 12.7% represented cash payments and 2.3% represented payment-in-kind, or PIK, interest. PIK interest represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term and recorded as interest income on an accrual basis to the extent such amounts are expected to be collected. For additional information regarding PIK interest and related risks, see "Risk Factors — Risks Relating to Our Business and Structure — We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Revenue Recognition — Payment-in-Kind (PIK) Interest."

Our investments generally range in size from $5 million to $60 million and are principally in the form of first and second lien debt investments, which may also include an equity component. We are currently focusing our origination efforts on first lien loans. We believe that the risk-adjusted returns from these loans are superior to second lien investments and offer superior credit quality. However, we may choose to originate additional second lien and unsecured loans in the future. As of March 31, 2010, all of our debt investments were secured by first or second priority liens on the assets of our portfolio companies. Moreover, we held equity investments consisting of common stock, preferred stock, or other equity interests in 21 out of 34 portfolio companies as of March 31, 2010.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. As a business development company, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a business development company, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing. See "Regulation — Business Development Company Regulations."

We have also elected to be treated for federal income tax purposes as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code, or the Code. See "Material U.S. Federal Income Tax Considerations." As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we maintain a wholly-owned subsidiary that is licensed as a small business investment company, or SBIC, and regulated by the Small Business Administration, or the SBA. See "Regulation — Small Business Investment Company Regulations." The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. We applied for exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the 200% asset coverage ratio we are required to maintain under the 1940 Act. Pursuant to the 200% asset coverage ratio limitation, we are permitted to borrow one dollar for every dollar we have in assets less all liabilities and indebtedness not represented by debt securities issued by us or loans obtained by us. For example, as of March 31, 2010, we had approximately $484.4 million in assets less all liabilities and indebtedness not represented by debt securities issued by us or loans obtained by us, which would permit us to borrow up to approximately $484.4 million, notwithstanding other limitations on our borrowings pursuant to our credit facilities.

If we receive an exemption from the SEC for our SBA debt, we will have increased capacity to fund up to $150 million (the maximum amount of SBA-guaranteed debentures an SBIC may currently have outstanding once certain conditions have been met) of investments with SBA-guaranteed debentures in addition to being able to fund investments with borrowings up to the maximum amount of debt that the 200% asset coverage ratio limitation would allow us to incur. As a result, we would, in effect, be permitted to have a lower asset coverage ratio than the 200% asset coverage ratio limitation under the 1940 Act and, therefore, we could have more debt outstanding than assets to cover such debt. For example, we would be able to borrow up to $150 million more than the approximately $484.4 million permitted under the asset coverage ratio limit as of March 31, 2010. For additional information on SBA regulations that affect our access to SBA-guaranteed debentures, see "Risk Factors— Risks Relating to Our Business and Structure — Our SBIC subsidiary's investment adviser has no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our SBIC subsidiary's investment adviser's lack of experience or otherwise, could have an adverse effect on our operations."

**The Investment Adviser**

Our investment adviser is led by six principals who collectively have over 50 years, and individually have between four years and 14 years, of experience lending to and investing in small and mid-sized companies, and 2 years of experience managing a business development company. Our investment adviser is affiliated with Fifth Street Capital LLC, a private investment firm founded and managed by Leonard M. Tannenbaum who has led the investment of over $800 million in small and mid-sized companies, including the investments made by Fifth Street, since 1998. Mr. Tannenbaum and his respective private investment firms have acted as the lead (and often sole) first or second lien investor in over 50 investment transactions. The other investment funds managed by these private investment firms generally are fully committed and, other than follow-on investments in existing portfolio companies, are no longer making investments.

We benefit from our investment adviser's ability to identify attractive investment opportunities, conduct diligence on and value prospective investments, negotiate investments and manage a diversified portfolio of those investments. The principals of our investment adviser have broad investment backgrounds, with prior experience at investment funds, investment banks and other financial services companies and have developed a broad network of contacts within the private equity community. This network of contacts provides our principal source of investment opportunities.

The principals of our investment adviser are Mr. Tannenbaum, our chief executive officer and our investment adviser's managing partner, Marc A. Goodman, our chief investment officer and our investment adviser's senior partner, Juan E. Alva, a partner of our investment adviser, Bernard D. Berman, our president, chief compliance officer and secretary and a partner of our investment adviser, Ivelin M. Dimitrov, a partner of our investment adviser, and William H. Craig, our chief financial officer. For further discussion of the investment experience of the principals of our investment adviser, see “Management — Biographical Information” and “Portfolio Management — Investment Personnel.”

**Business Strategy**

Our investment objective is to maximize our portfolio’s total return by generating current income from our debt investments and capital appreciation from our equity investments. We have adopted the following business strategy to achieve our investment objective:

- *Capitalize on our investment adviser’s strong relationships with private equity sponsors.* Our investment adviser has developed an extensive network of relationships with private equity sponsors that invest in small and mid-sized companies. We believe that the strength of these relationships is due to a common investment philosophy, a consistent market focus, a rigorous approach to diligence and a reputation for delivering on commitments. In addition to being our principal source of originations, we believe that private equity sponsors provide significant benefits including incremental due diligence, additional monitoring capabilities and a potential source of capital and operational expertise for our portfolio companies.
- *Focus on established small and mid-sized companies.* We believe that there are fewer finance companies focused on transactions involving small and mid-sized companies than larger companies, and that this is one factor that allows us to negotiate favorable investment terms. Such favorable terms include higher debt yields and lower leverage levels, more significant covenant protection and greater equity grants than typical of transactions involving larger companies. We generally invest in companies with established market positions, seasoned management teams, proven products and services and strong regional or national operations. We believe that these companies possess better risk-adjusted return profiles than newer companies that are building management or in early stages of building a revenue base.
- *Continue our growth of direct originations.* We directly originated 100% of our debt investments. Over the last several years, the principals of our investment adviser have developed an origination strategy designed to ensure that the number and quality of our investment opportunities allows us to continue to directly originate substantially all of our investments. We believe that the benefits of direct originations include, among other things, our ability to control the structuring of investment protections and to generate origination and exit fees.
- *Employ disciplined underwriting policies and rigorous portfolio management.* Our investment adviser has developed an extensive underwriting process which includes a review of the prospects, competitive position, financial performance and industry dynamics of each potential portfolio company. In addition, we perform substantial diligence on potential investments, and seek to invest along side private equity sponsors who have proven capabilities in building value. As part of the monitoring process, our investment adviser will analyze monthly and quarterly financial statements versus the previous periods and year, review financial projections, meet with management, attend board meetings and review all compliance certificates and covenants.
- *Structure our investments to minimize risk of loss and achieve attractive risk-adjusted returns.* We structure our loan investments on a conservative basis with high cash yields, cash origination fees, low leverage levels and strong investment protections. As of March 31, 2010, the weighted average annualized yield of our debt investments was approximately 15.0%, which includes a cash component of 12.7%. The 31 debt investments in our portfolio as of March 31, 2010, had a weighted average debt to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiple of 3.3x calculated at the time of origination of the investment. Finally, our debt investments have strong protections, including default penalties, information rights, board observation rights, and affirmative, negative and financial covenants, such as lien protection and prohibitions against change of control. We believe these protections, coupled with the other features of our investments described above, should allow us to reduce our risk of capital loss

and achieve attractive risk adjusted returns; however, there can be no assurance that we will be able to successfully structure our investments to minimize risk of loss and achieve attractive risk-adjusted returns.

- *Benefiting from lower, fixed, long-term cost of capital.* The SBIC license held by our wholly-owned subsidiary will allow it to issue SBA-guaranteed debentures. SBA-guaranteed debentures carry long-term fixed rates that are generally lower than rates on comparable bank and other debt. Because we expect lower cost SBA leverage to become a more significant part of our capital base through our SBIC subsidiary, our relative cost of debt capital should be lower than many of our competitors. In addition, the SBIC leverage that we receive through our SBIC subsidiary will represent a stable, long-term component of our capital structure that should permit the proper matching of duration and cost compared to our portfolio investments.
- *Leverage the skills and experience of our investment adviser.* The six principals of our investment adviser collectively have over 50 years, and individually have between four years and 14 years, of experience lending to and investing in small and mid-sized companies, and 2 years of experience managing a business development company. The principals of our investment adviser have broad investment backgrounds, with prior experience at private investment funds, investment banks and other financial services companies and they also have experience managing distressed companies. We believe that our investment adviser's expertise in valuing, structuring, negotiating and closing transactions provides us with a competitive advantage by allowing us to provide financing solutions that meet the needs of our portfolio companies while adhering to our underwriting standards.

**Recent Developments**

*Term Sheets for New Investments*

We executed three non-binding term sheets for new loans in May 2010, each of which is subject to the completion of our due diligence, approval process and definitive documentation, and may not result in completed investments. We may also syndicate a portion of the loans, which would reduce our investment amount. On May 10, 2010, we executed a non-binding term sheet for $54.5 million for an investment in a clinical drug testing laboratory. On May 17, 2010, we executed a non-binding term sheet for $33 million for an investment in a manufacturer and distributor of connectivity products for industrial and commercial markets. On May 20, 2010, we executed a non-binding term sheet for $48 million for an investment in a provider of pediatric home health care services.

*Recent Borrowings*

On May 20, 2010, our SBIC subsidiary drew $17.5 million from its SBA commitment to use to fund future transactions. As of June 3, 2010, we had drawn a total of $35 million from the $37.5 million currently available under our SBA commitment.

On May 26, 2010, we drew $5 million from our three-year credit facility, or the Wells Fargo facility, with Wells Fargo Bank, National Association, successor to Wachovia Bank, N.A.

*Expansion of Wells Fargo Facility*

On May 26, 2010, we amended the Wells Fargo facility to expand our borrowing capacity under that facility. Pursuant to the amendment, we received an additional $50 million commitment, thereby increasing the size of the Wells Fargo facility from $50 million to $100 million, with an accordion feature that allows for potential future expansion of that facility from a total of $100 million up to a total of $150 million. In addition, the interest rate of the Wells Fargo facility was reduced from LIBOR plus 4% per annum to LIBOR plus 3.5% per annum, with no LIBOR floor, and the maturity date of the facility was extended from November 16, 2012 to May 26, 2013.

*New Credit Facility Led by ING*

On May 27, 2010, we entered into a three-year secured syndicated revolving credit facility, or the ING facility, pursuant to a Senior Secured Revolving Credit Agreement, or the Credit Agreement, with certain lenders party thereto from time to time and ING Capital LLC, as administrative agent. The ING facility allows for us to borrow money at a rate of either (i) LIBOR plus 3.5% per annum or (ii) 2.5% per annum plus an alternate base rate based on the greatest of the Prime Rate, Federal Funds Rate plus 0.5% per annum or LIBOR plus 1% per annum, and has a maturity date of May 27, 2013. The ING facility also allows us to request letters of credit from ING Capital LLC, as the issuing bank. The initial commitment under the ING facility is $90 million, and the ING facility includes an accordion feature that allows for potential future expansion of the facility up to a total of $150 million. The ING facility is secured by substantially all of our assets, as well as the assets of two of our wholly-owned subsidiaries, FSFC Holdings, Inc. and FSF/MP Holdings, Inc., subject to certain exclusions for, among other things, equity interests in our SBIC subsidiary and equity interests in Fifth Street Funding, LLC (the special purpose subsidiary established pursuant to the Wells Fargo facility) as further set forth in a Guarantee, Pledge and Security Agreement, or the Security Agreement, entered into in connection with the Credit Agreement, among FSFC Holdings, Inc., FSF/MP Holdings, Inc., ING Capital LLC, as collateral agent, and us. Neither our SBIC subsidiary nor Fifth Street Funding, LLC is party to the ING facility and their respective assets have not been pledged in connection therewith. The ING facility provides that we may use the proceeds and letters of credit under the facility for general corporate purposes, including acquiring and funding leveraged loans, mezzanine loans, high-yield securities, convertible securities, preferred stock, common stock and other investments.

Pursuant to the Security Agreement, FSFC Holdings, Inc. and FSF/MP Holdings, Inc. guaranteed the obligations under the Security Agreement, including our obligations to the lenders and the administrative agent under the Credit Agreement. Additionally, we pledged our entire equity interests in FSFC Holdings, Inc. and FSF/MP Holdings, Inc. to the collateral agent pursuant to the terms of the Security Agreement.

The Credit Agreement and related agreements governing the ING facility required FSFC Holdings, Inc., FSF/MP Holdings, Inc. and us to, among other things (i) make representations and warranties regarding the collateral as well as each of our businesses, (ii) agree to certain indemnification obligations, and (iii) agree to comply with various affirmative and negative covenants and other customary requirements for similar credit facilities. The ING facility documents also include usual and customary default provisions such as the failure to make timely payments under the facility, the occurrence of a change in control, and the failure by us to materially perform under the Credit Agreement and related agreements governing the facility, which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations.

Each loan or letter of credit originated under the ING facility is subject to the satisfaction of certain conditions. We cannot assure you that we will be able to borrow funds under the ING facility at any particular time or at all.

As of June 3, 2010, except for assets that were funded through our SBIC subsidiary, substantially all of our assets were pledged as collateral under the Wells Fargo facility or the ING facility.

*New Investment*

On June 2, 2010, we completed an additional $4.8 million investment in Traffic Control and Safety Corporation, an existing portfolio company. The terms of this investment include a $4.4 million subordinated loan with a PIK interest rate of 15% per annum and an expected maturity of five years, and $0.4 million of preferred stock with an 8% dividend per annum.

**Corporate Information**

Our principal executive offices are located at 10 Bank Street, Suite 1210, White Plains, NY 10606 and our telephone number is (914) 286-6800. We maintain a website on the Internet at *www.fifthstreetfinance.com*. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

## THE OFFERING

We may offer, from time to time, up to $500,000,000 of shares of our common stock, on terms to be determined at the time of the offering. Our common stock may be offered at prices and on terms to be disclosed in one or more prospectus supplements. The offering price per share of our common stock, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering.

Our common stock may be offered directly to one or more purchasers by us or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will disclose the terms of the offering, including the name or names of any agents or underwriters involved in the sale of our common stock by us, the purchase price, and any fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our common stock through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our common stock.

Set forth below is additional information regarding the offering of our common stock:

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| **Use of proceeds** | We intend to use substantially all of the net proceeds from the sale of our common stock to make investments in small and mid-sized companies in accordance with our investment objective and strategies described in this prospectus. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings. Pending such use, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See "Use of Proceeds." |
| **New York Stock Exchange symbol** | FSC |
| **Investment advisory fees** | Fifth Street Management serves as our investment adviser. We pay Fifth Street Management 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 2% of our gross assets, which includes any borrowings for investment purposes. From and after January 1, 2010, our investment adviser permanently waived the portion of the base management fee attributable to cash and cash equivalents (as defined in the notes to our Consolidated Financial Statements). The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our "Pre-Incentive Fee Net Investment Income" for the immediately preceding quarter, subject to a 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 (or upon termination of the investment advisory agreement) and equals 20% of our "Incentive Fee Capital Gains," which equals our realized capital gains on a cumulative basis from inception through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee. See "Investment Advisory Agreement." |
| **Administration agreement** | FSC, Inc. serves as our administrator. We reimburse our administrator the allocable portion of overhead and other expenses incurred by our administrator in performing its obligations under the administration agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief financial officer and |

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| | chief compliance officer, and their staff. See “Administration Agreement.” Our administrator has voluntarily determined to forgo receiving reimbursement for the services performed for us by our chief compliance officer, Bernard D. Berman, given his compensation arrangement with our investment adviser. However, although our administrator currently intends to forgo its right to receive such reimbursement, it is under no obligation to do so and may cease to do so at any time in the future. |
| **Distributions** | We intend to pay quarterly dividends to our stockholders out of assets legally available for distribution. Our distributions, if any, will be determined by our Board of Directors. |
| **Taxation** | We elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. Accordingly, we generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income. See “Material U.S. Federal Income Tax Considerations.” |
| **Dividend reinvestment plan** | We have adopted a dividend reinvestment plan for our stockholders. The dividend reinvestment plan is an “opt out” reinvestment plan. As a result, if we declare a distribution, then 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. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash; however, since their cash dividends will be reinvested, such stockholders will not receive cash with which to pay any applicable taxes on reinvested dividends. See “Dividend Reinvestment Plan.” |
| **Risk factors** | Investing in our common stock involves a high degree of risk. You should consider carefully the information found in “Risk Factors,” including the following risks:<br>• The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations.<br>• A significant portion of our investment portfolio is and will continue to be recorded at fair value as determined in good faith by our Board of Directors and, as a result, there is and will continue to be uncertainty as to the value of our portfolio investments. |

- Our business model depends to a significant extent upon strong referral relationships with private equity sponsors, and the inability of the principals of our investment adviser to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.
- We may face increasing competition for investment opportunities, which could reduce returns and result in losses.
- Because we borrow money, the potential for loss on amounts invested in us will be magnified and may increase the risk of investing in us.
- Substantially all of our assets could potentially be subject to security interests under secured credit facilities and if we default on our obligations under the facilities, we may suffer adverse consequences, including the lenders foreclosing on our assets.
- Because we intend to distribute between 90% and 100% of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.
- Regulations governing our operation as a business development company and RIC affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth.
- We will be subject to corporate-level income tax if we are unable to maintain our qualification as a RIC under Subchapter M of the Code or do not satisfy the annual distribution requirement.
- We may not be able to pay you distributions, our distributions may not grow over time and a portion of our distributions may be a return of capital.
- Our investments in portfolio companies may be risky, and we could lose all or part of our investment.
- Investing in small and mid-sized companies involves a number of significant risks. Among other things, these companies:
  - may have limited financial resources and may be unable to meet their obligations under their debt instruments that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees from subsidiaries or affiliates of our portfolio companies that we may have obtained in connection with our investment, as well as a corresponding decrease in the value of the equity components of our investments;
  - may have shorter operating histories, narrower product lines, smaller market shares and/or significant customer concentrations than larger businesses, which tend to render them more vulnerable to competitors’ actions and market conditions, as well as general economic downturns;

- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
    - generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and
    - generally have less publicly available information about their businesses, operations and financial condition. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and may lose all or part of our investment.
- Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.
- Shares of closed-end investment companies, including business development companies, may trade at a discount to their net asset value.
- We may be unable to invest a significant portion of the net proceeds of this offering on acceptable terms within an attractive timeframe.
- The market price of our common stock may fluctuate significantly.

See "Risk Factors" beginning on page 14 for a more complete discussion of these and other risks you should carefully consider before deciding to invest in shares of our common stock.

**Leverage**

We expect to continue to use leverage to make investments. As a result, we may continue to be exposed to the risks of leverage, which include that leverage may be considered a speculative investment technique. The use of leverage magnifies the potential for gain and loss on amounts invested and therefore increases the risks associated with investing in our shares of common stock.

**Available information**

We file periodic reports, current reports, proxy statements and other information with the SEC. This information is available at the SEC's public reference room at 100 F Street, NE, Washington, D.C. 20549 and on the SEC's website at *www.sec.gov*. The public may obtain information on the operation of the SEC's public reference room by calling the SEC at (202) 551-8090. This information is also available free of charge by contacting us at Fifth Street Finance Corp., 10 Bank Street, Suite 1210, White Plains, NY, 10606, by telephone at (914) 286-6800, or on our website at *www.fifthstreetfinance.com.* The information on this website is not incorporated by reference into this prospectus.

## FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. **We caution you that some of the percentages indicated in the table below are estimates and may vary. Moreover, the information set forth below does not include any transaction costs and expenses that investors will incur in connection with each offering of shares of our common stock pursuant to this prospectus. As a result, investors are urged to read the "Fees and Expenses" table contained in any corresponding prospectus supplement to fully understanding the actual transaction costs and expenses they will incur in connection with each such offering.** Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you," "us" or "Fifth Street," or that "we" will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in us.

| | |
|---|---|
| ***Stockholder transaction expenses:*** | |
| Sales load (as a percentage of offering price) | —%(1) |
| Offering expenses (as a percentage of offering price) | —%(2) |
| Dividend reinvestment plan fees | —%(3) |
| Total stockholder transaction expenses (as a percentage of offering price) | —%(4) |
| **Annual expenses (as a percentage of net assets attributable to common stock):** | |
| Management fees | 4.84%(5) |
| Interest payments on borrowed funds | 0.49%(6) |
| Other expenses | 1.27%(7) |
| Total annual expenses | 6.60%(8) |

(1) In the event that our common stock is sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.

(2) In the event that we conduct on offering of our common stock, a corresponding prospectus supplement will disclose the estimated offering expenses.

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

(4) Total stockholder transaction expenses may include sales load and will be disclosed in a future prospectus supplement, if any.

(5) Our "management fees" are made up of our base management fee and the incentive fees payable under our investment advisory agreement. The base management fee portion of our "management fees" reflected in the table above is 2.26%, which is calculated based on our net assets (rather than our gross assets). Our base management fee under the investment advisory agreement is based on our gross assets, which includes borrowings for investment purposes. Our investment adviser permanently waived the portion of the base management fee attributable to cash and cash equivalents (as defined in the notes to our Consolidated Financial Statements) as of the end of each quarter beginning March 31, 2010. As a result, our base management fee payable from and after such fiscal quarter will be calculated at an annual rate of 2% of our gross assets, including any investments made with borrowings, but excluding any cash and cash equivalents as of the end of each quarter. See "Investment Advisory Agreement — Overview of Our Investment Adviser — Management Fee."

The incentive fee portion of our "management fees" is 2.58%. This calculation assumes that annual incentive fees earned by our investment adviser remain consistent with the incentive fees earned by our investment adviser during the quarter ended March 31, 2010, which totaled $2.8 million. The incentive fee consists of two parts. The first part, which is payable quarterly in arrears, will equal 20% of the excess, if any, of our "Pre-Incentive Fee Net Investment Income" that exceeds a 2% quarterly (8% annualized) hurdle rate, subject to a "catch up" provision measured at the end of each fiscal quarter. The first part of the incentive fee will be computed and paid on income that may include interest that is accrued but not yet received in cash. The operation of the first part of the incentive fee for each quarter is as follows:

- no incentive fee is payable to the investment adviser in any fiscal quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 2% (the "preferred return" or "hurdle");

- 100% 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 or equal to 2.5% in any fiscal quarter (10% annualized) is payable to the investment adviser. We refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle rate but is less than or equal to 2.5%) as the “catch-up.” The “catch-up” provision is intended to provide our investment adviser with an incentive fee of 20% on all of our Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when our Pre-Incentive Fee Net Investment Income exceeds 2.5% in any fiscal quarter; and
- 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.5% in any fiscal quarter (10% annualized) is payable to the investment adviser (once the hurdle is reached and the catch-up is achieved, 20% of all Pre-Incentive Fee Net Investment Income thereafter is allocated to the investment adviser).

The second part of the incentive fee equals 20% of our “Incentive Fee Capital Gains,” which equals our realized capital gains on a cumulative basis from inception through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The second part of the incentive fee is payable, in arrears, at the end of each fiscal year (or upon termination of the investment advisory agreement, as of the termination date).

(6) “Interest payments on borrowed funds” represent our estimated annual interest payments on borrowed funds for the fiscal year ending September 30, 2010 and assumes weighted average annual debt outstanding of $50 million and an interest rate of 4.3% per annum payable thereon. These estimates relate to borrowings under the Wells Fargo facility, the ING facility and our SBA-guaranteed debentures.

(7) “Other expenses” are based on estimated amounts for the current fiscal year.

(8) “Total annual expenses” is presented as a percentage of net assets attributable to common stockholders because our common stockholders bear all of our fees and expenses.

**Example**

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage and that our annual operating expenses would remain at the levels set forth in the table above. In the event that shares to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load and offering expenses.

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment, assuming a 5% annual return | $66 | $195 | $322 | $630 |

**The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown.** While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. In addition, while the example assumes reinvestment of all distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the cash distribution payable to a participant by either (i) the market price per share of our common stock at the close of trading on the payment date fixed by our Board of Directors in the event that we use newly issued shares to satisfy the share requirements of the divided reinvestment plan or (ii) the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased by the administrator of the dividend reinvestment plan in the event that shares are purchased in the open market to satisfy the share requirements of the dividend reinvestment plan, which may be at, above or below net asset value. See “Dividend Reinvestment Plan” for additional information regarding our dividend reinvestment plan.

## SELECTED FINANCIAL AND OTHER DATA

The following selected financial data should be read together with our financial statements and the related notes and the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Senior Securities," which are included elsewhere in this prospectus. Effective as of January 2, 2008, Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp. The financial information as of and for the period from inception (February 15, 2007) to September 30, 2007 and for the fiscal years ended September 30, 2008 and 2009, set forth below was derived from the audited financial statements and related notes for Fifth Street Mezzanine Partners III, L.P. and Fifth Street Finance Corp., respectively. The financial information at and for the six months ended March 31, 2010 and 2009 was derived from our unaudited financial statements and related notes included elsewhere in this prospectus. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods, have been included. The historical financial information below may not be indicative of our future performance. Our results for the interim period may not be indicative of our results for the full year.

| | At and for the Six Months Ended March 31, 2010 (Unaudited) | At and for the Six Months Ended March 31, 2009 (Unaudited) | At and for the Year Ended September 30, 2009 | At and for the Year Ended September 30, 2008 | At September 30, 2007 and for the Period February 15, 2007 through September 30, 2007 |
|---|---|---|---|---|---|
| | (In thousands, except per share amounts) | | | | |
| **Statement of Operations data:** | | | | | |
| Total investment income | $31,098 | $ 24,505 | $ 49,828 | $ 33,219 | $ 4,296 |
| Base management fee, net | 3,877 | 2,859 | 5,889 | 4,258 | 1,564 |
| Incentive fee | 4,889 | 3,924 | 7,841 | 4,118 | — |
| All other expenses | 2,777 | 2,024 | 4,736 | 4,699 | 1,773 |
| Net investment income | 19,555 | 15,698 | 31,362 | 20,144 | 959 |
| Unrealized appreciation (depreciation) on investments | 2,176 | (10,733) | (10,795) | (16,948) | 123 |
| Realized gain (loss) on investments | (2,802) | (12,400) | (14,373) | 62 | — |
| Net increase in partners' capital/net assets resulting from operations | 18,929 | (7,435) | 6,194 | 3,258 | 1,082 |
| **Per share data:** | | | | | |
| Net asset value per common share at period end | $ 10.70 | $ 11.94 | $ 10.84 | $ 13.02 | N/A |
| Market price at period end(1) | 11.61 | 7.74 | 10.93 | 10.05 | N/A |
| Net investment income | 0.48 | 0.69 | 1.27 | 1.29 | N/A |
| Net realized and unrealized gain (loss) on investments | (0.01) | (1.03) | (1.02) | (1.08) | N/A |
| Net increase (decrease) in partners' capital/net assets resulting from operations | 0.47 | (0.34) | 0.25 | 0.21 | N/A |
| Dividends declared | 0.57 | 0.70 | 1.20 | 0.61 | N/A |

| | At and for the Six Months Ended March 31, 2010 (Unaudited) | At and for the Six Months Ended March 31, 2009 (Unaudited) | At and for the Year Ended September 30, 2009 | At and for the Year Ended September 30, 2008 | At September 30, 2007 and for the Period February 15, 2007 through September 30, 2007 |
|---|---|---|---|---|---|
| | (In thousands, except per share amounts) | | | | |
| **Balance Sheet data at period end:** | | | | | |
| Total investments at fair value | $460,865 | $290,777 | $299,611 | $273,759 | $ 88,391 |
| Cash and cash equivalents | 23,469 | 3,722 | 113,205 | 22,906 | 17,654 |
| Other assets | 6,510 | 3,116 | 3,071 | 2,484 | 1,285 |
| Total assets | 490,844 | 297,616 | 415,887 | 299,149 | 107,330 |
| Total liabilities | 6,447 | 25,263 | 5,331 | 4,813 | 514 |
| Total stockholders' equity | 484,397 | 272,353 | 410,556 | 294,336 | 106,816 |
| **Other data:** | | | | | |
| Weighted average annual yield on investments(2) | 15.0% | 16.4% | 15.7% | 16.2% | 16.8% |
| Number of investments at period end | 34 | 26 | 28 | 24 | 10 |

(1) Our common stock commenced trading on the New York Stock Exchange on June 12, 2008. There was no established public trading price for the stock prior to that date.

(2) Weighted average annual yield is calculated based upon our debt investments at the end of the period.

## RISK FACTORS

*Investing in our common stock involves a number of significant risks. In addition to the other information contained in this prospectus and any accompanying prospectus supplement, you should consider carefully the following information before making an investment in our common stock. The risks set out below are not the only risks we face; however, they discuss the presently known principal risks of investing in our common stock. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.*

### Risks Relating to Economic Conditions

***The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations.***

The U.S. capital markets experienced extreme volatility and disruption over the past 18 months, leading to recessionary conditions and depressed levels of consumer and commercial spending. Disruptions in the capital markets increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. While recent indicators suggest modest improvement in the capital markets, we cannot provide any assurance that these conditions will not worsen. If these conditions continue or worsen, the prolonged period of market illiquidity may have an adverse effect on our business, financial condition, and results of operations. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could limit our investment originations, limit our ability to grow and negatively impact our operating results.

In addition, to the extent that recessionary conditions continue or worsen, the financial results of small to mid-sized companies, like those in which we invest, will continue to experience deterioration, which could ultimately lead to difficulty in meeting debt service requirements and an increase in defaults. Additionally, the end markets for certain of our portfolio companies' products and services have experienced, and continue to experience, negative economic trends. The performances of certain of our portfolio companies have been, and may continue to be, negatively impacted by these economic or other conditions, which may ultimately result in our receipt of a reduced level of interest income from our portfolio companies and/or losses or charge offs related to our investments, and, in turn, may adversely affect distributable income.

***Economic recessions or downturns could impair the ability of our portfolio companies to repay loans, which, in turn, could increase our non-performing assets, decrease the value of our portfolio, reduce our volume of new loans and harm our operating results, which would have an adverse effect on our results of operations.***

Many of our portfolio companies are and may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during such periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during such periods. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. In this regard, as a result of current economic conditions and their impact on certain of our portfolio companies, we have agreed to modify the payment terms of our investments in nine of our portfolio companies as of March 31, 2010. Such modified terms include changes in payment-in-kind interest provisions and cash interest rates. These modifications, and any future modifications to our loan agreements as a result of the current economic conditions or otherwise, may limit the amount of interest income that we recognize from the modified investments, which may, in turn, limit our ability to make distributions to our stockholders and have an adverse effect on our results of operations.

**Risks Relating to Our Business and Structure**

***Changes in interest rates may affect our cost of capital and net investment income.***

Because we may borrow to fund our investments, a portion of our net investment income may be dependent upon the difference between the interest rate at which we borrow funds and the interest rate at which we invest these funds. A portion of our investments will have fixed interest rates, while a portion of our borrowings will likely have floating interest rates. As a result, a significant change in market interest rates could have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds could increase, which would reduce our net investment income. We may hedge against such interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts, subject to applicable legal requirements, including without limitation, all necessary registrations (or exemptions from registration) with the Commodity Futures Trading Commission. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged borrowings. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations.

***We have a limited operating history.***

Fifth Street Mezzanine Partners III, L.P. commenced operations on February 15, 2007. On January 2, 2008, Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp., a Delaware corporation. As a result, we are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objective and that the value of our common stock could decline substantially.

***We currently have a limited number of investments in our investment portfolio. As a result, a loss on one or more of those investments would have a more adverse effect on our company than the effect such a loss would have on a company with a larger and more diverse investment portfolio.***

As a company with a limited operating history, we have not had the opportunity to invest in a large number of portfolio companies. As a result, until we have increased the number of investments in our investment portfolio, a loss on one or more of our investments would affect us more adversely than such loss would affect a company with a larger and more diverse investment portfolio.

***A significant portion of our investment portfolio is and will continue to be recorded at fair value as determined in good faith by our Board of Directors and, as a result, there is and will continue to be uncertainty as to the value of our portfolio investments.***

Under the 1940 Act, we are required to carry our portfolio investments at market value or, if there is no readily available market value, at fair value as determined by our Board of Directors. Typically, there is not a public market for the securities of the privately held companies in which we have invested and will generally continue to invest. As a result, we value these securities quarterly at fair value as determined in good faith by our Board of Directors.

Certain factors that may be considered in determining the fair value of our investments include the nature and realizable value of any collateral, the portfolio company’s earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparison to comparable publicly-traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Due to this uncertainty, our fair value determinations may cause our net asset value on a given date to materially understate or overstate the value that we may ultimately realize upon the sale of one or more of our investments. As a result, investors purchasing our common stock based on an overstated net asset value would pay a higher price than the realizable value of our investments might warrant.

***Our ability to achieve our investment objective depends on our investment adviser's ability to support our investment process; if our investment adviser were to lose any of its principals, our ability to achieve our investment objective could be significantly harmed.***

As discussed above, we were organized on February 15, 2007. We have no employees and, as a result, we depend on the investment expertise, skill and network of business contacts of the principals of our investment adviser. The principals of our investment adviser evaluate, negotiate, structure, execute, monitor and service our investments. Our future success will depend to a significant extent on the continued service and coordination of the principals of our investment adviser, Messrs. Tannenbaum, Goodman, Alva, Berman and Dimitrov. The departure of any of these individuals could have a material adverse effect on our ability to achieve our investment objective.

Our ability to achieve our investment objective depends on our investment adviser's ability to identify, analyze, invest in, finance and monitor companies that meet our investment criteria. Our investment adviser's capabilities in structuring the investment process, providing competent, attentive and efficient services to us, and facilitating access to financing on acceptable terms depend on the employment of investment professionals in adequate number and of adequate sophistication to match the corresponding flow of transactions. To achieve our investment objective, our investment adviser may need to hire, train, supervise and manage new investment professionals to participate in our investment selection and monitoring process. Our investment adviser may not be able to find investment professionals in a timely manner or at all. Failure to support our investment process could have a material adverse effect on our business, financial condition and results of operations.

***Our investment adviser has no prior experience managing a business development company or a RIC.***

The 1940 Act and the Code impose numerous constraints on the operations of business development companies and RICs that do not apply to the other investment vehicles previously managed by the principals of our investment adviser. For example, under the 1940 Act, business development companies are required to invest at least 70% of their total assets primarily in securities of qualifying U.S. private or thinly traded companies. Moreover, qualification for taxation as a RIC under subchapter M of the Code requires satisfaction of source-of-income and diversification requirements and our ability to avoid corporate-level taxes on our income and gains depends on our satisfaction of distribution requirements. The failure to comply with these provisions in a timely manner could prevent us from qualifying as a business development company or RIC or could force us to pay unexpected taxes and penalties, which could be material. Our investment adviser does not have any prior experience managing a business development company or RIC. Its lack of experience in managing a portfolio of assets under such constraints may hinder its ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective.

***Our business model depends to a significant extent upon strong referral relationships with private equity sponsors, and the inability of the principals of our investment adviser to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.***

We expect that the principals of our investment adviser will maintain their relationships with private equity sponsors, and we will rely to a significant extent upon these relationships to provide us with potential investment opportunities. If the principals of our investment adviser fail to maintain their existing relationships or develop new relationships with other sponsors or sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom the principals of our investment adviser have relationships are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that such relationships will generate investment opportunities for us.

***We may face increasing competition for investment opportunities, which could reduce returns and result in losses.***

We compete for investments with other business development companies and investment funds (including private equity funds and mezzanine funds), as well as traditional financial services companies such as commercial banks and other sources of funding. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of capital and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than we have. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than we are able to do. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we are forced to match our competitors' pricing, terms and structure, we may not be able to achieve acceptable returns on our investments or may bear substantial risk of capital loss. A significant part of our competitive advantage stems from the fact that the market for investments in small and mid-sized companies is underserved by traditional commercial banks and other financial sources. A significant increase in the number and/or the size of our competitors in this target market could force us to accept less attractive investment terms. Furthermore, many of our competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act imposes on us as a business development company.

***Our incentive fee may induce our investment adviser to make speculative investments.***

The incentive fee payable by us to our investment adviser may create an incentive for it to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement, which could result in higher investment losses, particularly during cyclical economic downturns. The way in which the incentive fee payable to our investment adviser is determined, which is calculated separately in two components as a percentage of the income (subject to a hurdle rate) and as a percentage of the realized gain on invested capital, may encourage our investment adviser to use leverage to increase the return on our investments or otherwise manipulate our income so as to recognize income in quarters where the hurdle rate is exceeded. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock, including investors in offerings of common stock pursuant to this prospectus.

The incentive fee payable by us to our investment adviser also may create an incentive for our investment adviser to invest on our behalf in instruments that have a deferred interest feature. Under these investments, we would accrue the interest over the life of the investment but would not receive the cash income from the investment until the end of the investment's term, if at all. Our net investment income used to calculate the income portion of our incentive fee, however, includes accrued interest. Thus, a portion of the incentive fee would be based on income that we have not yet received in cash and may never receive in cash if the portfolio company is unable to satisfy such interest payment obligation to us. Consequently, while we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a formal "claw back" right against our investment adviser per se, the amount of accrued income written off in any period will reduce the income in the period in which such write-off was taken and thereby reduce such period's incentive fee payment.

In addition, our investment adviser receives the incentive fee based, in part, upon net capital gains realized on our investments. Unlike the portion of the incentive fee based on income, there is no performance threshold applicable to the portion of the incentive fee based on net capital gains. As a result, our investment adviser may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

Given the subjective nature of the investment decisions made by our investment adviser on our behalf, we will be unable to monitor these potential conflicts of interest between us and our investment adviser.

***Our base management fee may induce our investment adviser to incur leverage.***

The fact that our base management fee is payable based upon our gross assets, which would include any borrowings for investment purposes, may encourage our investment adviser to use leverage to make additional investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor holders of our common stock, including investors in offerings of common stock pursuant to this prospectus. Given the subjective nature of the investment decisions made by our investment adviser on our behalf, we will not be able to monitor this potential conflict of interest.

***Because we borrow money, the potential for loss on amounts invested in us will be magnified and may increase the risk of investing in us.***

Borrowings, also known as leverage, magnify the potential for loss on invested equity capital. If we continue to use leverage to partially finance our investments, through borrowings from banks and other lenders, you will experience increased risks of investing in our common stock. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock distribution payments. Leverage is generally considered a speculative investment technique. At March 31, 2010, we had no borrowings outstanding.

***Substantially all of our assets are subject to security interests under secured credit facilities and if we default on our obligations under the facilities, we may suffer adverse consequences, including the lenders foreclosing on our assets.***

As of June 3, 2010, except for assets that were funded through our SBIC subsidiary, substantially all of our assets were pledged as collateral under the Wells Fargo facility or the ING facility. If we default on our obligations under these facilities, the lenders may have the right to foreclose upon and sell, or otherwise transfer, the collateral subject to their security interests. In such event, we may be forced to sell our investments to raise funds to repay our outstanding borrowings in order to avoid foreclosure and these forced sales may be at times and at prices we would not consider advantageous. Moreover, such deleveraging of our company could significantly impair our ability to effectively operate our business in the manner in which we have historically operated. As a result, we could be forced to curtail or cease new investment activities and lower or eliminate the dividends that we have historically paid to our stockholders.

In addition, if the lenders exercise their right to sell the assets pledged under our credit facilities, such sales may be completed at distressed sale prices, thereby diminishing or potentially eliminating the amount of cash available to us after repayment of the amounts outstanding under the credit facilities.

***Because we intend to distribute between 90% and 100% of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.***

In order to qualify for the tax benefits available to RICs and to minimize corporate-level taxes, we intend to distribute to our stockholders between 90% and 100% of our annual taxable income, except that we may retain certain net capital gains for investment, and treat such amounts as deemed distributions to our stockholders. If we elect to treat any amounts as deemed distributions, we must pay income taxes at the corporate rate on such deemed distributions on behalf of our stockholders. As a result of these requirements, we will likely need to raise capital from other sources to grow our business. As a business development company, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which includes all of our borrowings and any outstanding preferred stock, of at least 200%. These requirements limit the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, these limitations may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so.

While we expect to be able to borrow and to issue additional debt and equity securities, we cannot assure you that debt and equity financing will be available to us on favorable terms, or at all. Also, as a business development company, we generally are not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new investment activities, and our net asset value and share price could decline.

***Our ability to enter into transactions with our affiliates is restricted.***

We are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of the members of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any securities (other than our securities) from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain "joint" transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors and, in some cases, the SEC. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security (other than any security of which we are the issuer) from or to such person or certain of that person's affiliates, or entering into prohibited joint transactions with such person, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers, directors or investment adviser or their affiliates. As a result of these restrictions, we may be prohibited from buying or selling any security (other than any security of which we are the issuer) from or to any portfolio company of a private equity fund managed by our investment adviser without the prior approval of the SEC, which may limit the scope of investment opportunities that would otherwise be available to us.

***There are significant potential conflicts of interest which could adversely impact our investment returns.***

Our executive officers and directors, and the members of our investment adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Mr. Tannenbaum, our chief executive officer and managing partner of our investment adviser, is the managing partner of Fifth Street Capital LLC, a private investment firm. Although the other investment funds managed by Fifth Street Capital LLC and its affiliates generally are fully committed and, other than follow-on investments in existing portfolio companies, are no longer making investments, in the future, the principals of our investment adviser may manage other funds which may from time to time have overlapping investment objectives with those of us and accordingly invest in, whether principally or secondarily, asset classes similar to those targeted by us. If this should occur, the principals of our investment adviser will face conflicts of interest in the allocation of investment opportunities to us and such other funds. Although our investment professionals will endeavor to allocate investment opportunities in a fair and equitable manner, we and our common stockholders could be adversely affected in the event investment opportunities are allocated among us and other investment vehicles managed or sponsored by, or affiliated with, our executive officers, directors and investment adviser, and the members of our investment adviser.

***The incentive fee we pay to our investment adviser in respect of capital gains may be effectively greater than 20%.***

As a result of the operation of the cumulative method of calculating the capital gains portion of the incentive fee we pay to our investment adviser, the cumulative aggregate capital gains fee received by our investment adviser could be effectively greater than 20%, depending on the timing and extent of subsequent net realized capital losses or net unrealized depreciation. For additional information on this calculation, see the disclosure in footnote 2 to Example 2 under the caption "Investment Advisory Agreement — Management Fee — Incentive Fee." We cannot predict whether, or to what extent, this payment calculation would affect your investment in our stock.

***The involvement of our investment adviser's investment professionals in our valuation process may create conflicts of interest.***

Our portfolio investments are generally not in publicly traded securities. As a result, the values of these securities are not readily available. We value these securities at fair value as determined in good faith by our Board of Directors based upon the recommendation of the Valuation Committee of our Board of Directors. In connection with that determination, investment professionals from our investment adviser prepare portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. The participation of our investment adviser's investment professionals in our valuation process could result in a conflict of interest as our investment adviser's management fee is based, in part, on our gross assets.

***A failure on our part to maintain our qualification as a business development company would significantly reduce our operating flexibility.***

If we fail to continuously qualify as a business development company, we might be subject to regulation as a registered closed-end investment company under the 1940 Act, which would significantly decrease our operating flexibility. In addition, failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us. For additional information on the qualification requirements of a business development company, see the disclosure under the caption "Regulation — Business Development Company Regulations."

***Regulations governing our operation as a business development company and RIC affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth.***

As a result of the annual distribution requirement to qualify for tax free treatment at the corporate level on income and gains distributed to stockholders, we need to periodically access the capital markets to raise cash to fund new investments. We generally are not able to issue or sell our common stock at a price below net asset value per share, which may be a disadvantage as compared with other public companies. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our Board of Directors and independent directors determine that such sale is in our best interests and the best interests of our stockholders, and our stockholders as well as those stockholders that are not affiliated with us approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our Board of Directors, closely approximates the market value of such securities (less any underwriting commission or discount). If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital.

We also may make rights offerings to our stockholders at prices less than net asset value, subject to applicable requirements of the 1940 Act. If we raise additional funds by issuing more shares of our common stock or issuing senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders may decline at that time and such stockholders may experience dilution. Moreover, we can offer no assurance that we will be able to issue and sell additional equity securities in the future, on terms favorable to us or at all.

In addition, we may issue "senior securities," including borrowing money from banks or other financial institutions only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend. As a business development company, therefore, we may need to issue equity more frequently than our privately owned competitors, which may lead to greater stockholder dilution.

We expect to continue to borrow for investment purposes. If the value of our assets declines, we may be unable to satisfy the asset coverage test, which could prohibit us from paying dividends and could prevent us from qualifying as a RIC. If we cannot satisfy the asset coverage test, we may be required to sell a portion of our investments and, depending on the nature of our debt financing, repay a portion of our indebtedness at a time when such sales may be disadvantageous.

In addition, we may in the future seek to securitize our portfolio securities to generate cash for funding new investments. To securitize loans, we would likely create a wholly-owned subsidiary and contribute a pool of loans to the subsidiary. We would then sell interests in the subsidiary on a non-recourse basis to purchasers and we would retain all or a portion of the equity in the subsidiary. An inability to successfully securitize our loan portfolio could limit our ability to grow our business or fully execute our business strategy and may decrease our earnings, if any. The securitization market is subject to changing market conditions and we may not be able to access this market when we would otherwise deem appropriate. Moreover, the successful securitization of our portfolio might expose us to losses as the residual investments in which we do not sell interests will tend to be those that are riskier and more apt to generate losses. The 1940 Act also may impose restrictions on the structure of any securitization.

***Our SBIC subsidiary's investment adviser has no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our SBIC subsidiary's investment adviser's lack of experience or otherwise, could have an adverse effect on our operations.***

On February 3, 2010, our wholly-owned subsidiary, Fifth Street Mezzanine Partners IV, L.P., received a license, effective February 1, 2010, from the SBA to operate as an SBIC under Section 301(c) of the Small Business Investment Act of 1958 and is regulated by the SBA. The SBIC license allows our SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in a few prohibited industries. Compliance with SBIC requirements may cause our SBIC subsidiary to forego attractive investment opportunities that are not permitted under SBA regulations.

SBA regulations currently limit the amount that our SBIC subsidiary may borrow up to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of March 31, 2010, our SBIC had $75 million in regulatory capital. The SBA has issued a capital commitment to our SBIC subsidiary in the amount of $75 million. Our SBIC subsidiary will not be able to access more than $37.5 million in borrowings until it is examined by the SBA, and we cannot predict the timing for completion of an examination by the SBA.

Further, SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval, a "change of control" of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10% or more of a class of capital stock of a licensed SBIC. If our SBIC subsidiary fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit its use of debentures, declare outstanding debentures immediately due and payable, and/or limit it from making new investments. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because our SBIC subsidiary is our wholly-owned subsidiary. Our SBIC subsidiary's investment adviser does not have any prior experience managing an SBIC. Its lack of experience in complying with SBA regulations may hinder its ability to take advantage of our SBIC subsidiary's access to SBA-guaranteed debentures.

We also applied for exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. If we receive an exemption for this SBA debt, we would have increased flexibility under the 200% asset coverage test. We cannot assure you that we will receive the exemptive relief from the SEC.

Any failure to comply with SBA regulations could have an adverse effect on our operations.

***We may experience fluctuations in our quarterly results.***

We could experience fluctuations in our quarterly operating results due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rate payable on the debt securities we acquire, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our market and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.***

Our Board of Directors has the authority to modify or waive our current investment objective, operating policies and strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current investment objective, operating policies and strategies would have on our business, net asset value, operating results and value of our stock. However, the effects might be adverse, which could negatively impact our ability to pay you distributions and cause you to lose part or all of your investment.

***We will be subject to corporate-level income tax if we are unable to maintain our qualification as a RIC under Subchapter M of the Code or do not satisfy the annual distribution requirement.***

To maintain RIC status and be relieved of federal taxes on income and gains distributed to our stockholders, we must meet the following annual distribution, income source and asset diversification requirements.

- The annual distribution requirement for a RIC will be satisfied if we distribute to our stockholders on an annual basis at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Because we may use debt financing, we are subject to an asset coverage ratio requirement under the 1940 Act and we may be subject to certain financial covenants under our debt arrangements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the distribution requirement. If we are unable to obtain cash from other sources, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.
- The income source requirement will be satisfied if we obtain at least 90% of our income for each year from dividends, interest, gains from the sale of stock or securities or similar sources.
- The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. To satisfy this requirement, at least 50% of the value of our assets must consist of cash, cash equivalents, U.S. government securities, securities of other RICs, and other acceptable securities; and no more than 25% of the value of our assets can be invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain “qualified publicly traded partnerships.” Failure to meet these requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

If we fail to qualify for or maintain RIC status or to meet the annual distribution requirement for any reason and are subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions.

***We may not be able to pay you distributions, our distributions may not grow over time and a portion of our distributions may be a return of capital.***

We intend to pay quarterly distributions to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by, among other things, the impact of one or more of the risk factors described in this prospectus or any prospectus supplement. In addition, the inability to satisfy the asset coverage test applicable to us as a business development company can limit our ability to pay distributions. All distributions will be paid at the discretion of our Board of Directors and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with applicable business development company regulations and such other factors as our Board of Directors may deem relevant from time to time. We cannot assure you that we will pay distributions to our stockholders in the future.

When we make quarterly distributions, we will be required to determine the extent to which such distributions are paid out of current or accumulated earnings and profits. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of an investor’s basis in our stock and, assuming that an investor holds our stock as a capital asset, thereafter as a capital gain.

***We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.***

For federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount or accruals on a contingent payment debt instrument, which may occur if we receive warrants in connection with the origination of a loan or possibly in other circumstances. Such original issue discount is included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we do not receive in cash.

Since, in certain cases, we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the annual distribution requirement necessary to be relieved of federal taxes on income and gains distributed to our stockholders. Accordingly, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to satisfy the annual distribution requirement and thus become subject to corporate-level income tax.

***We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.***

We may distribute taxable dividends that are payable in part in our stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

In addition, as discussed elsewhere in this prospectus, our loans typically contain a payment-in-kind (“PIK”) interest provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To avoid the imposition of corporate-level tax on us, this non-cash source of income needs to be paid out to stockholders in cash distributions or, in the event that we determine to do so, in shares of our common stock, even though we have not yet collected and may never collect the cash relating to the PIK interest. As a result, if we distribute taxable dividends in the form of our common stock, we may have to distribute a stock dividend to account for PIK interest even though we have not yet collected the cash.

***Our wholly-owned SBIC subsidiary may be unable to make distributions to us that will enable us to maintain RIC status, which could result in the imposition of an entity-level tax.***

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level taxes, we will be required to distribute substantially all of our net ordinary income and net capital gain income, including income from certain of our subsidiaries, which includes the income from our SBIC subsidiary. We will be partially dependent on our SBIC subsidiary for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiary may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA’s restrictions for our SBIC subsidiary to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver and if our SBIC subsidiary is unable to obtain a waiver, compliance with the SBA regulations may result in loss of RIC tax treatment and a consequent imposition of an entity-level tax on us.

***Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.***

We and our portfolio companies are subject to regulation at the local, state and federal level. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we are permitted to make or that impose limits on our ability to pledge a significant amount of our assets to secure loans, any of which could harm us and our stockholders, potentially with retroactive effect.

Additionally, any changes to the laws and regulations governing our operations relating to permitted investments may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities. Such changes could result in material differences to the strategies and plans set forth in this prospectus and may result in our investment focus shifting from the areas of expertise of our investment adviser to other types of investments in which our investment adviser may have less expertise or little or no experience. Thus, any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

***We have identified deficiencies in our internal control over financial reporting from time to time. Future control deficiencies could prevent us from accurately and timely reporting our financial results.***

We have identified deficiencies in our internal control over financial reporting from time to time, including significant deficiencies and material weaknesses. A “significant deficiency” is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a company’s financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis. As previously disclosed, in January 2010, we identified a significant deficiency in our internal control over financial reporting with respect to our research and application of GAAP. The significant deficiency pertained to our policy associated with investments that contain contractual exit fees. We believe that we have remediated this significant deficiency.

Our failure to identify deficiencies in our internal control over financial reporting in a timely manner or remediate any deficiencies, or the identification of material weaknesses or significant deficiencies in the future could prevent us from accurately and timely reporting our financial results.

**Risks Relating to Our Investments**

***Our investments in portfolio companies may be risky, and we could lose all or part of our investment.***

Investing in small and mid-sized companies involves a number of significant risks. Among other things, these companies:

- may have limited financial resources and may be unable to meet their obligations under their debt instruments that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees from subsidiaries or affiliates of our portfolio companies that we may have obtained in connection with our investments, as well as a corresponding decrease in the value of the equity components of our investments;
- may have shorter operating histories, narrower product lines, smaller market shares and/or significant customer concentrations than larger businesses, which tend to render them more vulnerable to competitors’ actions and market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may

require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and

- generally have less publicly available information about their businesses, operations and financial condition. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and may lose all or part of our investment.

In addition, in the course of providing significant managerial assistance to certain of our portfolio companies, certain of our officers and directors may serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, our officers and directors may be named as defendants in such litigation, which could result in an expenditure of funds (through our indemnification of such officers and directors) and the diversion of management time and resources.

***An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies.***

We invest primarily in privately held companies. Generally, little public information exists about these companies, including typically a lack of audited financial statements and ratings by third parties. We must therefore rely on the ability of our investment adviser to obtain adequate information to evaluate the potential risks of investing in these companies. These companies and their financial information may not be subject to the Sarbanes-Oxley Act and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. These factors could affect our investment returns.

***If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies defaults on their indebtedness.***

As of March 31, 2010, all of our debt investments were secured by first or second priority liens on the assets of our portfolio companies. However, we may make unsecured debt investments in portfolio companies in the future. Unsecured debt investments are unsecured and junior to other indebtedness of the portfolio company. As a consequence, the holder of an unsecured debt investment may lack adequate protection in the event the portfolio company becomes distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event the portfolio company defaults on its indebtedness. In addition, unsecured debt investments of small and mid-sized companies are often highly illiquid and in adverse market conditions may experience steep declines in valuation even if they are fully performing.

***If we invest in the securities and other obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower-than expected investment values or income potentials and resale restrictions.***

We are authorized to invest in the securities and other obligations of distressed or bankrupt companies. At times, distressed debt obligations may not produce income and may require us to bear certain extraordinary expenses (including legal, accounting, valuation and transaction expenses) in order to protect and recover our investment. Therefore, to the extent we invest in distressed debt, our ability to achieve current income for our stockholders may be diminished.

We also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt we invest in will eventually be satisfied (e.g., through a liquidation of the obligor’s assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt held by us, there can be no assurance that the securities or other assets received by us in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made.

Moreover, any securities received by us upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of our participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, we may be restricted from disposing of such securities.

***The lack of liquidity in our investments may adversely affect our business.***

We invest, and will continue to invest, in companies whose securities are not publicly traded, and whose securities will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. In fact, all of our assets may be invested in illiquid securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. Our investments are usually subject to contractual or legal restrictions on resale or are otherwise illiquid because there is usually no established trading market for such investments. The illiquidity of our investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

***We may not have the funds or ability to make additional investments in our portfolio companies.***

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment through the exercise of a warrant to purchase common stock. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments. Any decisions not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment, may result in a missed opportunity for us to increase our participation in a successful operation or may reduce the expected yield on the investment.

***Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.***

We invest primarily in first and second lien debt issued by small and mid-sized companies. Our portfolio companies may have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt in which we invest. By their terms, such debt instruments may entitle the holders to receive payments of interest or principal on or before the dates on which we are entitled to receive payments with respect to the debt instruments in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt instruments in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

***The disposition of our investments may result in contingent liabilities.***

Most of our investments will involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us.

***There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.***

Even though we have structured some of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt investment and subordinate all or a portion of our claim to that of other creditors. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or instances where we exercise control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken in rendering significant managerial assistance.

***Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.***

Certain loans that we make to portfolio companies will be secured on a second priority basis by the same collateral securing senior secured debt of such companies. The first priority liens on the collateral will secure the portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the company under the agreements governing the loans. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay their obligations in full before us. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds are not sufficient to repay amounts outstanding under the loan obligations secured by the second priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the company's remaining assets, if any.

The rights we may have with respect to the collateral securing the loans we make to our portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that obligations that have the benefit of the first priority liens are outstanding, any of the following actions that may be taken with respect to the collateral will be at the direction of the holders of the obligations secured by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. We may not have the ability to control or direct such actions, even if our rights are adversely affected.

***We generally will not control our portfolio companies.***

We do not, and do not expect to, control most of our portfolio companies, even though we may have board representation or board observation rights, and our debt agreements may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests as a debt investor. Due to the lack of liquidity for our investments in non-traded companies, we may not be able to dispose of our interests in our portfolio companies as readily as we would like or at an appropriate valuation. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

***Defaults by our portfolio companies will harm our operating results.***

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.

***We may not realize gains from our equity investments.***

Certain investments that we have made in the past and may make in the future include warrants or other equity securities. In addition, we have made in the past and may make in the future direct equity investments in companies. Our goal is ultimately to realize gains upon our disposition of such equity interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow us to sell the underlying equity interests. We often seek puts or similar rights to give us the right to sell our equity securities back to the portfolio company issuer. We may be unable to exercise these puts rights for the consideration provided in our investment documents if the issuer is in financial distress.

***We are subject to certain risks associated with foreign investments.***

We may make investments in foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in foreign exchange rates, exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Our success will depend, in part, on our ability to anticipate and effectively manage these and other risks. We cannot assure you that these and other factors will not have a material adverse effect on our business as a whole.

**Risks Relating to an Offering of Our Common Stock**

***Shares of closed-end investment companies, including business development companies, may trade at a discount to their net asset value.***

Shares of closed-end investment companies, including business development companies, may trade at a discount from net asset value. This characteristic of closed-end investment companies and business development companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our common stock will trade at, above or below net asset value.

***We may be unable to invest a significant portion of the net proceeds of this offering on acceptable terms within an attractive timeframe.***

Delays in investing the net proceeds raised in an offering may cause our performance to be worse than that of other fully invested business development companies or other lenders or investors pursuing comparable investment strategies. We cannot assure you that we will be able to identify any investments that meet our investment objective or that any investment that we make will produce a positive return. We may be unable to invest the net proceeds of any offering on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results.

We anticipate that, depending on market conditions, it may take us a substantial period of time to invest substantially all of the net proceeds of any offering in securities meeting our investment objective. During this period, we will invest the net proceeds of an offering primarily in cash, cash equivalents, U.S. government securities, repurchase agreements and high-quality debt instruments maturing in one year or less from the time of investment, which may produce returns that are significantly lower than the returns which we expect to achieve when our portfolio is fully invested in securities meeting our investment objective. As a result, any distributions that we pay during this period may be substantially lower than the distributions that we may be able to pay when our portfolio is fully invested in securities meeting our investment objective. In addition, until such time as the net proceeds of an offering are invested in securities meeting our investment objective, the market price for our common stock may decline. Thus, the initial return on your investment may be lower than when, if ever, our portfolio is fully invested in securities meeting our investment objective.

***Investing in our common stock may involve an above average degree of risk.***

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and a higher risk of volatility or loss of principal. Our investments in portfolio companies involve higher levels of risk, and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

***The market price of our common stock may fluctuate significantly.***

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- inability to obtain any exemptive relief that may be required by us from the SEC;
- changes in regulatory policies, accounting pronouncements or tax guidelines, particularly with respect to RICs, business development companies and SBICs;
- loss of our BDC or RIC status or our SBIC subsidiary's status as an SBIC;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of our investment adviser's key personnel; and
- general economic trends and other external factors.

***Certain provisions of our restated certificate of incorporation and amended and restated bylaws as well as the Delaware General Corporation Law could deter takeover attempts and have an adverse impact on the price of our common stock.***

Our restated certificate of incorporation and our amended and restated bylaws as well as the Delaware General Corporation Law contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price for our common stock.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus and any accompanying prospectus supplement constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this prospectus and any accompanying prospectus supplement may include statements as to:

- our future operating results and dividend projections;
- our business prospects and the prospects of our portfolio companies;
- the impact of the investments that we expect to make;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

In addition, words such as “anticipate,” “believe,” “expect” and “intend” indicate a forward-looking statement, although not all forward-looking statements include these words. The forward-looking statements contained in this prospectus, and any accompanying prospectus supplement, involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in “Risk Factors” and elsewhere in this prospectus and any accompanying prospectus supplement. Other factors that could cause actual results to differ materially include:

- changes in the economy;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- future changes in laws or regulations (including the interpretation of these laws and regulations by regulatory authorities) and conditions in our operating areas, particularly with respect to business development companies, RICs and SBICs.

We have based the forward-looking statements included in this prospectus and will base the forward-looking statements included in any accompanying prospectus supplement on information available to us on the date of this prospectus and any accompanying prospectus supplement, as appropriate, and we assume no obligation to update any such forward-looking statements, except as required by law. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements contained in this prospectus and any accompanying prospectus supplement are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933 and the forward looking statements contained in our periodic reports are excluded from the safe-harbor protection provided by Section 21E of the Securities Exchange Act of 1934, or the “Exchange Act.”

## USE OF PROCEEDS

We intend to use substantially all of the net proceeds from selling our common stock to make investments in small and mid-sized companies in accordance with our investment objective and strategies described in this prospectus or any prospectus supplement, pay our operating expenses and dividends to our stockholders and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings. Pending such use, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See “Regulation — Business Development Company Regulations — Temporary Investments.” Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in interest-bearing deposits or other short-term instruments. See “Risk Factors — Risks Relating to an Offering of our Common Stock — We may be unable to invest a significant portion of the net proceeds of this offering on acceptable terms within an attractive timeframe” for additional information regarding this matter. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such an offering.

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the New York Stock Exchange under the symbol "FSC." The following table sets forth, for each fiscal quarter since our initial public offering, the range of high and low sales prices of our common stock as reported on the New York Stock Exchange, the sales price as a percentage of our net asset value (NAV) and the dividends declared by us for each fiscal quarter.

| | NAV(1) | Price Range High | Price Range Low | Percentage of High Sales Price to NAV(2) | Percentage of Low Sales Price to NAV(2) | Cash Dividend per Share(3) |
|---|---|---|---|---|---|---|
| ***Year ended September 30, 2008*** | | | | | | |
| Third Quarter (from June 12, 2008)(4) | $13.20 | $13.32 | $10.10 | 101% | 77% | $0.30 |
| Fourth Quarter | $13.02 | $11.48 | $ 7.56 | 88% | 58% | $0.31 |
| ***Year ended September 30, 2009*** | | | | | | |
| First Quarter | $11.86 | $10.24 | $ 5.02 | 86% | 42% | $0.32 |
| Second Quarter | $11.94 | $ 8.48 | $ 5.80 | 71% | 49% | $0.38(5) |
| Third Quarter | $11.95 | $10.92 | $ 7.24 | 91% | 61% | $0.25 |
| Fourth Quarter | $10.84 | $11.36 | $ 9.02 | 105% | 83% | $0.25 |
| ***Year ended September 30, 2010*** | | | | | | |
| First Quarter | $10.82 | $10.99 | $ 9.35 | 102% | 86% | $0.27 |
| Second Quarter | $10.70 | $12.13 | $10.45 | 113% | 98% | $0.30 |
| Third Quarter (through June 3, 2010) | * | $13.53 | $10.49 | * | * | $0.32 |

* Not determinable at the time of filing.

(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 respective high or low sales price divided by net asset value.

(3) Represents the dividend 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 cash dividend, then stockholders' cash dividends 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 dividends. See "Dividend Reinvestment Plan."

(4) Our stock began trading on the New York Stock Exchange on June 12, 2008.

(5) Includes a special dividend of $0.05 declared on December 18, 2008 with a record date of December 30, 2008 and a payment date of January 29, 2009.

The last reported price for our common stock on June 3, 2010 was $11.87 per share. As of May 15, 2010, we had 14 stockholders of record, which did not include stockholders for whom shares are held in nominee or street name.

Shares of business development companies may trade at a market price that is less than the value of the net assets attributable to those shares. The possibilities that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether the common stock offered hereby will trade at, above, or below net asset value. Since our initial public offering in June 2008, our shares of common stock have at times traded at prices significantly less than our net asset value.

Our dividends, if any, are determined by our Board of Directors. We have elected to be treated for federal income tax purposes 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 realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis.

To maintain RIC tax treatment, we must, among other things, distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income. Please refer to “Material U.S. Federal Income Tax Considerations” for further information regarding the consequences of our retention of net capital gains. We may, in the future, make actual distributions to our stockholders of our net capital gains. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we may be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See “Regulation” and “Material U.S. Federal Income Tax Considerations.”

We have adopted an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we make a cash distribution, then 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.

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

*The information in this section contains forward-looking statements that involve risks and uncertainties. Please see "Risk Factors" and "Special Note Regarding Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these statements. You should read the following discussion in conjunction with the financial statements and related notes and other financial information appearing elsewhere in this prospectus.*

**Overview**

We are a specialty finance company that lends to and invests in small and mid-sized companies in connection with investments by private equity sponsors. Our investment objective is to maximize our portfolio's total return by generating current income from our debt investments and capital appreciation from our equity investments.

We were formed as a Delaware limited partnership (Fifth Street Mezzanine Partners III, L.P.) on February 15, 2007. Effective as of January 2, 2008, Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp. At the time of the merger, all outstanding partnership interests in Fifth Street Mezzanine Partners III, L.P. were exchanged for 12,480,972 shares of common stock in Fifth Street Finance Corp.

Our consolidated financial statements prior to January 2, 2008 reflect our operations as a Delaware limited partnership (Fifth Street Mezzanine Partners III, L.P.) prior to our merger with and into a corporation (Fifth Street Finance Corp.).

On June 17, 2008, we completed an initial public offering of 10,000,000 shares of our common stock at the offering price of $14.12 per share. Our shares are currently listed on the New York Stock Exchange under the symbol "FSC."

On July 21, 2009, we completed a follow-on public offering of 9,487,500 shares of our common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $9.25 per share.

On September 25, 2009, we completed a follow-on public offering of 5,520,000 shares of our common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $10.50 per share.

On January 27, 2010, we completed a follow-on public offering of 7,000,000 shares of our common stock, which did not include the underwriters' exercise of their over-allotment option, at the offering price of $11.20 per share. On February 25, 2010, we sold 300,500 shares of our common stock at the offering price of $11.20 per share upon the underwriters' exercise of their over-allotment option in connection with this offering.

**Current Market Conditions**

Since mid-2007, the financial services sector has been negatively impacted by significant write-offs related to sub-prime mortgages and the re-pricing of credit risk. Global debt and equity markets have suffered substantial stress, volatility, illiquidity and disruption, with sub-prime mortgage-related issues being the most significant contributing factor. These forces reached unprecedented levels by the fall of 2008, resulting in the insolvency or acquisition of, or government assistance to, several major domestic and international financial institutions. While the severe stress in the financial markets appears to have abated to a certain extent, these past events have significantly diminished overall confidence in the debt and equity markets and continue to cause economic uncertainty. In particular, the disruptions in the financial markets increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the financial markets. This widening of spreads made it more difficult for lower middle market companies to access capital as traditional senior lenders became more selective, equity sponsors delayed transactions for better earnings visibility, and sellers hesitated to accept lower purchase multiples. While the market for corporate debt has improved of late, credit spreads have tightened and borrowing rates have trended lower, reduced confidence and economic uncertainty could further exacerbate overall market disruptions and risks to businesses in need of capital.

Despite the economic uncertainty, our deal pipeline remains robust, with high quality transactions backed by private equity sponsors in small to mid-sized companies. As always, we remain cautious in selecting new investment opportunities, and will only deploy capital in deals which are consistent with our disciplined philosophy of pursuing superior risk-adjusted returns.

As evidenced by our recent investment activities, we expect to grow the business in part by increasing the average investment size when and where appropriate. At the same time, we expect to focus more on first lien transactions. We also expect to invest in more floating rate facilities, with rate floors, to protect against interest rate decreases.

Although we believe that we currently have sufficient capital available to fund investments, a prolonged period of market disruptions may cause us to reduce the volume of loans we originate and/or fund, which could have an adverse effect on our business, financial condition, and results of operations. Furthermore, because our common stock has at times traded at a price below our current net asset value per share and we are not generally able under the 1940 Act to sell our common stock at a price below net asset value per share, we may be limited in our ability to raise equity capital.

**Critical Accounting Policies**

***FASB Accounting Standards Codification***

The issuance of *FASB Accounting Standards Codification*™, or the Codification, on July 1, 2009 (effective for interim or annual reporting periods ending after September 15, 2009), changes the way that U.S. generally accepted accounting principles, or GAAP, are referenced. Beginning on that date, the Codification officially became the single source of authoritative nongovernmental GAAP; however, SEC registrants must also consider rules, regulations, and interpretive guidance issued by the SEC or its staff. The switch affects the way companies refer to U.S. GAAP in financial statements and in their accounting policies. All existing standards that were used to create the Codification were superseded by the Codification. Instead, references to standards will consist solely of the number used in the Codification's structural organization.

Consistent with the effective date of the Codification, financial statements for periods ending after September 15, 2009, refer to the Codification structure, not pre-Codification historical GAAP.

***Basis of Presentation***

Effective January 2, 2008, Fifth Street Mezzanine Partners III, L.P., or the Partnership, a Delaware limited partnership organized on February 15, 2007, merged with and into Fifth Street Finance Corp. The merger involved the exchange of shares between companies under common control. In accordance with the guidance on exchanges of shares between entities under common control, our results of operations and cash flows for the fiscal year ended September 30, 2008 are presented as if the merger had occurred as of October 1, 2007. Accordingly, no adjustments were made to the carrying value of assets and liabilities (or the cost basis of investments) as a result of the merger. Prior to January 2, 2008, references to Fifth Street are to the Partnership. After January 2, 2008, references to Fifth Street, FSC, "we" or "our" are to Fifth Street Finance Corp., unless the context otherwise requires. Fifth Street's financial results for the fiscal year ended September 30, 2007 refer to the Partnership.

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

***Investment Valuation***

We are required to report our investments that are not publicly traded or for which current market values are not readily available at fair value. The fair value is deemed to be the value at which an enterprise could be sold in a transaction between two willing parties other than through a forced or liquidation sale.

Under ASC 820, which we adopted effective October 1, 2008, we perform detailed valuations of our debt and equity investments on an individual basis, using market based, income based, and bond yield approaches as appropriate.

Under the market approach, we estimate the enterprise value of the portfolio companies in which we invest. There is no one methodology to estimate enterprise value and, in fact, for any one portfolio company, enterprise value is best expressed as a range of fair values, from which we derive a single estimate of enterprise value. To estimate the enterprise value of a portfolio company, we analyze various factors, including the portfolio company's historical and projected financial results. Typically, private companies are valued based on multiples of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), cash flows, net income, revenues, or in limited cases, book value. We generally require portfolio companies to provide annual audited and quarterly and monthly unaudited financial statements, as well as annual projections for the upcoming fiscal year.

Under the income approach, we generally prepare and analyze discounted cash flow models based on our projections of the future free cash flows of the business. Under the bond yield approach, we use bond yield models to determine the present value of the future cash flow streams of our debt investments. We review various sources of transactional data, including private mergers and acquisitions involving debt investments with similar characteristics, and assess the information in the valuation process.

We also may, when conditions warrant, utilize an expected recovery model, whereby we use alternate procedures to determine value when the customary approaches are deemed to be not as relevant or reliable.

Our Board of Directors undertakes a multi-step valuation process each quarter in connection with determining the fair value of our investments:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the deal team within our investment adviser responsible for the portfolio investment;
- Preliminary valuations are then reviewed and discussed with the principals of our investment adviser;
- Separately, an independent valuation firm engaged by the Board of Directors prepares preliminary valuations on a selected basis and submits a report to us;
- The deal team compares and contrasts its preliminary valuations to the report of the independent valuation firm and resolves any differences;
- The deal team prepares a final valuation report for the Valuation Committee of our Board of Directors;
- The Valuation Committee of our Board of Directors reviews the preliminary valuations, and the deal team responds and supplements the preliminary valuations to reflect any comments provided by the Valuation Committee;
- The Valuation Committee of our Board of Directors makes a recommendation to the Board of Directors; and
- The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith.

The fair value of all of our investments at March 31, 2010 and September 30, 2009 was determined by our Board of Directors. Our Board of Directors is solely responsible for the valuation of our portfolio investments at fair value as determined in good faith pursuant to our valuation policy and our consistently applied valuation process.

Our Board of Directors has engaged an independent valuation firm to provide us with valuation assistance. Upon completion of its process each quarter, the independent valuation firm provides us with a written report regarding the preliminary valuations of selected portfolio securities as of the close of such quarter. We will continue to engage an independent valuation firm to provide us with assistance regarding our determination of the fair value of selected portfolio securities each quarter; however, our Board of Directors is ultimately and solely responsible for determining the fair value of our investments in good faith.

An independent valuation firm, Murray, Devine & Co., Inc., provided us with assistance in our determination of the fair value of 91.9% of our portfolio for the quarter ended December 31, 2007, 92.1% of our portfolio for the quarter ended March 31, 2008, 91.7% of our portfolio for the quarter ended June 30, 2008, 92.8% of our portfolio for the quarter ended September 30, 2008, 100% of our portfolio for the quarter ended December 31, 2008, 88.7% of our portfolio for the quarter ended March 31, 2009 (or 96% of our portfolio excluding our investment in IZI Medical Products, Inc., which closed on March 31, 2009 and therefore was not part of the independent valuation process), 92.1% of our portfolio for the quarter ended June 30, 2009, 28.1% of our portfolio for the quarter ended September 30, 2009, 17.2% of our portfolio for the quarter ended December 31, 2009 (or 24.8% of our portfolio excluding the four investments that closed in late December and therefore were not part of the independent valuation process), and 26.9% of our portfolio for the quarter ended March 31, 2010.

Our $50 million credit facility with Bank of Montreal was terminated effective September 16, 2009. The facility required independent valuations for at least 90% of the portfolio on a quarterly basis. With the termination of this facility, this requirement is no longer applicable to us. However, we still intend to have a portion of the portfolio valued by an independent third party on a quarterly basis, with a substantial portion being valued on an annual basis.

As of March 31, 2010 and September 30, 2009, approximately 93.9% and 72.0%, respectively, of our total assets represented investments in portfolio companies valued at fair value.

***Revenue Recognition***

*Interest and Distribution Income*

Interest income, adjusted for amortization of premium and accretion of original issue discount, is recorded on the accrual basis to the extent that such amounts are expected to be collected. We stop accruing interest on investments when it is determined that interest is no longer collectible. Distributions from portfolio companies are recorded as distribution income when the distribution is received.

*Fee Income*

We receive a variety of fees in the ordinary course of business. Certain fees, such as origination fees, are capitalized and amortized in accordance with ASC 310-20 *Nonrefundable Fees and Other Costs*. In accordance with ASC 820, the net unearned fee income balance is netted against the cost and fair value of the respective investments. Other fees, such as servicing fees, are classified as fee income and recognized as they are earned on a monthly basis.

As of March 31, 2010, we were entitled to receive approximately $7.9 million in aggregate exit fees across 12 portfolio investments upon the future exit of those investments. These fees will typically be paid to us upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees, which are contractually payable by borrowers to us, previously were to be recognized by us on a cash basis when received and not accrued or otherwise included in net investment income until received. None of the loans with exit fees, all of which were originated in 2008 and 2009, have been exited and, as a result, no exit fees were recognized. Beginning with the quarter ended December 31, 2009, we recognize income pertaining to contractual exit fees on an accrual basis and add exit fee income to the principal balance of the related loan to the extent we determine that collection of the exit fee income is probable. Additionally, we include the cash flows of contractual exit fees that we determine are probable of collection in determining the fair value of our loans. We believe the effect of this cumulative adjustment in the quarter ended December 31, 2009 was not material to our financial statements as of any date or for any period.

Our decision to accrue exit fees and the amount of each accrual involves subjective judgments and determinations by us based on the risks and uncertainties associated with our ability to ultimately collect exit fees relating to each individual loan, including the actions of the senior note holders to block the payment of the exit fees, our relationship with the equity sponsor, the potential modification and extension of a loan, and consideration of situations where exit fees have been added after the initial investment as a remedy for a covenant violation.

*Payment-in-Kind (PIK) Interest*

Our loans typically contain a contractual PIK interest provision. The PIK interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We generally cease accruing

PIK interest if there is insufficient value to support the accrual or if we do not expect the portfolio company to be able to pay all principal and interest due. Our decision to cease accruing PIK interest involves subjective judgments and determinations based on available information about a particular portfolio company, including whether the portfolio company is current with respect to its payment of principal and interest on its loans and debt securities; monthly and quarterly financial statements and financial projections for the portfolio company; our assessment of the portfolio company's business development success, including product development, profitability and the portfolio company's overall adherence to its business plan; information obtained by us in connection with periodic formal update interviews with the portfolio company's management and, if appropriate, the private equity sponsor; and information about the general economic and market conditions in which the portfolio company operates. Based on this and other information, we determine whether to cease accruing PIK interest on a loan or debt security. Our determination to cease accruing PIK interest on a loan or debt security is generally made well before our full write-down of such loan or debt security. In addition, if it is subsequently determined that we will not be able to collect any previously accrued PIK interest, the fair value of our loans or debt securities would decline by the amount of such previously accrued, but uncollectible, PIK interest.

To maintain our status as a RIC, PIK income must be paid out to our stockholders in the form of dividends even though we have not yet collected the cash and may never collect the cash relating to the PIK interest. Accumulated PIK interest was approximately $14.5 million and represented 3% of the fair value of our portfolio of investments as of March 31, 2010 and approximately $12.1 million or 4% as of September 30, 2009. The net increase in loan balances as a result of contracted PIK arrangements are separately identified in our Consolidated Statements of Cash Flows.

**Portfolio Composition**

Our investments principally consist of loans, purchased equity investments and equity grants in privately-held companies. Our loans are typically secured by either a first or second lien on the assets of the portfolio company, generally have terms of up to six years (but an expected average life of between three and four years) and typically bear interest at fixed rates and, to a lesser extent, at floating rates. We are currently focusing our new debt origination efforts on first lien loans.

A summary of the composition of our investment portfolio at cost and fair value as a percentage of total investments is shown in the following tables:

| | March 31, 2010 | September 30, 2009 |
|---|---|---|
| **Cost:** | | |
| First lien debt | 67.50% | 46.82% |
| Second lien debt | 30.77 | 50.08 |
| Purchased equity | 0.65 | 1.27 |
| Equity grants | 1.06 | 1.83 |
| Limited partnership interests | 0.02 | 0.00 |
| **Total** | **100.00%** | **100.00%** |

| | March 31, 2010 | September 30, 2009 |
|---|---|---|
| **Fair value:** | | |
| First lien debt | 68.94% | 47.40% |
| Second lien debt | 29.93 | 51.37 |
| Purchased equity | 0.06 | 0.17 |
| Equity grants | 1.04 | 1.06 |
| Limited partnership interests | 0.03 | 0.00 |
| **Total** | **100.00%** | **100.00%** |

The industry composition of our portfolio at cost and fair value were as follows:

| | March 31, 2010 | September 30, 2009 |
|---|---|---|
| **Cost:** | | |
| Healthcare services | 12.38% | 15.53% |
| Healthcare equipment | 9.35 | 0.00 |
| Healthcare technology | 7.60 | 11.37 |
| Home improvement retail | 6.57 | 0.00 |
| Education services | 6.18 | 0.00 |
| Fertilizers & agricultural chemicals | 5.49 | 0.00 |
| Footwear and apparel | 4.72 | 6.85 |
| Food retail | 4.05 | 0.00 |
| Construction and engineering | 4.03 | 5.89 |
| Emulsions manufacturing | 3.58 | 3.59 |
| Trailer leasing services | 3.51 | 5.21 |
| Restaurants | 3.40 | 6.20 |
| Manufacturing — mechanical products | 3.13 | 4.71 |
| Data processing and outsourced services | 2.73 | 4.12 |
| Merchandise display | 2.71 | 3.98 |
| Home furnishing retail | 2.65 | 3.93 |
| Housewares & specialties | 2.48 | 3.68 |
| Media — Advertising | 2.31 | 4.10 |
| Air freight and logistics | 2.26 | 3.29 |
| Capital goods | 2.08 | 3.05 |
| Food distributors | 1.86 | 2.73 |
| Environmental & facilities services | 1.83 | 2.73 |
| Building products | 1.80 | 2.14 |
| Entertainment — theaters | 1.64 | 2.32 |
| Leisure facilities | 1.44 | 2.20 |
| Household products/ specialty chemicals | 0.21 | 2.38 |
| Multi-sector holdings | 0.01 | 0.00 |
| **Total** | **100.00%** | **100.00%** |

| | March 31, 2010 | September 30, 2009 |
|---|---|---|
| **Fair value:** | | |
| Healthcare services | 13.46% | 17.21% |
| Healthcare equipment | 9.91 | 0.00 |
| Healthcare technology | 7.94 | 12.27 |
| Home improvement retail | 6.93 | 0.00 |
| Education services | 6.52 | 0.00 |
| Fertilizers & agricultural chemicals | 5.80 | 0.00 |
| Footwear and apparel | 4.93 | 7.37 |
| Food retail | 4.27 | 0.00 |
| Emulsions manufacturing | 3.84 | 4.05 |
| Construction and engineering | 3.65 | 5.96 |
| Manufacturing — mechanical products | 3.22 | 5.03 |
| Restaurants | 3.16 | 5.94 |
| Data processing and outsourced services | 2.83 | 4.44 |
| Merchandise display | 2.81 | 4.36 |
| Air freight and logistics | 2.41 | 3.60 |
| Media — Advertising | 2.39 | 4.37 |
| Home furnishing retail | 2.12 | 3.45 |
| Capital goods | 2.09 | 3.26 |
| Food distributors | 1.93 | 3.00 |
| Housewares & specialties | 1.77 | 1.90 |
| Entertainment — theaters | 1.76 | 2.52 |
| Trailer leasing services | 1.75 | 3.29 |
| Building products | 1.62 | 2.06 |
| Leisure facilities | 1.54 | 2.38 |
| Environmental & facilities services | 1.12 | 2.04 |
| Household products/ specialty chemicals | 0.22 | 1.50 |
| Multi-sector holdings | 0.01 | 0.00 |
| **Total** | **100.00%** | **100.00%** |

**Portfolio Asset Quality**

We employ a grading system to assess and monitor the credit risk of our loan portfolio. We rate all loans on a scale from 1 to 5. The system is intended to reflect the performance of the borrower’s business, the collateral coverage of the loan, and other factors considered relevant to making a credit judgment.

- Investment Rating 1 is used for investments that are performing above expectations and/or a capital gain is expected.
- Investment Rating 2 is used for investments that are performing substantially within our expectations, and whose risks remain neutral or favorable compared to the potential risk at the time of the original investment. All new loans are initially rated 2.
- Investment Rating 3 is used for investments that are performing below our expectations and that require closer monitoring, but where we expect no loss of investment return (interest and/or dividends) or principal. Companies with a rating of 3 may be out of compliance with financial covenants.

- Investment Rating 4 is used for investments that are performing below our expectations and for which risk has increased materially since the original investment. We expect some loss of investment return, but no loss of principal.
- Investment Rating 5 is used for investments that are performing substantially below our expectations and whose risks have increased substantially since the original investment. Investments with a rating of 5 are those for which some loss of principal is expected.

The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value, as of March 31, 2010 and September 30, 2009:

| | March 31, 2010 | | | September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Fair Value | Percentage of Total Portfolio | Leverage Ratio(1) | Fair Value | Percentage of Total Portfolio | Leverage Ratio(1) |
| **1** | $ 69,063,489 | 14.99% | 3.19 | $ 22,913,497 | 7.65% | 1.70 |
| **2** | 368,161,388 | 79.88 | 4.29 | 248,506,393 | 82.94 | 4.34 |
| **3** | 7,403,679 | 1.61 | 12.53 | 6,122,236 | 2.04 | 10.04 |
| **4** | — | 0.00 | — | 16,377,904 | 5.47 | 8.31 |
| **5** | 16,236,840 | 3.52 | NM(2) | 5,691,107 | 1.90 | NM(2) |
| **Total** | $ 460,865,396 | 100.00% | 4.25 | $ 299,611,137 | 100.00% | 4.42 |

(1) Represents the average of the debt-to-equity ratio for each of the portfolio companies within the particular 1 to 5 investment rating scale. The debt-to-equity ratio is calculated by dividing total debt of the portfolio company by total equity of the portfolio company. The higher the debt-to-equity ratio, the more debt a company is using to operate its business and the more difficulty the company may have paying interest and principal on its outstanding indebtedness if future debt or equity financing is not available.

(2) Due to operating performance this ratio is not measurable and, as a result, is excluded from the total portfolio calculation.

As a result of current economic conditions and their impact on certain of our portfolio companies, we have agreed to modify the payment terms of our investments in nine of our portfolio companies as of March 31, 2010. Such modified terms include increased PIK interest provisions and reduced cash interest rates. These modifications, and any future modifications to our loan agreements as a result of the current economic conditions or otherwise, may limit the amount of interest income that we recognize from the modified investments, which may, in turn, limit our ability to make distributions to our stockholders.

**Loans and Debt Securities on Non-Accrual Status**

Two investments did not pay all of their scheduled monthly cash interest payments for the three months ended March 31, 2010. As of March 31, 2010, we had stopped accruing PIK interest and original issue discount (“OID”) on four investments, including the two investments that had not paid all of their scheduled monthly cash interest payments. As of March 31, 2009, we had stopped accruing PIK interest and OID on four investments, including two investments that had not paid all of their scheduled monthly cash interest payments.

Income non-accrual amounts for the three and six months ended March 31, 2010 and March 31, 2009 were as follows:

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|---|---|---|---|---|
| Cash interest income | $ 1,311,024 | $ 632,071 | $ 2,445,588 | $ 902,578 |
| PIK interest income | 451,313 | 249,035 | 920,196 | 453,436 |
| OID income | 103,911 | 97,350 | 207,822 | 194,700 |
| **Total** | **$ 1,866,248** | **$ 978,456** | **$ 3,573,606** | **$ 1,550,714** |

**Discussion and Analysis of Results and Operations**

***Results of Operations***

The principal measure of our financial performance is the net income (loss) which includes net investment income (loss), net realized gain (loss) and net unrealized appreciation (depreciation). Net investment income is the difference between our income from interest, dividends, fees, and other investment income and total expenses. Net realized gain (loss) on investments is the difference between the proceeds received from dispositions of portfolio investments and their stated costs. Net unrealized appreciation (depreciation) on investments is the net change in the fair value of our investment portfolio.

***Comparison of the three and six months ended March 31, 2010 and March 31, 2009***

*Total Investment Income*

Total investment income includes interest and dividend income on our investments, fee income and other investment income. Fee income consists principally of loan and arrangement fees, annual administrative fees, unused fees, prepayment fees, amendment fees, equity structuring fees, exit fees and waiver fees. Other investment income consists primarily of dividend income received from certain of our equity investments and interest on cash and cash equivalents on deposit with financial institutions.

Total investment income for the three months ended March 31, 2010 and March 31, 2009 was approximately $17.9 million and $11.9 million, respectively. For the three months ended March 31, 2010, this amount primarily consisted of approximately $16.4 million of interest income from portfolio investments (which included approximately $2.3 million of PIK interest), and $1.5 million of fee income. For the three months ended March 31, 2010, fee income included approximately $23,000 of income from accrued exit fees. For the three months ended March 31, 2009, total investment income primarily consisted of approximately $11.2 million of interest income from portfolio investments (which included approximately $1.9 million of PIK interest), and $0.7 million of fee income. No exit fee income was recognized during the three months ended March 31, 2009.

Total investment income for the six months ended March 31, 2010 and March 31, 2009 was approximately $31.1 million and $24.5 million, respectively. For the six months ended March 31, 2010, this amount primarily consisted of approximately $28.5 million of interest income from portfolio investments (which included approximately $4.3 million of PIK interest), $2.4 million of fee income and $0.2 million of interest income from cash and cash equivalents. For the six months ended March 31, 2010, fee income included approximately $50,000 of income from accrued exit fees. For the six months ended March 31, 2009, total investment income primarily consisted of approximately $22.6 million of interest income from portfolio investments (which included approximately $3.7 million of PIK interest), $1.8 million of fee income and $0.1 million of interest income from cash and cash equivalents. No exit fee income was recognized during the six months ended March 31, 2009.

The increase in our total investment income for the three and six months ended March 31, 2010 as compared to the three and six months ended March 31, 2009 was primarily attributable to higher average levels of outstanding debt investments, which was principally due to an increase of eight investments in our portfolio in the year-over-year period, partially offset by scheduled amortization repayments received and other debt payoffs during the same period.

*Expenses*

Expenses for the three months ended March 31, 2010 and March 31, 2009 were approximately $6.7 million and $4.4 million, respectively. Expenses increased for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009 by approximately $2.3 million, primarily as a result of increases in the base management fee, the incentive fee, interest expense and other general and administrative expenses.

Expenses (net of the waived portion of the base management fee) for the six months ended March 31, 2010 and March 31, 2009 were approximately $11.5 million and $8.8 million, respectively. Expenses increased for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009 by approximately $2.7 million, primarily as a result of increases in the base management fee, the incentive fee, interest expense and other general and administrative expenses.

The increase in the base management fee resulted from an increase in our total assets net of cash and cash equivalents, as reflected in the growth of the investment portfolio offset partially by our investment adviser's unilateral decision to waive approximately $727,000 of the base management fee during the six months ended March 31, 2010. Incentive fees were implemented effective January 2, 2008 when Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp., and reflect the growth of our net investment income before such fees.

*Net Investment Income*

As a result of the $6.0 million increase in total investment income as compared to the $2.3 million increase in total expenses, net investment income for the three months ended March 31, 2010 reflected a $3.7 million, or 49.7%, increase compared to the three months ended March 31, 2009.

As a result of the $6.6 million increase in total investment income as compared to the $2.7 million increase in total expenses, net investment income for the six months ended March 31, 2010 reflected a $3.9 million, or 24.6%, increase compared to the six months ended March 31, 2009.

*Realized Gain (Loss) on Sale of Investments*

Net realized gain (loss) on the sale of investments is the difference between the proceeds received from dispositions of portfolio investments and their stated costs. During the six months ended March 31, 2010, we recorded a realized loss in the amount of $2.9 million in connection with the sale of a portion of our interest in CPAC, Inc., and received a cash payment in the amount of $0.1 million representing a payment in full of all amounts due in connection with the cancellation of our loan agreement with American Hardwoods Industries, LLC. We recorded a $0.1 million reduction to the previously recorded $10.4 million realized loss on the investment in American Hardwoods. During the six months ended March 31, 2009, we recorded $12.4 million of realized losses on two of our portfolio company investments in connection with the determination that such investments were permanently impaired based on, among other things, analysis of changes in each portfolio company's business operations and prospects.

*Net Change in Unrealized Appreciation or Depreciation on Investments*

Net unrealized appreciation or depreciation on investments is the net change in the fair value of our investment portfolio during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

During the three months ended March 31, 2010, we recorded net unrealized appreciation of $1.2 million. This consisted of $3.3 million of reclassification to realized losses relating to the sale of CPAC, Inc. described above and $1.1 million of net unrealized appreciation on equity investments, partially offset by $3.2 million of net unrealized depreciation on debt investments. During the three months ended March 31, 2009, we recorded net unrealized appreciation of $7.7 million. This consisted of $12.4 million of reclassification to realized losses relating to the impairments described above, partially offset by $4.4 million of net unrealized depreciation on debt investments and $0.3 million of net unrealized depreciation on equity investments.

During the six months ended March 31, 2010, we recorded net unrealized appreciation of $2.2 million. This consisted of $3.3 million of reclassification to realized losses relating to the sale of CPAC, Inc. described above and $0.9 million of net unrealized appreciation on equity investments, partially offset by $2.0 million of net unrealized depreciation on debt investments. During the six months ended March 31, 2009, we recorded net unrealized depreciation of $10.7 million. This consisted of $21.0 million of net unrealized depreciation on debt investments and $2.1 million of net unrealized depreciation on equity investments, partially offset by $12.4 million of reclassification to realized losses relating to the impairments described above.

***Comparison of years ended September 30, 2009 and September 30, 2008***

*Total Investment Income*

Total investment income includes interest and dividend income on our investments, fee income and other investment income. Fee income consists principally of loan and arrangement fees, annual administrative fees, unused fees, prepayment fees, amendment fees, equity structuring fees and waiver fees. Other investment income consists primarily of the accelerated recognition of deferred financing fees received from our portfolio companies on the repayment of the outstanding investment, the sale of the investment or reduction of available credit, and interest on cash and cash equivalents on deposit with financial institutions.

Total investment income for the years ended September 30, 2009 and September 30, 2008 was approximately $49.8 million and $33.2 million, respectively. For the year ended September 30, 2009, this amount primarily consisted of approximately $46.0 million of interest income from portfolio investments (which included approximately $7.4 million of payment-in-kind or PIK interest), and $3.5 million of fee income. For the year ended September 30, 2008, this amount primarily consisted of approximately $30.5 million of interest income from portfolio investments (which included approximately $4.9 million of PIK interest), and $1.8 million of fee income.

The increase in our total investment income for the year ended September 30, 2009 as compared to the year ended September 30, 2008 was primarily attributable to higher average levels of outstanding debt investments, which was principally due to an increase of two debt investments in our portfolio in the year-over-year period, partially offset by debt repayments received during the same period.

*Expenses*

Expenses (net of the waived portion of the base management fee) for the years ended September 30, 2009 and September 30, 2008 were approximately $18.4 million and $13.1 million, respectively. Expenses increased for the year ended September 30, 2009 as compared to the year ended September 30, 2008 by approximately $5.3 million, primarily as a result of increases in base management fee, incentive fees and other general and administrative expenses.

The increase in base management fee resulted from an increase in our total assets as reflected in the growth of the investment portfolio offset partially by our investment adviser's unilateral decision to waive approximately $172,000 of the base management fee for the year ended September 30, 2009. Incentive fees were implemented effective January 2, 2008 when Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp., and reflect the growth of our net investment income before such fees.

*Net Investment Income*

As a result of the $16.6 million increase in total investment income as compared to the $5.3 million increase in total expenses, net investment income for the year ended September 30, 2009 reflected an $11.3 million, or 55.7%, increase compared to the year ended September 30, 2008.

*Realized Gain (Loss) on Sale of Investments*

Net realized gain (loss) on the sale of investments is the difference between the proceeds received from dispositions of portfolio investments and their stated costs. During the year ended September 30, 2009, we exited our investment in American Hardwoods Industries, LLC and recorded a realized loss of $10.4 million, and recorded a $4.0 million realized loss on our investment in CPAC, Inc. in connection with our determination that the investment was permanently impaired based on, among other things, our analysis of changes in the portfolio company's business operations and prospects. During the year ended September 30, 2008, we sold our equity investment in Filet of Chicken and realized a gain of approximately $62,000.

*Net Change in Unrealized Appreciation or Depreciation on Investments*

Net unrealized appreciation or depreciation on investments is the net change in the fair value of our investment portfolio during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. During the year ended September 30, 2009, we recorded net unrealized depreciation of $10.8 million. This consisted of $14.3 million of reclassifications to realized losses, offset by $23.1 million of net unrealized depreciation on debt investments and $2.0 million of net unrealized depreciation on equity investments. During the year ended September 30, 2008, we recorded net unrealized depreciation of $16.9 million. This consisted of $12.1 million of net unrealized depreciation on debt investments and $4.8 million of net unrealized depreciation on equity investments.

***Comparison of year ended September 30, 2008 and the period February 15, 2007 (inception) through September 30, 2007***

*Total Investment Income*

Total investment income for the year ended September 30, 2008 and the period February 15, 2007 (inception) through September 30, 2007 was approximately $33.2 million and $4.3 million, respectively. For the year ended September 30, 2008, this amount primarily consisted of approximately $30.5 million of interest income from portfolio investments (which included approximately $4.9 million of payment-in-kind or PIK interest), and $1.8 million of fee income. For the period ended September 30, 2007, this amount primarily consisted of approximately $4.1 million of interest income from portfolio investments (which included approximately $0.6 million of PIK interest), and $0.2 million of fee income.

The increase in our total investment income for the year ended September 30, 2008 as compared to the period ended September 30, 2007 was primarily attributable to higher average levels of outstanding debt investments, which was principally due to fourteen new debt investments in our portfolio in the year-over-year period, partially offset by debt repayments received during the same period.

*Expenses*

Expenses for the year ended September 30, 2008 and the period February 15, 2007 (inception) through September 30, 2007 were approximately $13.1 million and $3.3 million, respectively. Expenses increased for the year ended September 30, 2008 as compared to the period ended September 30, 2007 by approximately $9.8 million, primarily as a result of increases in base management fee, incentive fees, professional fees and other general and administrative expenses.

The increase in base management fee resulted from an increase in our total assets as reflected in the growth of the investment portfolio. Incentive fees were implemented effective January 2, 2008 when Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp., and reflect the growth of our net investment income before such fees.

*Net Investment Income*

As a result of the $28.9 million increase in total investment income as compared to the $9.8 million increase in total expenses, net investment income for the year ended September 30, 2008 reflected a $19.1 million, or 2000%, increase compared to the period ended September 30, 2007.

*Realized Gain (Loss) on Sale of Investments*

During the year ended September 30, 2008 we sold our equity investment in Filet of Chicken and realized a gain of approximately $62,000. During the period ended September 30, 2007 we had no realized gains or losses.

*Net Change in Unrealized Appreciation or Depreciation on Investments*

During the year ended September 30, 2008, we recorded net unrealized depreciation of $16.9 million. This consisted of $12.1 million of net unrealized depreciation on debt investments and $4.8 million of net unrealized depreciation on equity investments. During the period ended September 30, 2007, we recorded net unrealized depreciation on equity investments of $0.1 million.

***Financial Condition, Liquidity and Capital Resources***

*Cash Flows*

We have a number of alternatives available to fund the growth of our investment portfolio and our operations, including, but not limited to, raising equity, increasing debt, or funding from operational cash flow. Additionally, we may reduce investment size by syndicating a portion of any given transaction.

For the six months ended March 31, 2010, we experienced a net decrease in cash and cash equivalents of $89.7 million. During that period, we used $144.4 million of cash in operating activities, primarily for the funding of $177.4 million of investments, partially offset by $4.2 million of cash proceeds from the sale of investments, $11.3 million of principal payments received and $19.6 million of net investment income. During the same period cash provided by financing activities was $54.7 million, primarily consisting of $78.1 million of proceeds from the issuance of our common stock, partially offset by $22.6 million of cash distributions paid and $0.8 million of offering costs paid. We intend to fund our future distribution obligations through operating cash flow or with funds obtained through future equity offerings or credit facilities, as we deem appropriate.

For the six months ended March 31, 2009, we experienced a net decrease in cash and equivalents of $19.2 million. During that period, we used $25.4 million of cash in operating activities, primarily for the funding of $47.9 million of investments, partially offset by $11.2 million of principal payments received and $15.7 million of net investment income. During the same period cash provided by financing activities was $6.2 million, primarily consisting of $21.0 million of net borrowings from our credit facility, partially offset by $14.1 million of cash distributions paid and $0.5 million paid to repurchase shares of our common stock on the open market.

For the year ended September 30, 2009, we experienced a net increase in cash and cash equivalents of $90.3 million. During that period, we used $19.7 million of cash in operating activities, primarily for the funding of $62.0 million of investments, partially offset by $18.3 million of principal payments received and $31.4 million of net investment income. During the same period cash provided by financing activities was $110.0 million, primarily consisting of $138.6 million of proceeds from issuance of our common stock, partially offset by $27.1 million of cash dividends paid, $1.0 million of offering costs paid and $0.5 million paid to repurchase shares of our common stock on the open market. We intend to fund our future distribution obligations through operating cash flow or with funds obtained through future equity offerings or credit lines, as we deem appropriate.

For the year ended September 30, 2008, we experienced a net increase in cash and equivalents of $5.3 million. During that period, we used $179.4 million of cash in operating activities primarily for the funding of $202.4 million of investments, partially offset by $2.2 million of principal payments received and $20.1 million of net investment income. During the same period cash provided by financing activities was $184.6 million, primarily consisting of $131.3 million of proceeds from issuance of our common stock, partially offset by $8.9 million of cash dividends paid and $1.5 million of offering costs paid.

From inception (February 15, 2007) through September 30, 2007, our cash and equivalents increased by approximately $17.7 million. During that period, our cash flow from operations was minimal at approximately $1.0 million excluding investments in portfolio companies. $89.0 million was invested in portfolio companies financed primarily from capital contributions of approximately $105.7 million from partners.

As of March 31, 2010, we had $23.5 million in cash and cash equivalents, portfolio investments (at fair value) of $460.9 million, $4.6 million of interest and fees receivable, no borrowings outstanding under our credit facility (the "Wells Fargo facility") with Wells Fargo Bank, National Association, successor to Wachovia Bank, N.A., in the amount of $50 million with an accordion feature, which allows for potential future expansion of the Wells Fargo facility up to $100 million, and unfunded commitments of $35.4 million.

As of September 30, 2009, we had $113.2 million in cash and cash equivalents, portfolio investments (at fair value) of $299.6 million, $2.9 million of interest receivable, no borrowings outstanding and unfunded commitments of $9.8 million.

As of September 30, 2008, we had $22.9 million in cash and cash equivalents, portfolio investments (at fair value) of $273.8 million, $2.4 million of interest receivable, no borrowings outstanding under our secured revolving credit facility and unfunded commitments of $24.7 million.

*Significant capital transactions that occurred from October 1, 2008 through March 31, 2010*

In October 2008, we repurchased 78,000 shares of our common stock on the open market as part of our share repurchase program following its announcement on October 15, 2008.

On December 9, 2008, our Board of Directors declared a distribution of $0.32 per share of common stock payable to stockholders of record as of December 19, 2008 and a distribution of $0.33 per share of common stock payable to stockholders of record as of December 30, 2008. On December 18, 2008, our Board of Directors declared a special distribution of $0.05 per share of common stock payable to stockholders of record as of December 30, 2008. On December 29, 2008, we paid a cash distribution of $6.4 million and issued 105,326 shares of common stock totaling $0.8 million under the dividend reinvestment plan. On January 29, 2009, we paid a cash distribution of $7.6 million and issued 161,206 shares of common stock totaling $1.0 million under the dividend reinvestment plan.

On December 30, 2008, Bank of Montreal approved a renewal of our $50 million credit facility. The terms included a 50 basis points commitment fee, an interest rate of LIBOR plus 3.25% per annum and a term of 364 days.

On April 14, 2009, our Board of Directors declared a distribution of $0.25 per share of common stock payable to stockholders of record as of May 26, 2009. On June 25, 2009, we paid a cash distribution of $5.6 million and issued 11,776 shares of common stock totaling $0.1 million under the dividend reinvestment plan.

On July 21, 2009, we completed a public offering of 9,487,500 shares of common stock, which included the underwriters' full exercise of their option to purchase up to 1,237,500 shares of common stock, at a price of $9.25 per share, raising approximately $87.8 million in gross proceeds.

On August 3, 2009, our Board of Directors declared a distribution of $0.25 per share of common stock payable to stockholders of record as of September 8, 2009. On September 25, 2009, we paid a cash distribution of $7.5 million and issued 56,890 shares of common stock totaling $0.6 million under the dividend reinvestment plan.

On September 16, 2009, as a result of our election, the $50 million Bank of Montreal credit facility was terminated.

On September 25, 2009, we completed a public offering of 5,520,000 shares of common stock, which included the underwriters' full exercise of their option to purchase up to 720,000 shares of common stock, at a price of $10.50 per share, raising approximately $58.0 million in gross proceeds.

On November 12, 2009, our Board of Directors declared a distribution of $0.27 per share of common stock payable to stockholders of record as of December 10, 2009. On December 30, 2009, we paid a cash distribution of $9.7 million and issued 44,420 shares of common stock totaling $0.5 million under the dividend reinvestment plan.

On November 16, 2009, we entered into the Wells Fargo facility in the amount of $50 million with an accordion feature, which allows for potential future expansion of the facility up to $100 million, and bears interest at LIBOR plus 4% per annum. During the six months ended March 31, 2010, we borrowed $38.0 million under the facility. No borrowings remained outstanding at March 31, 2010.

On January 12, 2010, our Board of Directors declared a distribution of $0.30 per share of common stock payable to stockholders of record as of March 3, 2010. On March 30, 2010, we paid a cash distribution of $12.9 million and issued 58,689 shares of common stock totaling $0.7 million under the dividend reinvestment plan.

On January 27, 2010, we completed a public offering of 7,000,000 shares of common stock at a price of $11.20 per share, raising approximately $78.4 million in gross proceeds. On February 25, 2010, we sold 300,500 shares of common stock at a price of $11.20 per share upon the underwriters' exercise of their over-allotment option in connection with this offering, raising an additional $3.4 million in gross proceeds.

*Other Sources of Liquidity*

We intend to continue to generate cash primarily from cash flows from operations, including interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less, future borrowings and future offerings of securities. In the future, we may also securitize a portion of our investments in first and second lien senior loans or unsecured debt or other assets. To securitize loans, we would likely create a wholly-owned subsidiary and contribute a pool of loans to the subsidiary. We would then sell interests in the subsidiary on a non-recourse basis to purchasers and we would retain all or a portion of the equity in the subsidiary. Our primary use of funds is investments in our targeted asset classes and cash distributions to holders of our common stock.

Although we expect to fund the growth of our investment portfolio through the net proceeds from future equity offerings, including our dividend reinvestment plan, and issuances of senior securities or future borrowings, to the extent permitted by the 1940 Act, our plans to raise capital may not be successful. In this regard, because our common stock has at times traded at a price below our current net asset value per share and we are limited in our ability to sell our common stock at a price below net asset value per share, we may be limited in our ability to raise equity capital.

In addition, we intend to distribute between 90% and 100% of our taxable income to our stockholders in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. See "— Regulated Investment Company Status and Distributions" below. Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings under our credit facilities. In addition, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

Also, as a business development company, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200%. This requirement limits the amount that we may borrow. As of March 31, 2010, we were in compliance with this requirement. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

Finally, in light of the conditions in the financial markets and the U.S. economy overall, we, through a wholly-owned subsidiary, sought and obtained a license from the SBA to operate an SBIC.

In this regard, on February 3, 2010, our wholly-owned subsidiary, Fifth Street Mezzanine Partners IV, L.P., received a license, effective February 1, 2010, from the United States Small Business Administration, or SBA, to operate as an SBIC under Section 301(c) of the Small Business Investment Act of 1958. SBICs are designated to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses.

The SBIC license allows our SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with 10-year maturities.

SBA regulations currently limit the amount that our SBIC subsidiary may borrow up to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of March 31, 2010, our SBIC subsidiary had $75 million in regulatory capital. The SBA has issued a capital commitment to our SBIC subsidiary in the amount of $75 million. Our SBIC subsidiary will not be able to access more than half of the commitment until it is examined by the SBA, and we cannot predict the timing for completion of an examination by the SBA.

We applied for exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. If we receive an exemption for this SBA debt, we would have increased flexibility under the 200% asset coverage test.

***Borrowings***

On November 16, 2009, Fifth Street Funding, LLC, our wholly-owned bankruptcy remote, special purpose subsidiary, or Funding, and we, entered into a Loan and Servicing Agreement, or the Loan Agreement, with respect to the Wells Fargo facility with Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, as administrative agent, each of the additional institutional and conduit lenders party thereto from time to time, and each of the lender agents party thereto from time to time, in the amount of $50 million with an accordion feature, which allows for potential future expansion of the facility up to $100 million. The Wells Fargo facility is secured by all of the assets of Funding, and all of our equity interest in Funding. The Wells Fargo facility bears interest at LIBOR plus 4% per annum and has a maturity date of November 16, 2012. The Wells Fargo facility may be extended for up to two additional years upon the mutual consent of Wells Fargo Securities, LLC and each of the lender parties thereto. We intend to use the net proceeds of the Wells Fargo facility to fund a portion of our loan origination activities and for general corporate purposes.

In connection with the Wells Fargo facility, we concurrently entered into (i) a Purchase and Sale Agreement with Funding, pursuant to which we will sell to Funding certain loan assets we have originated or acquired, or will originate or acquire and (ii) a Pledge Agreement with Wells Fargo Bank, National Association, pursuant to which we pledged all of our equity interests in Funding as security for the payment of Funding’s obligations under the Loan Agreement and other documents entered into in connection with the Wells Fargo facility.

The Loan Agreement and related agreements governing the Wells Fargo facility required both Funding and us to, among other things (i) make representations and warranties regarding the collateral as well as each of our businesses, (ii) agree to certain indemnification obligations, and (iii) comply with various covenants, servicing procedures, limitations on acquiring and disposing of assets, reporting requirements and other customary requirements for similar credit facilities. The Wells Fargo facility agreements also include usual and customary default provisions such as the failure to make timely payments under the Wells Fargo facility, a change in control of Funding, and the failure by Funding or us to materially perform under the Loan Agreement and related agreements governing the Wells Fargo facility, which, if not complied with, could accelerate repayment under the Wells Fargo facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations.

Each loan origination under the Wells Fargo facility is subject to the satisfaction of certain conditions. We cannot assure you that Funding will be able to borrow funds under the Wells Fargo facility at any particular time or at all.

Since our inception we have had funds available under the following agreements which we repaid or terminated:

*Note Agreements.* We received loans of $10 million on March 31, 2007 and $5 million on March 30, 2007 from Bruce E. Toll, a former member of our Board of Directors, on each occasion for the purpose of funding our investments in portfolio companies. These note agreements accrued interest at 12% per annum. On April 3, 2007, we repaid all outstanding borrowings under these note agreements.

*Loan Agreements.* On January 15, 2008, we entered into a $50 million secured revolving credit facility with the Bank of Montreal, at a rate of LIBOR plus 1.5% per annum, with a one year maturity date. The secured revolving credit facility was secured by our existing investments. On December 30, 2008, Bank of Montreal renewed our $50 million credit facility. The terms included a 50 basis points commitment fee, an interest rate of LIBOR plus 3.25% per annum and a term of 364 days. On September 16, 2009, as a result of our election, this credit facility was terminated.

On April 2, 2007, we entered into a $50 million loan agreement with Wachovia, which was available for funding investments. The borrowings under the loan agreement accrued interest at LIBOR plus 0.75% per annum and had a maturity date in April 2008. In order to obtain such favorable rates, Mr. Toll, a former member of our Board of Directors, Mr. Tannenbaum, our chief executive officer, and FSMPIII GP, LLC, the general partner of our predecessor fund, each guaranteed our repayment of the $50 million loan. We paid Mr. Toll a fee of 1% per annum of the $50 million loan for such guarantee, which was paid quarterly or monthly at our election. Mr. Tannenbaum and FSMPIII GP received no compensation for their respective guarantees. As of November 27, 2007, we repaid and terminated this loan with Wachovia.

***Off-Balance Sheet Arrangements***

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of March 31, 2010, our only off-balance sheet arrangements consisted of $35.4 million of unfunded commitments, which was comprised of $32.5 million to provide debt financing to certain of our portfolio companies and $2.9 million related to unfunded limited partnership interests. As of September 30, 2009, our only off-balance sheet arrangements consisted of $9.8 million of unfunded commitments, which was comprised of $7.8 million to provide debt financing to certain of our portfolio companies and $2.0 million related to unfunded limited partnership interests. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet and are not reflected on our Consolidated Balance Sheets.

***Contractual Obligations***

As discussed herein, on November 16, 2009, we entered into the Wells Fargo facility, in the amount of $50 million with an accordion feature, which allows for potential future expansion of the Wells Fargo facility up to $100 million. The Wells Fargo facility bears interest at LIBOR plus 4% per annum and has a maturity date of November 16, 2012. As of March 31, 2010, we had no borrowings outstanding under the Wells Fargo facility. We also gave notice of termination, effective September 16, 2009, to Bank of Montreal with respect to our existing $50 million revolving credit facility with Bank of Montreal and, as a result, this facility was terminated on such date. The revolving credit facility with Bank of Montreal had an interest rate of LIBOR plus 3.25%.

A summary of the composition of unfunded commitments (consisting of revolvers, term loans and limited partnership interests) as of March 31, 2010 and September 30, 2009 is shown in the table below:

| | March 31, 2010 | September 30, 2009 |
|---|---|---|
| Storyteller Theaters Corporation | $ 1,500,000 | $ 1,750,000 |
| HealthDrive Corporation | 1,500,000 | 1,500,000 |
| IZI Medical Products, Inc. | 2,500,000 | 2,500,000 |
| Trans-Trade, Inc. | 2,000,000 | 2,000,000 |
| Riverlake Equity Partners II, LP (limited partnership interest) | 966,360 | 1,000,000 |
| Riverside Fund IV, LP (limited partnership interest) | 917,031 | 1,000,000 |
| ADAPCO, Inc. | 6,500,000 | — |
| AmBath/ReBath Holdings, Inc. | 2,250,000 | — |
| JTC Education, Inc. | 10,000,000 | — |
| Tegra Medical, LLC | 4,000,000 | — |
| Vanguard Vinyl, Inc. | 750,000 | — |
| Flatout, Inc. | 1,500,000 | — |
| Psilos Group Partners IV, LP (limited partnership interest) | 1,000,000 | — |
| **Total** | **$ 35,383,391** | **$ 9,750,000** |

We have entered into two contracts under which we have material future commitments, the investment advisory agreement, pursuant to which Fifth Street Management LLC has agreed to serve as our investment adviser, and the administration agreement, pursuant to which FSC, Inc. has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations.

***Regulated Investment Company Status and Distributions***

Effective as of January 2, 2008, Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp., which has elected to be treated as a business development company under the 1940 Act. We elected, effective as of January 2, 2008, to be treated 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 realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis.

Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation until realized. Distributions declared and paid by us in a year may differ from taxable income for that year as such distributions may include the distribution of current year taxable income or the distribution of prior year taxable income carried forward into and distributed in the current year. Distributions also may include returns of capital.

To maintain RIC tax treatment, we must, among other things, distribute, with respect to each taxable year, at least 90% of our investment company taxable income (i.e., our net ordinary income and our realized net short-term capital gains in excess of realized net long-term capital losses, if any). As a RIC, we are also subject to a federal excise tax, based on distributive requirements of our taxable income on a calendar year basis (e.g., calendar year 2010). We anticipate timely distribution of our taxable income within the tax rules; however, we incurred a de minimis U.S. federal excise tax for calendar years 2008 and 2009. In addition, we may incur a U.S. federal excise tax in future years. We intend to make distributions to our stockholders on a quarterly basis of between 90% and 100% of our annual taxable income (which includes our taxable interest and fee income). However, in future periods, we will be partially dependent on our SBIC subsidiary for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiary may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to enable us to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC subsidiary to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. Also, the financial covenants under our loan agreement with Wachovia could, under certain circumstances, restrict

Fifth Street Funding, LLC from making distributions to us and, as a result, hinder our ability to satisfy the distribution requirement. In addition, we may retain for investment some or all of our net taxable capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) and treat such amounts as deemed distributions to our stockholders. If we do this, our stockholders will be treated as if they received actual distributions of the capital gains we retained and then reinvested the net after-tax proceeds in our common stock. Our stockholders also may be eligible to claim tax credits (or, in certain circumstances, tax refunds) equal to their allocable share of the tax we paid on the capital gains deemed distributed to them. To the extent our taxable earnings for a fiscal taxable year fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders.

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. In addition, we may be limited in our ability to make distributions due to the asset coverage test for borrowings applicable to us as a business development company under the 1940 Act and due to provisions in our credit facilities. If we do not distribute a certain percentage of our taxable income annually, we will suffer adverse tax consequences, including possible loss of our status as a RIC. We cannot assure stockholders that they will receive any distributions or distributions at a particular level.

Pursuant to a recent revenue procedure (Revenue Procedure 2010-12), or the Revenue Procedure, issued by the Internal Revenue Service, or IRS, the IRS has indicated that it will treat distributions from certain publicly traded RICs (including BDCs) that are paid part in cash and part in stock as dividends that would satisfy the RIC's annual distribution requirements and qualify for the dividends paid deduction for federal income tax purposes. In order to qualify for such treatment, the Revenue Procedure requires that at least 10% of the total distribution be payable in cash and that each stockholder have a right to elect to receive its entire distribution in cash. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a proportionate share of the cash to be distributed (although no stockholder electing to receive cash may receive less than 10% of such stockholder's distribution in cash). This Revenue Procedure applies to distributions declared on or before December 31, 2012 with respect to taxable years ending on or before December 31, 2011. We have no current intention of paying dividends in shares of our stock.

***Related Party Transactions***

We have entered into an investment advisory agreement with Fifth Street Management LLC, our investment adviser. Fifth Street Management is controlled by Leonard M. Tannenbaum, its managing member and the chairman of our Board of Directors and our chief executive officer. Pursuant to the investment advisory agreement, fees payable to our investment adviser will be equal to (a) a base management fee of 2.0% of the value of our gross assets, which includes any borrowings for investment purposes, and (b) an incentive fee based on our performance. Our investment adviser has agreed to permanently waive that portion of its base management fee attributable to our assets held in the form of cash and cash equivalents as of the end of each quarter beginning March 31, 2010. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our "Pre-Incentive Fee Net Investment Income" for the immediately preceding quarter, subject to a 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 (or upon termination of the investment advisory agreement) and equals 20% of our "Incentive Fee Capital Gains," which equals our realized capital gains on a cumulative basis from inception through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee.

The investment advisory agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. Since we entered into the investment advisory agreement in December 2007, we have paid our investment adviser approximately $8.4 million and $13.7 million for the fiscal years ended September 30, 2008 and September 30, 2009, respectively, and approximately $9.5 million for the six months ended March 31, 2010, under the investment advisory agreement.

Pursuant to the administration agreement with FSC, Inc., which is controlled by Mr. Tannenbaum, FSC, Inc. will furnish us with the facilities and administrative services necessary to conduct our day-to-day operations, including equipment, clerical, bookkeeping and recordkeeping services at such facilities. In addition, FSC, Inc. will assist us in connection with the determination and publishing of our net asset value, the preparation and filing of tax returns and the printing and dissemination of reports to our stockholders. We will pay FSC, Inc. our allocable portion of overhead and other expenses incurred by it in performing its obligations under the administration agreement, including a portion of the rent and the compensation of our chief financial officer, and chief compliance officer, and their staff. FSC, Inc. has voluntarily determined to forgo receiving reimbursement for the services performed for us by our chief compliance officer, Bernard D. Berman, given his compensation arrangement with our investment adviser. However, although FSC, Inc. currently intends to forgo its right to receive such reimbursement, it is under no obligation to do so and may cease to do so at any time in the future. The administration agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. Since we entered into the administration agreement in December 2007, we have paid FSC, Inc. approximately $1.6 million and $1.3 million for the fiscal years ended September 30, 2008 and September 30, 2009, respectively, and approximately $0.6 million for the six months ended March 31, 2010, under the administration agreement.

We have also entered into a license agreement with Fifth Street Capital LLC pursuant to which Fifth Street Capital LLC has agreed to grant us a non-exclusive, royalty-free license to use the name "Fifth Street." Under this agreement, we will have a right to use the "Fifth Street" name, for so long as Fifth Street Management LLC or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we will have no legal right to the "Fifth Street" name. Fifth Street Capital LLC is controlled by Mr. Tannenbaum, its managing member.

***Recent Developments***

On April 2, 2010, ADAPCO, Inc. drew $2.0 million on its credit line. Prior to the draw, our unfunded commitment to ADAPCO was $6.5 million.

On April 7, 2010, Trans-Trade, Inc. drew $0.5 million on its previously undrawn credit line. Prior to the draw, our unfunded commitment to Trans-Trade was $2.0 million.

On April 20, 2010, Vanguard Vinyl, Inc. repaid $0.25 million on its credit line. Prior to the repayment, our unfunded commitment to Vanguard Vinyl was $0.75 million.

On April 20, 2010, at our 2010 Annual Meeting, our stockholders approved, among other things, amendments to our restated certificate of incorporation to increase the number of authorized shares of common stock from 49,800,000 shares to 150,000,000 shares and to remove our authority to issue shares of Series A Preferred Stock.

On March 24, 2010, our SBIC subsidiary received an approval from the SBA to draw an aggregate of $37.5 million under its outstanding SBA commitment of $75 million. On April 21, 2010, our SBIC subsidiary drew $17.5 million from its SBA commitment to use to fund future transactions.

On April 30, 2010, we notified ING Capital LLC that the financing commitment for a syndicated three year revolving credit facility for up to $150 million had been terminated. However, we continue to discuss with ING the possibility of entering into an ING-led credit facility on more favorable terms.

On April 30, 2010, we closed an $11.0 million senior secured debt facility to support the acquisition of a technology-based marketing services company. The investment is backed by a private equity sponsor and $9.0 million was funded at closing. The terms of this investment include a $2.0 million revolver at an interest rate of LIBOR plus 6.0% per annum with a 3% LIBOR floor, a $5.0 million Term Loan A at an interest rate of LIBOR plus 7.0% per annum with a 3% LIBOR floor, and a $4.0 million Term Loan B at an interest rate of LIBOR plus 9.0% per annum in cash with a 3% LIBOR floor and 1.5% PIK. This is a first lien facility with a scheduled maturity of five years.

On May 3, 2010, our Board of Directors declared a dividend of $0.32 per share, payable on June 30, 2010 to stockholders of record on May 20, 2010.

On May 3, 2010, we closed a $35.5 million senior secured debt facility to support the acquisition of a healthcare equipment manufacturing company. The investment is backed by a private equity sponsor and $31.5 million was funded at closing. The terms of this investment include a $5.0 million revolver at an interest rate of LIBOR plus 7.0% per annum with a 3% LIBOR floor and a $30.5 million Term Loan at an interest rate of

LIBOR plus 9.75% per annum in cash with a 3% LIBOR floor and 1.0% PIK. This is a first lien facility with a scheduled maturity of five years.

***Recently Issued Accounting Standards***

See Note 2 to the Consolidated Financial Statements for a description of recent accounting pronouncements, including the expected dates of adoption and the anticipated impact on the Consolidated Financial Statements.

***Quantitative and Qualitative Disclosure about Market Risk***

We are subject to financial market risks, including changes in interest rates. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments, cash and cash equivalents and idle funds investments. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs. Our investment income will be affected by changes in various interest rates, including LIBOR and prime rates, to the extent any of our debt investments include floating interest rates. The significant majority of our debt investments are made with fixed interest rates for the term of the investment. However, as of March 31, 2010, approximately 17.6% of our debt investment portfolio (at fair value) and 17.2% of our debt investment portfolio (at cost) bore interest at floating rates. As of March 31, 2010, we had not entered into any interest rate hedging arrangements. At March 31, 2010, based on our applicable levels of floating-rate debt investments, a 1.0% change in interest rates would not have a material effect on our level of interest income from debt investments.

Our investments are carried at fair value as determined in good faith by our Board of Directors in accordance with the 1940 Act (See "— Critical Accounting Policies — Investment Valuation"). Our valuation methodology utilizes discount rates in part in valuing our investments, and changes in those discount rates may have an impact on the valuation of our investments. Assuming no changes in our investment and capital structure, a hypothetical increase or decrease in discount rates of 100 basis points would increase or decrease our net assets resulting from operations by approximately $10 million.

## BUSINESS

### General

We are a specialty finance company that lends to and invests in small and mid-sized companies in connection with investments by private equity sponsors. We define small and mid-sized companies as those with annual revenues between $25 million and $250 million. Our investment objective is to maximize our portfolio's total return by generating current income from our debt investments and capital appreciation from our equity investments. We are externally managed and advised by Fifth Street Management, whose six principals collectively have over 50 years, and individually have between four years and 14 years, of experience lending to and investing in small and mid-sized companies, and 2 years of experience managing a business development company. Fifth Street Management is an affiliate of Fifth Street Capital LLC, a private investment firm founded and managed by our chief executive officer, and Fifth Street Management's managing partner, Leonard M. Tannenbaum, who has led the investment of over $800 million in small and mid-sized companies, including the investments made by Fifth Street, since 1998.

As of March 31, 2010, we had originated $520.8 million of funded debt and equity investments and our portfolio totaled $460.9 million at fair value and was comprised of 34 investments, 31 of which were in operating companies and three of which were in private equity funds. The three investments in private equity funds represented less than 1% of the fair value of our assets at March 31, 2010. The 31 debt investments in our portfolio as of March 31, 2010 had a weighted average debt to EBITDA multiple of 3.3x calculated at the time of origination of the investment. The weighted average annual yield of our debt investments as of March 31, 2010 was approximately 15.0%, which included a cash component of 12.7%.

Our investments generally range in size from $5 million to $60 million and are principally in the form of first and second lien debt investments, which may also include an equity component. We are currently focusing our origination efforts on first lien loans. We believe that the risk-adjusted returns from these loans are superior to second lien investments and offer superior credit quality which will benefit our stockholders. However, we may choose to originate second lien and unsecured loans in the future. As of March 31, 2010, all of our debt investments were secured by first or second priority liens on the assets of our portfolio companies. Moreover, we held equity investments consisting of common stock, preferred stock, or other equity interests in 21 out of 34 portfolio companies as of March 31, 2010.

Fifth Street Mezzanine Partners III, L.P., our predecessor fund, commenced operations as a private partnership on February 15, 2007. Effective as of January 2, 2008, Fifth Street Mezzanine Partners III, L.P. merged with and into us. We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We were formed in late 2007 for the purpose of acquiring Fifth Street Mezzanine Partners III, L.P. and continuing its business as a public company.

As a business development company, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a business development company, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing. See "Regulation — Business Development Company Regulations."

We have also elected to be treated for federal income tax purposes as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code, or the Code. See "Material U.S. Federal Income Tax Considerations." As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we have a wholly-owned subsidiary that is licensed as a small business investment company, or SBIC, and regulated by the Small Business Administration, or the SBA. See "Regulation — Small Business Investment Company Regulations." The SBIC license allows us, through our wholly-owned subsidiary, to issue

SBA-guaranteed debentures. We applied for exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from our 200% asset coverage ratio under the 1940 Act. If we receive an exemption for this SBA debt, we would have increased capacity to fund investments with debt capital.

**The Investment Adviser**

Our investment adviser is led by six principals who collectively have over 50 years, and individually have between four years and 14 years, of experience lending to and investing in small and mid-sized companies, and 2 years of experience managing a business development company. Our investment adviser is affiliated with Fifth Street Capital LLC, a private investment firm founded and managed by Leonard M. Tannenbaum who has led the investment of over $800 million in small and mid-sized companies, including the investments made by Fifth Street, since 1998. Mr. Tannenbaum and his respective private investment firms have acted as the lead (and often sole) first or second lien investor in over 50 investment transactions. The other investment funds managed by these private investment firms generally are fully committed and, other than follow-on investments in existing portfolio companies, are no longer making investments.

We benefit from our investment adviser's ability to identify attractive investment opportunities, conduct diligence on and value prospective investments, negotiate investments and manage a diversified portfolio of those investments. The principals of our investment adviser have broad investment backgrounds, with prior experience at investment funds, investment banks and other financial services companies and have developed a broad network of contacts within the private equity community. This network of contacts provides our principal source of investment opportunities.

The principals of our investment adviser are Mr. Tannenbaum, our chief executive officer and our investment adviser's managing partner, Marc A. Goodman, our chief investment officer and our investment adviser's senior partner, Juan E. Alva, a partner of our investment adviser, Bernard D. Berman, our president, chief compliance officer, and secretary and a partner of our investment adviser, Ivelin M. Dimitrov, a partner of our investment adviser, and William H. Craig, our chief financial officer. For further discussion of the investment experience of the principals of our investment adviser, see "Management — Biographical Information" and "Portfolio Management — Investment Personnel."

**Business Strategy**

Our investment objective is to maximize our portfolio's total return by generating current income from our debt investments and capital appreciation from our equity investments. We have adopted the following business strategy to achieve our investment objective:

- *Capitalize on our investment adviser's strong relationships with private equity sponsors*. Our investment adviser has developed an extensive network of relationships with private equity sponsors that invest in small and mid-sized companies. We believe that the strength of these relationships is due to a common investment philosophy, a consistent market focus, a rigorous approach to diligence and a reputation for delivering on commitments. In addition to being our principal source of originations, we believe that private equity sponsors provide significant benefits including incremental due diligence, additional monitoring capabilities and a potential source of capital and operational expertise for our portfolio companies.
- *Focus on established small and mid-sized companies.* We believe that there are fewer finance companies focused on transactions involving small and mid-sized companies than larger companies, and that this is one factor that allows us to negotiate favorable investment terms. Such favorable terms include higher debt yields and lower leverage levels, more significant covenant protection and greater equity grants than typical of transactions involving larger companies. We generally invest in companies with established market positions, seasoned management teams, proven products and services and strong regional or national operations. We believe that these companies possess better risk-adjusted return profiles than newer companies that are building management or in early stages of building a revenue base.
- *Continue our growth of direct originations.* We directly originated 100% of our investments. Over the last several years, the principals of our investment adviser have developed an origination strategy designed to ensure that the number and quality of our investment opportunities allows us to continue to directly originate substantially all of our investments. We believe that the benefits of direct originations include, among other

things, our ability to control the structuring of investment protections and to generate origination and exit fees.

- *Employ disciplined underwriting policies and rigorous portfolio management*. Our investment adviser has developed an extensive underwriting process which includes a review of the prospects, competitive position, financial performance and industry dynamics of each potential portfolio company. In addition, we perform substantial diligence on potential investments, and seek to invest along side private equity sponsors who have proven capabilities in building value. As part of the monitoring process, our investment adviser will analyze monthly and quarterly financial statements versus the previous periods and year, review financial projections, meet with management, attend board meetings and review all compliance certificates and covenants.
- *Structure our investments to minimize risk of loss and achieve attractive risk-adjusted returns*. We structure our loan investments on a conservative basis with high cash yields, cash origination fees, low leverage levels and strong investment protections. As of March 31, 2010, the weighted average annualized yield of our debt investments was approximately 15.0%, which includes a cash component of 12.7%. The 31 debt investments in our portfolio as of March 31, 2010, had a weighted average debt to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiple of 3.3x calculated at the time of origination of the investment. Finally, our debt investments have strong protections, including default penalties, information rights, board observation rights, and affirmative, negative and financial covenants, such as lien protection and prohibitions against change of control. We believe these protections, coupled with the other features of our investments described above, should allow us to reduce our risk of capital loss and achieve attractive risk adjusted returns; however, there can be no assurance that we will be able to successfully structure our investments to minimize risk of loss and achieve attractive risk-adjusted returns.
- *Benefiting from lower, fixed, long-term cost of capital.* The SBIC license held by our wholly-owned subsidiary will allow it to issue SBA-guaranteed debentures. SBA-guaranteed debentures carry long-term fixed rates that are generally lower than rates on comparable bank and other debt. Because we expect lower cost SBA leverage to become a more significant part of our capital base through our SBIC subsidiary, our relative cost of debt capital should be lower than many of our competitors. In addition, the SBIC leverage that we receive through our SBIC subsidiary will represent a stable, long-term component of our capital structure that should permit the proper matching of duration and cost compared to our portfolio investments.
- *Leverage the skills and experience of our investment adviser*. The six principals of our investment adviser collectively have over 50 years, and individually have between four years and 14 years, of experience lending to and investing in small and mid-sized companies, and 2 years of experience managing a business development company. The principals of our investment adviser have broad investment backgrounds, with prior experience at private investment funds, investment banks and other financial services companies and they also have experience managing distressed companies. We believe that our investment adviser’s expertise in valuing, structuring, negotiating and closing transactions provides us with a competitive advantage by allowing us to provide financing solutions that meet the needs of our portfolio companies while adhering to our underwriting standards.

**Investment Criteria**

The principals of our investment adviser have identified the following investment criteria and guidelines for use in evaluating prospective portfolio companies and they use these criteria and guidelines in evaluating investment opportunities for us. However, not all of these criteria and guidelines were, or will be, met in connection with each of our investments.

- *Established companies with a history of positive operating cash flow.* We seek to invest in established companies with sound historical financial performance. We typically focus on companies with a history of profitability on an operating cash flow basis. We do not intend to invest in start-up companies or companies with speculative business plans.

- *Ability to exert meaningful influence.* We target investment opportunities in which we will be the lead/sole investor in our tranche and in which we can add value through active participation, often through advisory positions.
- *Private equity sponsorship.* We generally seek to invest in companies in connection with private equity sponsors who have proven capabilities in building value. We believe that a private equity sponsor can serve as a committed partner and advisor that will actively work with the company and its management team to meet company goals and create value. We assess a private equity sponsor's commitment to a portfolio company by, among other things, the capital contribution it has made or will make in the portfolio company.
- *Seasoned management team.* We generally will require that our portfolio companies have a seasoned management team, with strong corporate governance. We also seek to invest in companies that have proper incentives in place, including having significant equity interests, to motivate management to act in accordance with our interests as investors.
- *Defensible and sustainable business.* We seek to invest in companies with proven products and/or services and strong regional or national operations.
- *Exit strategy.* We generally seek to invest in companies that we believe possess attributes that will provide us with the ability to exit our investments. We expect to exit our investments typically through one of three scenarios: (i) the sale of the company resulting in repayment of all outstanding debt, (ii) the recapitalization of the company through which our loan is replaced with debt or equity from a third party or parties or (iii) the repayment of the initial or remaining principal amount of our loan then outstanding at maturity. In some investments, there may be scheduled amortization of some portion of our loan which would result in a partial exit of our investment prior to the maturity of the loan.

**Deal Origination**

Our deal originating efforts are focused on building relationships with private equity sponsors that are focused on investing in the small and mid-sized companies that we target. We divide the country geographically into Eastern, Central and Western regions and emphasize active, consistent sponsor coverage. Over the last ten years, the investment professionals of our investment adviser have developed an extensive network of relationships with these private equity sponsors. We estimate that there are approximately 1,400 of such private equity firms and our investment adviser has active relationships with approximately 120 of them. An active relationship is one through which our investment adviser has received at least one investment opportunity from the private equity sponsor within the last year.

Our investment adviser reviewed over 220 potential investment transactions with private equity sponsors in the twelve months ended March 31, 2010. All of the investment transactions that we have completed to date were originated through our investment adviser's relationships with private equity sponsors. We believe that our investment adviser has a reputation as a reliable, responsive and efficient source of funding to support private equity investments. We believe that this reputation and the relationships of our investment adviser with private equity sponsors will provide us with significant investment opportunities.

Our origination process is designed to efficiently evaluate a large number of opportunities and to identify the most attractive of such opportunities. A significant number of opportunities that clearly do not fit our investment criteria are screened by the partners of our investment adviser when they are initially identified. If an originator believes that an opportunity fits our investment criteria and merits consideration, the investment is presented to our investment adviser's Investment Committee. This is the first stage of our origination process, the "Review" stage. During this stage, the originator gives a preliminary description of the opportunity. This is followed by preliminary due diligence, from which an investment summary is created that includes a scoring of the investment against our investment adviser's proprietary scoring model. The opportunity may be discussed several times by the full Investment Committee of our investment adviser, or subsets of that Committee. At any point in this stage, we may reject the opportunity, and, indeed, we have historically decided not to proceed with more than 80% of the investment opportunities reviewed by our investment adviser's Investment Committee.

For the subset of opportunities that we decide to pursue, we issue preliminary term sheets and classify them in the "Term Sheet Issued" stage. This term sheet serves as a basis for negotiating the critical terms of a transaction. At this stage we begin our underwriting and investment approval process, as more fully described below. After the term sheet for a potential transaction has been fully negotiated, the transaction is presented to our investment adviser's Investment Committee for approval. If the deal is approved, the term sheet is signed. Approximately half of the term sheets we issue result in an executed term sheet. Our underwriting and investment approval process is ongoing during this stage, during which we begin documentation of the loan. The final stage, "Closings", culminates with the funding of an investment only after all due diligence is satisfactorily completed and all closing conditions, including the sponsor's funding of its investment in the portfolio company, have been satisfied.

**Underwriting**

***Underwriting Process and Investment Approval***

We make our investment decisions only after consideration of a number of factors regarding the potential investment including, but not limited to: (i) historical and projected financial performance; (ii) company and industry specific characteristics, such as strengths, weaknesses, opportunities and threats; (iii) composition and experience of the management team; and (iv) track record of the private equity sponsor leading the transaction. Our investment adviser uses a proprietary scoring system that evaluates each opportunity. This methodology is employed to screen a high volume of potential investment opportunities on a consistent basis.

If an investment is deemed appropriate to pursue, a more detailed and rigorous evaluation is made along a variety of investment parameters, not all of which may be relevant or considered in evaluating a potential investment opportunity. The following outlines the general parameters and areas of evaluation and due diligence for investment decisions, although not all will necessarily be considered or given equal weighting in the evaluation process.

*Management assessment*

Our investment adviser makes an in-depth assessment of the management team, including evaluation along several key metrics:

- The number of years in their current positions;
- Track record;
- Industry experience;
- Management incentive, including the level of direct investment in the enterprise;
- Background investigations; and
- Completeness of the management team (lack of positions that need to be filled).

*Industry dynamics*

An evaluation of the industry is undertaken by our investment adviser that considers several factors. If considered appropriate, industry experts will be consulted or retained. The following factors are analyzed by our investment adviser:

- Sensitivity to economic cycles;
- Competitive environment, including number of competitors, threat of new entrants or substitutes;
- Fragmentation and relative market share of industry leaders;
- Growth potential; and
- Regulatory and legal environment.

*Business model and financial assessment*

Prior to making an investment decision, our investment adviser will undertake a review and analysis of the financial and strategic plans for the potential investment. There is significant evaluation of and reliance upon the due diligence performed by the private equity sponsor and third party experts including accountants and consultants. Areas of evaluation include:

- Historical and projected financial performance;
- Quality of earnings, including source and predictability of cash flows;
- Customer and vendor interviews and assessments;
- Potential exit scenarios, including probability of a liquidity event;
- Internal controls and accounting systems; and
- Assets, liabilities and contingent liabilities.

*Private equity sponsor*

Among the most critical due diligence investigations is the evaluation of the private equity sponsor making the investment. A private equity sponsor is typically the controlling shareholder upon completion of an investment and as such is considered critical to the success of the investment. The equity sponsor is evaluated along several key criteria, including:

- Investment track record;
- Industry experience;
- Capacity and willingness to provide additional financial support to the company through additional capital contributions, if necessary; and
- Reference checks.

***Investments***

We target debt investments that will yield meaningful current income and provide the opportunity for capital appreciation through equity securities. We typically structure our debt investments with the maximum seniority and collateral that we can reasonably obtain while seeking to achieve our total return target. In most cases, our debt investment will be collateralized by a first or second lien on the assets of the portfolio company. As of March 31, 2010, all of our debt investments were secured by first or second priority liens on the assets of the portfolio company.

*Debt Investments*

We tailor the terms of our debt investments to the facts and circumstances of the transaction and prospective portfolio company, negotiating a structure that seeks to protect our rights and manage our risk while creating incentives for the portfolio company to achieve its business plan. A substantial source of return is monthly cash interest that we collect on our debt investments. As of March 31, 2010, we directly originated 100% of our loans. We are currently focusing our new origination efforts on first lien loans. However, we may choose to originate second lien and unsecured loans in the future.

- *First Lien Loans.* Our first lien loans generally have terms of four to six years, provide for a variable or fixed interest rate, contain prepayment penalties and are secured by a first priority security interest in all existing and future assets of the borrower. Our first lien loans may take many forms, including revolving lines of credit, term loans and acquisition lines of credit.
- *Second Lien Loans.* Our second lien loans generally have terms of five to six years, primarily provide for a fixed interest rate, contain prepayment penalties and are secured by a second priority security interest in all existing and future assets of the borrower. Our second lien loans often include PIK interest, which represents contractual interest accrued and added to the principal that generally becomes due at maturity. As of March 31, 2010, all second lien loans had intercreditor agreements requiring a standstill period of no more than 180 days.
- *Unsecured Loans.* Although we currently do not have any investments in unsecured loans, we may in the future. We would expect any unsecured investments generally to have terms of five to six years and provide

for a fixed interest rate. We may make unsecured investments on a stand-alone basis, or in conjunction with a senior secured loan, a junior secured loan or a "one-stop" financing. Our unsecured investments may include payment-in-kind, or PIK, interest, which represents contractual interest accrued and added to the principal that generally becomes due at maturity, and an equity component, such as warrants to purchase common stock in the portfolio company.

We typically structure our debt investments to include covenants that seek to minimize our risk of capital loss. Our debt investments have strong protections, including default penalties, information rights, board observation rights, and affirmative, negative and financial covenants, such as lien protection and prohibitions against change of control. Our debt investments also have substantial prepayment penalties designed to extend the life of the average loan, which we believe will help to grow our portfolio.

The 31 debt investments in our portfolio as of March 31, 2010, had a weighted average debt to EBITDA multiple of 3.3x calculated at the time of origination of the investment.

*Equity Investments*

When we make a debt investment, we may be granted equity in the company in the same class of security as the sponsor receives upon funding. In addition, we may from time to time make non-control, equity co-investments in connection with private equity sponsors. We generally seek to structure our equity investments, such as direct equity co-investments, to provide us with minority rights provisions and event-driven put rights. We also seek to obtain limited registration rights in connection with these investments, which may include "piggyback" registration rights.

*Private Equity Fund Investments*

We make investments in private equity funds of our equity sponsors. In general, we make these investments where we have a long term relationship and are comfortable with the sponsor's business model and investment strategy. As of March 31, 2010, we had investments in three private equity funds, representing less than 1% of the fair value of our assets as of such date.

**Portfolio Management**

***Active Involvement in our Portfolio Companies***

As a business development company, we are obligated to offer to provide managerial assistance to our portfolio companies and to provide it if requested. In fact, we provide managerial assistance to our portfolio companies as a general practice and we seek investments where such assistance is appropriate. We monitor the financial trends of each portfolio company to assess the appropriate course of action for each company and to evaluate overall portfolio quality. We have several methods of evaluating and monitoring the performance of our investments, including but not limited to, the following:

- review of monthly and quarterly financial statements and financial projections for portfolio companies;
- periodic and regular contact with portfolio company management to discuss financial position, requirements and accomplishments;
- attendance at board meetings;
- periodic formal update interviews with portfolio company management and, if appropriate, the private equity sponsor; and
- assessment of business development success, including product development, profitability and the portfolio company's overall adherence to its business plan.

***Rating Criteria***

In addition to various risk management and monitoring tools, we use an investment rating system to characterize and monitor the credit profile and our expected level of returns on each investment in our portfolio.

We use a five-level numeric rating scale. The following is a description of the conditions associated with each investment rating:

- Investment Rating 1 is used for investments that are performing above expectations and/or a capital gain is expected.
- Investment Rating 2 is used for investments that are performing substantially within our expectations, and whose risks remain neutral or favorable compared to the potential risk at the time of the original investment. All new loans are initially rated 2.
- Investment Rating 3 is used for investments that are performing below our expectations and that require closer monitoring, but where we expect no loss of investment return (interest and/or dividends) or principal. Companies with a rating of 3 may be out of compliance with financial covenants.
- Investment Rating 4 is used for investments that are performing below our expectations and for which risk has increased materially since the original investment. We expect some loss of investment return, but no loss of principal.
- Investment Rating 5 is used for investments that are performing substantially below our expectations and whose risks have increased substantially since the original investment. Investments with a rating of 5 are those for which some loss of principal is expected.

In the event that we determine that an investment is underperforming, or circumstances suggest that the risk associated with a particular investment has significantly increased, we will undertake more aggressive monitoring of the effected portfolio company. While our investment rating system identifies the relative risk for each investment, the rating alone does not dictate the scope and/or frequency of any monitoring that we perform. The frequency of our monitoring of an investment is determined by a number of factors, including, but not limited to, the trends in the financial performance of the portfolio company, the investment structure and the type of collateral securing our investment, if any.

The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value, as of March 31, 2010 and September 30, 2009:

| | March 31, 2010 | | | September 30, 2009 | | |
|---|---|---|---|---|---|---|
| Investment Rating | Fair Value | % of Portfolio | Leverage ratio(1) | Fair Value | % of Portfolio | Leverage ratio(1) |
| 1 | $ 69,063,489 | 14.99% | 3.19 | $ 22,913,497 | 7.65% | 1.70 |
| 2 | 368,161,388 | 79.88 | 4.29 | 248,506,393 | 82.94 | 4.34 |
| 3 | 7,403,679 | 1.61 | 12.53 | 6,122,236 | 2.04 | 10.04 |
| 4 | — | 0.00 | — | 16,377,904 | 5.47 | 8.31 |
| 5 | 16,236,840 | 3.52 | NM(2) | 5,691,107 | 1.90 | NM(2) |
| Total | $ 460,865,396 | 100.00% | 4.25 | $ 299,611,137 | 100.00% | 4.42 |

(1) Represents the average of the debt-to-equity ratio for each of the portfolio companies within the particular 1 to 5 investment rating scale. The debt-to-equity ratio is calculated by dividing total debt of the portfolio company by total equity of the portfolio company. The higher the debt-to-equity ratio, the more debt a company is using to operate its business and the more difficulty the company may have paying interest and principal on its outstanding indebtedness if future debt or equity financing is not available.

(2) Due to operating performance this ratio is not measurable.

***Exit Strategies/Refinancing***

We expect to exit our investments typically through one of three scenarios: (i) the sale of the company resulting in repayment of all outstanding debt, (ii) the recapitalization of the company in which our loan is replaced with debt or equity from a third party or parties or (iii) the repayment of the initial or remaining principal amount of our loan then outstanding at maturity. In some investments, there may be scheduled amortization of some portion of our loan which would result in a partial exit of our investment prior to the maturity of the loan.

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

We determine the net asset value per share of our common stock on a quarterly basis. The net asset value per share is equal to the value of our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding.

We are required to report our investments that are not publicly traded or for which current market values are not readily available at fair value. The fair value is deemed to be the value at which an enterprise could be sold in a transaction between two willing parties other than through a forced or liquidation sale.

Under ASC 820, which we adopted effective October 1, 2008, we perform detailed valuations of our debt and equity investments on an individual basis, using market based, income based, and bond yield approaches as appropriate.

Under the market approach, we estimate the enterprise value of the portfolio companies in which we invest. There is no one methodology to estimate enterprise value and, in fact, for any one portfolio company, enterprise value is best expressed as a range of fair values, from which we derive a single estimate of enterprise value. To estimate the enterprise value of a portfolio company, we analyze various factors, including the portfolio company's historical and projected financial results. Typically, private companies are valued based on multiples of EBITDA, cash flows, net income, revenues, or in limited cases, book value. We generally require portfolio companies to provide annual audited and quarterly and monthly unaudited financial statements, as well as annual projections for the upcoming fiscal year.

Under the income approach, we generally prepare and analyze discounted cash flow models based on our projections of the future free cash flows of the business. Under the bond yield approach, we use bond yield models to determine the present value of the future cash flow streams of our debt investments. We review various sources of transactional data, including private mergers and acquisitions involving debt investments with similar characteristics, and assess the information in the valuation process. We also may, when conditions warrant, utilize an expected recovery model, whereby we use alternate procedures to determine value when the customary approaches are deemed to be not as relevant or reliable.

Our Board of Directors undertakes a multi-step valuation process each quarter in connection with determining the fair value of our investments:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the deal team within our investment adviser responsible for the portfolio investment;
- Preliminary valuations are then reviewed and discussed with the principals of our investment adviser;
- Separately, an independent valuation firm engaged by the Board of Directors prepares preliminary valuations on a selected basis and submits a report to us;
- The deal team compares and contrasts its preliminary valuations to the report of the independent valuation firm and resolves any differences;
- The deal team prepares a final valuation report for the Valuation Committee of our Board of Directors;
- The Valuation Committee of our Board of Directors reviews the preliminary valuations, and the deal team responds and supplements the preliminary valuations to reflect any comments provided by the Valuation Committee;
- The Valuation Committee of our Board of Directors makes a recommendation to the Board of Directors; and
- The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith.

The fair value of all of our investments at March 31, 2010 and September 30, 2009 was determined by our Board of Directors. Our Board of Directors is solely responsible for the valuation of our portfolio investments at fair value as determined in good faith pursuant to our valuation policy and our consistently applied valuation process.

Our Board of Directors has engaged an independent valuation firm to provide us with valuation assistance. Upon completion of its process each quarter, the independent valuation firm provides us with a written report regarding the preliminary valuations of selected portfolio securities as of the close of such quarter. We will continue to engage an independent valuation firm to provide us with assistance regarding our determination of the fair value of selected portfolio securities each quarter; however, our Board of Directors is ultimately and solely responsible for determining the fair value of our investments in good faith.

An independent valuation firm, Murray, Devine & Co., Inc., provided us with assistance in our determination of the fair value of 91.9% of our portfolio for the quarter ended December 31, 2007, 92.1% of our portfolio for the quarter ended March 31, 2008, 91.7% of our portfolio for the quarter ended June 30, 2008, 92.8% of our portfolio for the quarter ended September 30, 2008, 100% of our portfolio for the quarter ended December 31, 2008, 88.7% of our portfolio for the quarter ended March 31, 2009 (or 96% of our portfolio excluding our investment in IZI Medical Products, Inc., which closed on March 31, 2009 and therefore was not part of the independent valuation process), 92.1% of our portfolio for the quarter ended June 30, 2009, 28.1% of our portfolio for the quarter ended September 30, 2009, 17.2% of our portfolio for the quarter ended December 31, 2009 (or 24.8% of our portfolio excluding the four investments that closed in late December and therefore were not part of the independent valuation process) and 26.9% of our portfolio for the quarter ended March 31, 2010.

Our $50 million credit facility with Bank of Montreal was terminated effective September 16, 2009. The facility required independent valuations for at least 90% of the portfolio on a quarterly basis. With the termination of this facility, this requirement is no longer applicable to us. However, we still intend to have a portion of the portfolio valued by an independent third party on a quarterly basis, with a substantial portion being valued on an annual basis.

As of March 31, 2010 and September 30, 2009, approximately 93.9% and 72.0%, respectively, of our total assets represented investments in portfolio companies valued at fair value.

Determination of fair values involves subjective judgments and estimates. The notes to our consolidated financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

**Competition**

We compete for investments with a number of business development companies and investment funds (including private equity funds and mezzanine funds), as well as traditional financial services companies such as commercial banks and other sources of financing. Many of these entities have greater financial and managerial resources than we do. We believe we are able to be competitive with these entities primarily on the basis of the experience and contacts of our management team, our responsive and efficient investment analysis and decision-making processes, the investment terms we offer, and our willingness to make smaller investments.

We believe that some of our competitors make first and second lien loans with interest rates and returns that are comparable to or lower than the rates and returns that we target. Therefore, we do not seek to compete solely on the interest rates and returns that we offer to potential portfolio companies. For additional information concerning the competitive risks we face, see “Risk Factors — Risk Relating to Our Business and Structure — We may face increasing competition for investment opportunities, which could reduce returns and result in losses.”

**Employees**

We do not have any employees. Our day-to-day investment operations are managed by our investment adviser. See “Investment Advisory Agreement.” Our investment adviser employs a total of 16 investment professionals, including its six principals. In addition, we reimburse our administrator, FSC, Inc., for the allocable portion of overhead and other expenses incurred by it in performing its obligations under an administration agreement, including the compensation of our chief financial officer and chief compliance officer, and their staff. FSC, Inc. has voluntarily determined to forgo receiving reimbursement for the services performed for us by our chief compliance officer, Bernard D. Berman, given his compensation arrangement with our investment adviser. However, although FSC, Inc. currently intends to forgo its right to receive such reimbursement, it is under no obligation to do so and may cease to do so at any time in the future. For a more detailed discussion of the administration agreement, see "Administration Agreement."

**Properties**

We do not own any real estate or other physical properties materially important to our operation; however, we lease office space for our executive office at 10 Bank Street, Suite 1210, White Plains, NY 10606. We also lease office space at 15233 Ventura Boulevard, Penthouse 2, Sherman Oaks, CA 91403. Our investment adviser also maintains additional office space at 500 W. Putnam Ave., Suite 400, Greenwich, CT 06830. We believe that our current office facilities are adequate for our business as we intend to conduct it.

**Legal Proceedings**

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

## PORTFOLIO COMPANIES

The following table sets forth certain information as of March 31, 2010, for each portfolio company in which we had a debt or equity investment. Other than these investments, our only formal relationships with our portfolio companies are the managerial assistance ancillary to our investments and the board observation or participation rights we may receive.

| Name and Address of Portfolio Company | Principal Business | Titles of Securities Held by Us | Percentage of Ownership | Loan Principal | Cost of Investment | Fair Value of Investment |
|---|---|---|---|---|---|---|
| **ADAPCO, Inc.** | | | | | | |
| 550 Aero Lane | Fertilizers & agricultural | First Lien Term Loan A | | $ 10,000,000 | $ 9,742,971 | $ 9,638,921 |
| Sanford, FL 32771 | chemicals | First Lien Term Loan B | | 14,081,842 | 13,709,057 | 13,897,287 |
| | | First Lien Term Revolver | | 3,500,000 | 3,233,726 | 3,210,100 |
| | | | | | **26,685,754** | **26,746,308** |
| **Ambath/Rebath Holdings, Inc.** | | | | | | |
| 421 West Alameda Dr. | Home improvement retail | First Lien Term Loan A | | 10,000,000 | 9,736,169 | 9,344,205 |
| Tempe, AZ 85282 | | First Lien Term Loan B | | 22,140,861 | 21,561,711 | 21,890,059 |
| | | First Lien Term Revolver | | 750,000 | 674,400 | 694,046 |
| | | | | | **31,972,280** | **31,928,310** |
| **Boot Barn** | | | | | | |
| 1520 S. Sinclair Street | Footwear and apparel | Second Lien Term Loan | 0.7% | 23,030,378 | 22,730,784 | 22,688,420 |
| Anaheim, CA 92806 | | Series A Preferred Stock | | | 247,060 | 28,764 |
| | | Common Stock | | | 131 | — |
| | | | | | **22,977,975** | **22,717,184** |
| **Caregiver Services, Inc.** | | | | | | |
| 10541 NW 117th Ave | Healthcare services | Second Lien Term Loan A | 3.3% | 7,855,893 | 7,453,752 | 7,808,586 |
| Miami, FL 33122 | | Second Lien Term Loan B | | 14,463,950 | 13,766,672 | 13,554,536 |
| | | Series A Preferred Stock | | | 1,080,398 | 1,358,622 |
| | | | | | **22,300,822** | **22,721,744** |
| **Cenegenics, LLC** | | | | | | |
| 851 South Rampart Boulevard | Healthcare services | First Lien Term Loan | 3.5% | 20,412,116 | 19,399,601 | 19,700,763 |
| Las Vegas, NV 89145 | | Common Units | | | 598,382 | 1,837,618 |
| | | | | | **19,997,983** | **21,538,381** |
| **CPAC, Inc.** | | | | | | |
| 2364 Leicester Road | Household products & | Second Lien Term Loan | 0% | 1,000,000 | 1,000,000 | 1,000,000 |
| Leicester, NY 14481 | specialty chemicals | Common Stock | | | **1,000,000** | **1,000,000** |
| **Filet of Chicken** | | | | | | |
| 146 Forest Parkway | Food distributors | Second Lien Term Loan | 0% | 9,341,854 | 9,021,995 | 8,880,527 |
| Forest Park, GA 30297 | | | | | **9,021,995** | **8,880,527** |
| **Fitness Edge, LLC** | | | | | | |
| 1100 Kings Highway | Leisure facilities | First Lien Term Loan A | 1.0% | 1,500,000 | 1,492,777 | 1,510,709 |
| Fairfield, CT 06825 | | First Lien Term Loan B | | 5,560,507 | 5,489,197 | 5,499,527 |
| | | Common Units | | | 42,908 | 91,263 |
| | | | | | **7,024,882** | **7,101,499** |
| **Flatout, Inc.** | | | | | | |
| 1422 Woodland Dr., | Food retail | First Lien Term Loan A | | 7,550,000 | 7,335,300 | 7,335,300 |
| Saline, MI 48176 | | First Lien Term Loan B | | 12,765,709 | 12,404,082 | 12,404,082 |
| | | First Lien Revolver | | — | (42,712) | (42,712) |
| | | | | | **19,696,670** | **19,696,670** |
| **Goldco, LLC** | | | | | | |
| 2330 Montgomery Highway | Restaurants | Second Lien Term Loan | | 8,187,786 | 8,070,425 | 8,113,550 |
| Dothan, AL 36303 | | | | | **8,070,425** | **8,113,550** |
| **HealthDrive Corporation** | | | | | | |
| 25 Needham Street | Healthcare facilities | First Lien Term Loan A | | 7,600,000 | 7,405,155 | 7,582,154 |
| Newtown, MA 02461 | | First Lien Term Loan B | | 10,127,137 | 9,997,137 | 9,624,445 |
| | | First Lien Revolver | | 500,000 | 487,000 | 561,074 |
| | | | | | **17,889,292** | **17,767,673** |
| **idX Corporation** | | | | | | |
| 3451 Rier Trail South | Merchandise display | Second Lien Term Loan | | 13,451,457 | 13,181,541 | 12,932,624 |
| St. Louis, MO 63045 | | | | | **13,181,541** | **12,932,624** |
| **IZI Medical Products, Inc.** | | | | | | |
| 7020 Tudsbury Road | Healthcare technology | First Lien Term Loan A | 2.0% | 5,200,000 | 5,121,540 | 5,190,455 |
| Baltimore, MD 21244 | | First Lien Term Loan B | | 17,172,066 | 16,537,062 | 16,781,037 |
| | | First Lien Revolver | | — | (40,000) | (40,000) |
| | | Preferred Units | | | 453,755 | 586,775 |
| | | | | | **22,072,357** | **22,518,267** |
| **JTC Education, Inc.** | | | | | | |
| 6602 E. 75th Street, Suite 200 | Education services | First Lien Term Loan | | 31,250,000 | 30,353,332 | 30,307,895 |
| Indianapolis, IN 46250 | | First Lien Term Revolver | | — | (280,000) | (280,000) |
| | | | | | **30,073,332** | **30,027,895** |

| Name and Address of Portfolio Company | Principal Business | Titles of Securities Held by Us | Percentage of Ownership | Loan Principal | Cost of Investment | Fair Value of Investment |
|---|---|---|---|---|---|---|
| **Lighting by Gregory, LLC** | | | | | | |
| 158 Bowery | Housewares & | First Lien Term Loan A | 97.4% | 5,158,489 | 4,728,589 | 3,324,924 |
| New York, NY 10012 | specialties | First Lien Term Loan B | | 7,969,990 | 6,906,440 | 4,846,258 |
| | | Membership Interest | | | 410,000 | — |
| | | | | | **12,045,029** | **8,171,182** |
| **Martini Park, LLC** | | | | | | |
| 55 Fifth Avenue, 16th Floor | Restaurants | First Lien Term Loan | 5.0% | 4,571,400 | 3,408,351 | 2,220,905 |
| New York, NY 10003 | | Membership Interest | | | 650,000 | — |
| | | | | | **4,058,351** | **2,220,905** |
| **MK Network, LLC** | | | | | | |
| 200 Corporate Place | Healthcare technology | First Lien Term Loan A | 2.4% | 9,500,000 | 9,272,590 | 9,225,025 |
| Rocky Hill, CT 06067 | | First Lien Term Loan B | | 5,049,964 | 4,849,255 | 4,846,212 |
| | | First Lien Revolver | | — | — | — |
| | | Membership Units | | | 771,575 | — |
| | | | | | **14,893,420** | **14,071,237** |
| **Nicos Polymers & Grinding Inc.** | | | | | | |
| 21 East 40th Street | Environmental & | First Lien Term Loan A | 3.3% | 3,123,367 | 3,040,465 | 1,835,925 |
| New York, NY 10016 | facilities services | First Lien Term Loan B | | 6,079,060 | 5,713,125 | 3,346,849 |
| | | Membership Interest | | | 168,086 | — |
| | | | | | **8,921,676** | **5,182,774** |
| **O'Currance, Inc.** | | | | | | |
| 1785 South, 4130 West | Data processing & | First Lien Term Loan A | 5.1% | 10,741,185 | 10,616,958 | 10,523,617 |
| Salt Lake City, UT 84104 | outsourced services | First Lien Term Loan B | | 2,314,211 | 2,280,235 | 2,380,876 |
| | | Preferred Membership Interest | | | 130,413 | 130,413 |
| | | Membership Interest | | | 250,000 | 3,305 |
| | | | | | **13,277,606** | **13,038,211** |
| **Pacific Press Technologies, Inc.** | | | | | | |
| 714 Walnut Street | Capital goods | Second Lien Term Loan | 3.4% | 9,951,227 | 9,787,138 | 9,609,027 |
| Mount Carmel, IL 62863 | | Common Stock | | | 344,513 | 5,810 |
| | | | | | **10,131,651** | **9,614,837** |
| **Premier Trailer Leasing, Inc.** | | | | | | |
| 211 West Franklin Street | Trailer leasing | Second Lien Term Loan | 1.0% | 18,151,010 | 17,063,645 | 8,065,658 |
| Grapevine, TX 76051 | services | Common Stock | | | 1,140 | — |
| | | | | | **17,064,785** | **8,065,658** |
| **Psilos Group Partners IV, LP** | | | | | | |
| 140 Broadway, 51st Floor | Multi-sector holdings | Limited partnership interest | | | — | — |
| New York, NY 10005 | | | | | **—** | **—** |
| **Rail Acquisition Corp.** | | | | | | |
| 1791 West Dairy | Manufacturing - | First Lien Term Loan | | 15,420,845 | 15,197,757 | 14,846,867 |
| Tucson, AZ 85705 | mechanical products | | | | **15,197,757** | **14,846,867** |
| **Repechage Investments Limited** | | | | | | |
| 50 Congress Street, Suite 900 | Restaurants | First Lien Term Loan | 4.3% | 3,955,807 | 3,647,742 | 3,652,668 |
| Boston, MA 02109 | | Series A Preferred Stock | | | 750,000 | 558,138 |
| | | | | | **4,397,742** | **4,210,806** |
| **Riverlake Equity Partners II, LP** | | | | | | |
| One Exeter Plaza | Multi-sector holdings | Limited Partnership Interest | 1.6% | | 33,640 | 33,640 |
| 699 Boylston Street, 8th Floor | | | | | **33,640** | **33,640** |
| Boston, MA 02116 | | | | | | |
| **Riverside Fund IV, LP** | | | | | | |
| One Exeter Plaza | Multi-sector holdings | Limited Partnership Interest | 0.3% | | 82,969 | 82,969 |
| 699 Boylston Street, 8th Floor | | | | | **82,969** | **82,969** |
| Boston, MA 02116 | | | | | | |
| **Rose Tarlow, Inc.** | | | | | | |
| 8454 Melrose Place | Home furnishing retail | First Lien Term Loan | 6.9% | 10,195,152 | 10,037,180 | 8,455,134 |
| Los Angeles, CA 90069 | | First Lien Revolver | 0.1% | 1,550,000 | 1,540,097 | 1,311,686 |
| | | Membership Interest | | | 1,275,000 | — |
| | | Membership Interest | | | 25,000 | — |
| | | | | | **12,877,277** | **9,766,820** |
| **Storytellers Theaters Corporation** | | | | | | |
| 2209 Miguel Chavez Road | Entertainment - | First Lien Term Loan | 3.4% | 7,367,750 | 7,270,614 | 7,380,662 |
| Santa Fe, NM 87505 | theaters | First Lien Revolver | | 500,000 | 485,834 | 464,609 |
| | | Common Stock | | | 169 | 49,990 |
| | | | | | 200,000 | 200,000 |
| | | | | | **7,956,617** | **8,095,261** |
| **TBA Global, LLC** | | | | | | |
| 21700 Oxnard Street | Media: advertising | Second Lien Term Loan A | 2.0% | 101,979 | 101,977 | 109,158 |
| Woodland Hills, CA 91367 | | Second Lien Term Loan B | | 11,018,142 | 10,706,196 | 10,658,791 |
| | | Senior Preferred Shares | | | 215,975 | 215,975 |
| | | Series A Shares | | | 191,977 | 13,456 |
| | | | | | **11,216,125** | **10,997,380** |

| Name and Address of Portfolio Company | Principal Business | Titles of Securities Held by Us | Percentage of Ownership | Loan Principal | Cost of Investment | Fair Value of Investment |
|---|---|---|---|---|---|---|
| **Tegra Medical, LLC** | | | | | | |
| 421 West Alameda Dr. | Healthcare equipment | First Lien Term Loan A | | 28,000,000 | 27,479,496 | 27,041,530 |
| Tempe, AZ 85282 | | First Lien Term Loan B | | 18,392,674 | 18,051,074 | 18,697,833 |
| | | First Lien Term Revolver | | — | (74,667) | (74,667) |
| | | | | | **45,455,903** | **45,664,696** |
| **Traffic Control & Safety Corporation** | | | | | | |
| 815 Waiakamilo Rd #C | Construction and | Second Lien Term Loan | 0.7% | 19,601,335 | 19,347,925 | 16,824,249 |
| Honolulu, HI 96817 | engineering | Series B Preferred Stock | | | 247,500 | — |
| | | Common Stock | | | 2,500 | — |
| | | | | | **19,597,925** | **16,824,249** |
| **Trans-Trade, Inc.** | | | | | | |
| 1040 Trade Ave., | Air freight & logistics | First Lien Term Loan | | 11,156,007 | 11,008,084 | 11,135,248 |
| Suite 106 DFW | | First Lien Term Revolver | | — | (35,333) | (35,333) |
| Airport, TX 75261 | | | | | **10,972,751** | **11,099,915** |
| **Vanguard Vinyl, Inc.** | | | | | | |
| 62 North, 1020 West | Building products | First Lien Term Loan | 1.5% | 7,000,000 | 6,811,565 | 5,986,783 |
| American Fork, UT 84003 | | First Lien Revolver | | 1,750,000 | 1,703,947 | 1,498,709 |
| | | Series A Preferred Stock | | | 253,846 | — |
| | | Common Stock | | | 2,564 | — |
| | | | | | **8,771,922** | **7,485,492** |
| **Western Emulsions, Inc.** | | | | | | |
| 3450 East 36th Street | Emulsions | Second Lien Term Loan | | 17,637,889 | 17,392,084 | 17,701,865 |
| Tucson, AZ 85713 | manufacturing | | | | **17,392,084** | **17,701,865** |
| **Total investments** | | | | | **$ 468,310,538** | **$ 460,865,396** |

### Description of Portfolio Companies

Set forth below is a brief description of each of our portfolio companies as of March 31, 2010.

- *ADAPCO, Inc.* is a distributor of pesticides and herbicides and related equipment for commercial and industrial use.
- *Ambath/Rebath Holdings, Inc.* is a holding company that holds two subsidiaries that franchise and provide bathroom remodeling services.
- *Boot Barn* is a western-themed specialty retailer.
- *Caregiver Services, Inc.* is a nurse registry in Florida that provides in home assisted living services.
- *Cenegenics, LLC* is an age management medicine organization that evaluates and provides therapy with a focus on optimal health, wellness, and prevention.
- *CPAC, Inc.* manufactures and markets specialty chemicals and related accessories for household and commercial cleaning, personal care, and photo-processing applications.
- *Filet of Chicken* (formerly known as FOC Acquisition LLC) is a processor of frozen chicken products.
- *Fitness Edge, LLC* operates fitness clubs in Fairfield County, Connecticut.
- *Flatout, Inc.* manufactures and markets healthy, premium flatbreads, wraps, and snack crisps.
- *Goldco, Inc.* owns and operates Burger King quick serve restaurants as a franchisee in Alabama, Florida, and Georgia.
- *HealthDrive Corporation* is a provider of multi-specialty, on-site healthcare services to residents of its extended care facilities.
- *idX Corporation* is a global provider of merchandise display solutions.
- *IZI Medical Products, Inc.* is a provider of medical markers used in procedures in Radiology, Radiation Therapy, Orthopedics, Ear, Nose, and Throat, and Image Guided Surgeries.
- *JTC Education, Inc.* is a platform of postsecondary for-profit schools focused on nursing and allied health.

- *Lighting by Gregory, LLC* is a retailer that sells brand-name luxury lighting products through a website and a traditional brick-and-mortar showroom.
- *Martini Park LLC* is a nightlife concept offering live entertainment, DJ music, menu of finger food, and a selection of martinis as well as cocktails, wines, and spirits.
- *MK Network, LLC* is a medical communications and continuing medical education company. MK Network's medical communication services assist pharmaceutical and biotechnology brand teams with educating healthcare professionals on the features, benefits and appropriate prescribing of drugs.
- *Nicos Polymers & Grinding, Inc.* provides post-industrial plastic size reduction and reclamation services.
- *O'Currance, Inc.* provides telemarketing, telesales, and call center operations for clients in a wide range of industries. It deploys a unique mix of home-based and brick and mortar center-based sales representatives to handle inbound consumer calls from marketing promotions.
- *Pacific Press Technologies, Inc.* is a leading manufacturer of a wide range of highly engineered, specialized plastic and metal forming equipment, as well as complementary tooling, parts, refurbishment and repair and maintenance services.
- *Premier Trailer and Leasing, Inc.* provides long-term and short-term leases on truck trailers for periods ranging from a single month to several years.
- *Psilos Group Partners IV, LP* is a private fund that makes venture capital investments in the healthcare sector.
- *Rail Acquisition Corp.* is a designer, manufacturer, and distributor of linear slides and precision mechanical and electro-mechanical products for original equipment manufacturers in the computer hardware, telecommunications, and industrial equipment markets.
- *Repechage Investments Limited* is an investment company that holds investments in the restaurant, transportation, service and real estate sectors.
- *Riverlake Equity Partners II, LP* is a private fund that invests in growing middle market healthcare and technology oriented companies.
- *Riverside Fund IV, LP* is a private fund that invests in growing middle market healthcare and technology oriented companies.
- *Rose Tarlow, Inc.* is a designer and marketer of high-end furniture and fabric products.
- *Storytellers Theaters Corporation* is an operator of theaters in New Mexico, Colorado, Arizona, and Wyoming.
- *TBA Global, LLC* engages in designing, producing, and executing corporate events and consumer marketing programs.
- *Tegra Medical, LLC* is a full service medical device contract manufacturer, providing a one-stop shop with expertise in metal grinding, precision laser welding and cutting, and wire EDM capabilities.
- *Traffic Control and Safety Corporation* sells, rents, and services traffic control equipment and personal safety supplies. It also provides safety training seminars and designs and implements traffic control plans.
- *Trans-Trade, Inc.* is a non-asset based logistics company that provides custom house brokerage, international freight forwarding, domestic transportation, warehousing & distribution, reverse logistics and other supply chain services to a variety of customers.
- *Vanguard Vinyl, Inc.* is a vinyl fence installer and distributor in the Western United States.
- *Western Emulsions, Inc.* is a supplier of specialty patented and standard asphalt emulsions and raw asphalt used for roadway pavement preservation, repair, and restoration projects with operations in Tucson, AZ and Irwindale, CA.

## MANAGEMENT

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors appoints our officers, who serve at the discretion of the Board of Directors. The responsibilities of the Board of Directors include, among other things, the oversight of our investment activities, the quarterly valuation of our assets, oversight of our financing arrangements and corporate governance activities. The Board of Directors has an Audit Committee, a Nominating and Corporate Governance Committee, a Valuation Committee and a Compensation Committee, and may establish additional committees from time to time as necessary.

### Board of Directors and Executive Officers

Our Board of Directors consists of seven members, five of whom are classified under applicable New York Stock Exchange listing standards by our Board of Directors as "independent" directors and under Section 2(a)(19) of the 1940 Act as non-interested persons. Pursuant to our restated certificate of incorporation, our Board of Directors is divided into three classes. Each class of directors will hold office for a three-year term. However, the initial members of the three classes have initial terms of one, two and three years, respectively. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Our restated certificate of incorporation also gives our Board of Directors sole authority to appoint directors to fill vacancies that are created either through an increase in the number of directors or due to the resignation, removal or death of any director.

#### *Directors*

Information regarding our Board of Directors is set forth below. We have divided the directors into two groups — independent directors and interested directors. Interested directors are "interested persons" of Fifth Street Finance Corp. as defined in Section 2(a)(19) of the 1940 Act.

The address for each director is c/o Fifth Street Finance Corp., 10 Bank Street, Suite 1210, White Plains, NY 10606.

| Name | Age | Director Since | Expiration of Term |
|---|---|---|---|
| *Independent Directors* | | | |
| Brian S. Dunn | 38 | 2007 | 2011 |
| Richard P. Dutkiewicz | 54 | 2010 | 2013 |
| Byron J. Haney | 49 | 2007 | 2011 |
| Frank C. Meyer | 66 | 2007 | 2013 |
| Douglas F. Ray | 42 | 2007 | 2013 |
| *Interested Directors* | | | |
| Leonard M. Tannenbaum | 38 | 2007 | 2012 |
| Bernard D. Berman | 39 | 2009 | 2012 |

#### *Executive Officers*

The following persons serve as our executive officers in the following capacities:

| Name | Age | Position(s) Held |
|---|---|---|
| Leonard M. Tannenbaum | 38 | Chief Executive Officer |
| Bernard D. Berman | 39 | President, Chief Compliance Officer and Secretary |
| William H. Craig | 54 | Chief Financial Officer |
| Marc A. Goodman | 52 | Chief Investment Officer |

The address for each executive officer is c/o Fifth Street Finance Corp., 10 Bank Street, Suite 1210, White Plains, NY 10606.

**Biographical Information**

***Independent Directors***

- *Brian S. Dunn.* Mr. Dunn has been a member of our Board of Directors since December 2007. Mr. Dunn has over 15 years of marketing, logistical and entrepreneurial experience. He founded and turned around direct marketing divisions for several consumer-oriented companies. Since June 2006, Mr. Dunn has been the marketing director for Lipenwald, Inc., a direct marketing company that markets collectibles and mass merchandise. Prior to that, from February 2001 to June 2006, he was sole proprietor of BSD Trading/Consulting. Mr. Dunn graduated from the Wharton School of the University of Pennsylvania in 1993 with a B.S. in Economics.
- *Richard P. Dutkiewicz.* Mr. Dutkiewicz has been a member of our Board of Directors since February 2010. Since April 2010, Mr. Dutkiewicz has been the executive vice president and chief financial officer of Real Mex Restaurants, Inc. Mr. Dutkiewicz previously served as chief financial officer of Einstein Noah Restaurant Group from October 2003 to March 2010. From May 2003 to October 2003, Mr. Dutkiewicz was vice president -information technology of Sirenza Microdevices, Inc. In May 2003, Sirenza Microdevices, Inc. acquired Vari-L Company, Inc. From January 2001 to May 2003, Mr. Dutkiewicz was vice president-finance, and chief financial officer of Vari-L Company, Inc. From April 1995 to January 2001, Mr. Dutkiewicz was vice president-finance, chief financial officer, secretary and treasurer of Coleman Natural Products, Inc., located in Denver, Colorado. Mr. Dutkiewicz's previous experience includes senior financial management positions at Tetrad Corporation, MicroLithics Corporation and various divisions of United Technologies Corporation. Mr. Dutkiewicz began his career as an Audit Manager at KPMG LLP. Mr. Dutkiewicz received a B.B.A. degree from Loyola University of Chicago.
- *Byron J. Haney.* Mr. Haney has been a member of our Board of Directors since December 2007. From 1994 until 2009, Mr. Haney worked for Resurgence Asset Management LLC, during which time he most recently served as managing director and chief investment officer. Mr. Haney previously served on the Board of Directors of Sterling Chemicals, Inc., and Furniture.com. Mr. Haney has more than 20 years of business experience, including having served as chief financial officer of a private retail store chain and as an auditor with Touche Ross & Co., a predecessor of Deloitte & Touche LLP. Mr. Haney earned his B.S. in Business Administration from the University of California at Berkeley and his M.B.A. from the Wharton School of the University of Pennsylvania.
- *Frank C. Meyer.* Mr. Meyer has been a member of our Board of Directors since December 2007. Mr. Meyer is a private investor who was chairman of Glenwood Capital Investments, LLC, an investment adviser specializing in hedge funds, which he founded in January of 1988 and from which he resigned in January of 2004. As of October of 2000, Glenwood has been a wholly-owned subsidiary of the Man Group, PLC, an investment adviser based in England specializing in alternative investment strategies. Since leaving Glenwood in 2004, Mr. Meyer has focused on serving as a director for various companies. During his career, Mr. Meyer has served as an outside director on a several companies, including Quality Systems, Inc. (a public company specializing in software for medical and dental professionals), Bernard Technologies, Inc. (a firm specializing in development of industrial processes using chlorine dioxide), and Centurion Trust Company of Arizona (where he served as a non-executive Chairman until its purchase by GE Financial). Currently, he is on the Board of Directors of Einstein-Noah Restaurant Group, Inc., a firm operating in the quick casual segment of the restaurant industry, and United Capital Financial Partners, Inc., a firm that converts transaction-oriented brokers into fee-based financial planners. He is also on the Board of Directors of three investment funds run by Ferox Capital Management, Limited, an investment manager based in the United Kingdom that specializes in convertible bonds. Mr. Meyer received his B.A. and M.B.A. from the University of Chicago.
- *Douglas F. Ray.* Mr. Ray has been a member of our Board of Directors since December 2007. Since August 1995, Mr. Ray has worked for Seavest Inc., a private investment and wealth management firm based in White

Plains, New York. He currently serves as the president of Seavest Inc. Mr. Ray has more than 14 years experience acquiring, developing, financing and managing a diverse portfolio of real estate investments, including three healthcare properties funds. Mr. Ray previously served on the Board of Directors of Nat Nast, Inc., a luxury men's apparel company. Prior to joining Seavest, Mr. Ray worked in Washington, D.C. on the staff of U.S. Senator Arlen Specter and as a research analyst with the Republican National Committee. Mr. Ray holds a B.A. from the University of Pittsburgh.

***Interested Directors***

- *Leonard M. Tannenbaum, CFA.* Mr. Tannenbaum has been our chief executive officer since October 2007 and the chairman of our Board of Directors since December 2007, and was our president from October 2007 through February 2010. He is also the managing partner of our investment adviser. Since founding his first private investment firm in 1998, Mr. Tannenbaum has founded a number of private investment firms, including Fifth Street Capital LLC, and he has served as managing member of each firm. Prior to launching his first firm, Mr. Tannenbaum gained extensive small-company experience as an equity analyst for Merrill Lynch and a partner in a $50 million small company hedge fund. In addition to serving on our Board of Directors, Mr. Tannenbaum currently serves on the Board of Directors of several Greenlight Capital affiliated entities (Greenlight Capital Offshore, Ltd., Greenlight Capital Offshore Qualified, Ltd., Greenlight Masters Offshore, Ltd., and Greenlight Masters Offshore I, Ltd.) and has previously served on the Boards of Directors of five other public companies, including Einstein Noah Restaurant Group, Inc., Assisted Living Concepts, Inc., WesTower Communications, Inc., Cortech, Inc. and General Devices, Inc. Mr. Tannenbaum has also served on four audit committees and five compensation committees, of which he has acted as chairperson for one of such audit committees and four of such compensation committees. Mr. Tannenbaum graduated from the Wharton School of the University of Pennsylvania, where he received a B.S. in Economics. Subsequent to his undergraduate degree from the University of Pennsylvania, Mr. Tannenbaum received an M.B.A. in Finance from the Wharton School as part of the Submatriculation Program. He is a holder of the Chartered Financial Analyst designation and he is also a member of the Young Presidents' Organization.
- *Bernard D. Berman.* Mr. Berman has been a member of our Board of Directors since February 2009. He has also been our president since February 2010, our chief compliance officer since April 2009 and our secretary since October 2007. Mr. Berman is also a partner of our investment adviser and serves on its investment committee. Mr. Berman is responsible for the operations of the Company. Prior to joining Fifth Street in 2004, Mr. Berman was a corporate attorney from 1995 to 2004, during which time he negotiated and structured a variety of investment transactions. Mr. Berman graduated from Boston College Law School. He received a B.S. in Finance from Lehigh University.

***Non-Director Executive Officers***

- *William H. Craig.* Mr. Craig has been our chief financial officer since October 2007 and was our chief compliance officer from December 2007 through April 2009. Prior to joining Fifth Street, from March 2005 to October 2007, Mr. Craig was an executive vice president and chief financial officer of Vital-Signs, Inc., a medical device manufacturer that was later acquired by General Electric Company's GE Healthcare unit in October 2008. Prior to that, from January 2004 to March 2005, he worked as an interim chief financial officer and Sarbanes-Oxley consultant. From 1999 to 2004, Mr. Craig served as an executive vice president for finance and administration and chief financial officer for Matheson Trigas, Inc., a manufacturer and marketer of industrial gases and related equipment. Mr. Craig's prior experience includes stints at GE Capital, Deloitte & Touche LLP, and GMAC, as well as merchant banking. Mr. Craig has an M.B.A. from Texas A&M University and a B.A. from Wake Forest University. Mr. Craig is a Certified Public Accountant and is Accredited in Business Valuation.
- *Marc A. Goodman.* Mr. Goodman has served as our chief investment officer since April 2009 and is a senior partner of Fifth Street Management and is co-head of the Investment Committee of Fifth Street Management. Mr. Goodman has over 18 years of experience advising on, restructuring, and negotiating investments. Mr. Goodman is responsible for all portfolio management. Prior to joining Fifth Street Capital LLC in 2004, from 2003 to 2004, Mr. Goodman was a partner of Triax Capital Advisors, a consulting firm

that provides management and financial advisory services to distressed companies. Mr. Goodman also served as the president of Cross River Consulting, Inc. from June 1998 to January 2005. Previously, he was with the law firm of Kramer, Levin, Naftalis & Frankel LLP and the law firm of Otterbourg, Steindler, Houston & Rosen, P.C. Mr. Goodman graduated from Cardozo Law School, and has a B.A. in Economics from New York University.

**Committees of the Board of Directors**

Our Board of Directors met 11 times during our 2009 fiscal year. Our Board of Directors has established the committees described below. Our Corporate Governance Policy, Code of Business Conduct and Ethics, our and our investment adviser's Code of Ethics as required by the 1940 Act and our Board Committee charters are available at our corporate governance webpage at *http://ir.fifthstreetfinance.com/governance.cfm* and are also available to any stockholder who requests them by writing to our secretary, Bernard Berman, at Fifth Street Finance Corp., 10 Bank Street, Suite 1210, White Plains, NY 10606, Attention: Corporate Secretary.

***Audit Committee***

The Audit Committee is responsible for selecting, engaging and discharging our independent accountants, reviewing the plans, scope and results of the audit engagement with our independent accountants, approving professional services provided by our independent accountants (including compensation therefore), reviewing the independence of our independent accountants and reviewing the adequacy of our internal control over financial reporting. The members of the Audit Committee are Messrs. Dunn, Dutkiewicz and Haney, each of whom is not an interested person of us for purposes of the 1940 Act and is independent for purposes of the New York Stock Exchange corporate governance listing standards. Mr. Haney serves as the chairman of the Audit Committee. Our Board of Directors has determined that Mr. Haney is an “audit committee financial expert” as defined under SEC rules. The Audit Committee met six times during our 2009 fiscal year.

***Nominating and Corporate Governance Committee***

The Nominating and Corporate Governance Committee is responsible for determining criteria for service on our Board of Directors, identifying, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on our Board of Directors or a committee of the Board of Directors, developing and recommending to the Board of Directors a set of corporate governance principles and overseeing the self-evaluation of the Board of Directors and its committees and evaluation of our management. The Nominating and Corporate Governance Committee considers nominees properly recommended by our stockholders. The members of the Nominating and Corporate Governance Committee are Messrs. Dunn, Haney and Ray, each of whom is not an interested person of us for purposes of the 1940 Act and is independent for purposes of the New York Stock Exchange corporate governance listing standards. Mr. Dunn serves as the chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee met two times during our 2009 fiscal year.

The Nominating and Corporate Governance Committee will consider qualified director nominees recommended by stockholders when such recommendations are submitted in accordance with our restated and amended bylaws and any other applicable law, rule or regulation regarding director nominations. Stockholders may submit candidates for nomination for our board of directors by writing to: Board of Directors, Fifth Street Finance Corp., 10 Bank Street, Suite 1210, White Plains, NY 10606. When submitting a nomination to us for consideration, a stockholder must provide certain information about each person whom the stockholder proposes to nominate for election as a director, including: (i) the name, age, business address and residence address of the person; (ii) the principal occupation or employment of the person; (iii) the class or series and number of shares of our capital stock owned beneficially or of record by the persons; and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated thereunder. Such notice must be accompanied by the proposed nominee's written consent to be named as a nominee and to serve as a director if elected.

In evaluating director nominees, the Nominating and Corporate Governance Committee considers the following facts:

- the appropriate size and composition of our Board;
- our needs with respect to the particular talents and experience of our directors;
- the knowledge, skills and experience of nominees in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of our Board;
- the capacity and desire to serve as a member of our board of directors and to represent the balanced, best interests of our stockholders as a whole;
- experience with accounting rules and practices; and
- the desire to balance the considerable benefit of continuity with the periodic addition of the fresh perspective provided by new members.

The Nominating and Corporate Governance Committee's goal is to assemble a board of directors that brings us a variety of perspectives and skills derived from high quality business and professional experience.

Other than the foregoing, there are no stated minimum criteria for director nominees, although the Nominating and Corporate Governance Committee may also consider such other factors as it may deem are in our best interests and those of our stockholders. The Nominating and Corporate Governance Committee also believes it appropriate for certain key members of our management to participate as members of the Board.

The Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue in service or if the Nominating and Corporate Governance Committee or the Board decides not to re-nominate a member for re-election, the Nominating and Corporate Governance Committee identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the Nominating and Corporate Governance Committee and Board are polled for suggestions as to individuals meeting the criteria of the Nominating and Corporate Governance Committee. Research may also be performed to identify qualified individuals. We have not engaged third parties to identify or evaluate or assist in identifying potential nominees to the Board.

***Valuation Committee***

The Valuation Committee establishes guidelines and makes recommendations to our Board of Directors regarding the valuation of our loans and investments. The Valuation Committee is responsible for reviewing and approving for submission to our Board of Directors, in good faith, the fair value of debt and equity securities that are not publicly traded or for which current market values are not readily available. The Board of Directors and Valuation Committee will utilize the services of an independent valuation firm to help determine the fair value of these securities. The Valuation Committee is presently composed of Messrs. Dutkiewicz, Haney, Meyer and Ray, each of whom is not an interested person of us for purposes of the 1940 Act and is independent for purposes of the New York Stock Exchange corporate governance listing standards. Mr. Meyer serves as the chairman of the Valuation Committee. The Valuation Committee met on four occasions during our 2009 fiscal year.

***Compensation Committee***

The Compensation Committee is responsible for reviewing and approving the reimbursement by us of the compensation of our chief financial officer and his staff, and the staff of our chief compliance officer. The current members of the Compensation Committee are Messrs. Dunn, Meyer and Ray, each of whom is not an interested person of us for purposes of the 1940 Act and is independent for purposes of the NYSE corporate governance listing standards. Mr. Ray serves as the chairman of the Compensation Committee. As discussed below, currently, none of our executive officers are compensated by us. The Compensation Committee met one time during our 2009 fiscal year.

**Executive Compensation**

***Compensation of Directors***

The following table sets forth compensation of our directors for the year ended September 30, 2009.

| Name | Fees Earned or Paid in Cash(1)(2) | Total |
|---|---|---|
| **Interested Directors** | | |
| Bernard D. Berman | — | — |
| Leonard M. Tannenbaum | — | — |
| Bruce E. Toll(3) | $ 2,000 | $ 2,000 |
| **Independent Directors** | | |
| Adam C. Berkman(4) | $50,500 | $50,500 |
| Brian S. Dunn | $56,500 | $56,500 |
| Byron J. Haney | $70,500 | $70,500 |
| Frank C. Meyer | $77,000 | $77,000 |
| Douglas F. Ray | $53,750 | $53,750 |

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

(2) We do not maintain a stock or option plan, non-equity incentive plan or pension plan for our directors.

(3) Mr. Toll did not stand for re-election at the 2009 annual meeting and his term expired at such meeting.

(4) Mr. Berkman resigned from the Board of Directors on February 24, 2010 due to personal time constraints.

For the year ended September 30, 2009, the independent directors received an annual retainer fee of $25,000, payable once per year if the director attended at least 75% of the meetings held during the previous year, plus $2,000 for each board meeting in which the director attended in person and $1,000 for each board meeting in which the director participated other than in person, and reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting. The independent directors also received $1,000 for each committee meeting in which they attended in person and $500 for each committee meeting in which they participated other than in person, in connection with each committee meeting of the Board that they attended, plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting not held concurrently with a board meeting.

In addition, the Chairman of the Audit Committee received an annual retainer of $20,000, while the Chairman of the Valuation Committee and the Chairman of the Nominating and Corporate Governance Committee each received an annual retainer of $30,000 and $5,000, respectively. No compensation was paid to directors who are interested persons of us as defined in the 1940 Act, except that we paid Mr. Toll all applicable board fees for the period of time during the fiscal year ended September 30, 2009 that he served as a member of the Board.

Effective as of October 1, 2009, the annual retainer fee received by the independent directors was increased to $30,000, payable once per year if the director attends at least 75% of the meetings held during the previous year, and the annual retainer fee paid to the chairman of the Valuation Committee of our Board was reduced to $20,000 from $30,000.

**Compensation of Executive Officers**

None of our executive officers receive direct compensation from us. The compensation of the principals and other investment professionals of our investment adviser are paid by our investment adviser. Compensation paid to William H. Craig, our chief financial officer, is set by our administrator, FSC, Inc., and is subject to reimbursement by us of an allocable portion of such compensation for services rendered to us. FSC, Inc. has voluntarily determined to forgo receiving reimbursement for the services performed for us by our chief compliance officer, Bernard D. Berman, given his compensation arrangement with our investment adviser. However, although FSC, Inc. currently intends to forgo its right to receive such reimbursement, it is under no obligation to do so and may cease to do so at any time in the future. During fiscal year 2009, we reimbursed FSC, Inc. approximately $704,000 for the allocable portion of compensation expenses incurred by FSC, Inc. on behalf of Mr. Craig and other support personnel, pursuant to the administration agreement with FSC, Inc.

## PORTFOLIO MANAGEMENT

The management of our investment portfolio is the responsibility of our investment adviser, and its Investment Committee, which currently consists of Leonard M. Tannenbaum, our chief executive officer and managing partner of our investment adviser, Marc A. Goodman, our chief investment officer and senior partner of our investment adviser, Bernard D. Berman, our president, chief compliance officer and secretary and a partner of our investment adviser, and Ivelin M. Dimitrov, a partner of our investment adviser. For more information regarding the business experience of Messrs. Tannenbaum, Berman, Goodman and Dimitrov, see "Business — The Investment Adviser," "— Biographical Information — Interested Directors" and "— Non-Director Executive Officers."

***Investment Personnel***

Our investment adviser's investment personnel consists of its portfolio managers and principals, Messrs. Tannenbaum, Goodman, Alva, Berman, Dimitrov and Craig, who, in addition to our investment adviser's Investment Committee, are primarily responsible for the day-to-day management of our portfolio.

The portfolio managers of our investment adviser will not be employed by us, and will receive no compensation from us in connection with their activities. The portfolio managers receive compensation that includes an annual base salary, an annual individual performance bonus, contributions to 401(k) plans, and a portion of the incentive fee or carried interest earned in connection with their services.

As of March 31, 2010, the portfolio managers of our investment adviser were also responsible for the day-to-day portfolio management of Fifth Street Mezzanine Partners II, L.P., a private investment fund that as of that date had total commitments of $157.1 million and assets of approximately $67.0 million. Fifth Street Mezzanine Partners II, L.P. and Fifth Street have similar investment objectives, however, Fifth Street Mezzanine Partners II, L.P. generally is fully committed and, other than follow-on investments in existing portfolio companies, is no longer making investments. However, the portfolio managers of our investment adviser could face conflicts of interest in the allocation of investment opportunities to Fifth Street and Fifth Street Mezzanine Partners II, L.P. in certain circumstances.

Below are the biographies for the portfolio managers whose biographies are not included elsewhere in this prospectus.

- *Juan E. Alva.* Mr. Alva is a partner of our investment adviser. Mr. Alva joined our investment adviser in January 2007 and is responsible for deal origination in the Western United States. From March 1993 to January 2000, he worked at Goldman, Sachs & Co., in its investment banking division, focusing on mergers & acquisitions and corporate finance transactions. Mr. Alva was also chief financial officer of ClickServices.com, Inc., a software company, from 2000 to 2002, and most recently, from 2003 to 2006 he was a senior investment banker at Trinity Capital LLC, a boutique investment bank focused on small-cap transactions. Mr. Alva graduated from the University of Pennsylvania with a B.S. from the Wharton School and a B.S.E. from the School of Engineering and Applied Science.
- *Ivelin M. Dimitrov.* Mr. Dimitrov is a partner of our investment adviser. Mr. Dimitrov joined our investment adviser in May 2005 and is responsible for evaluation of new investment opportunities, deal structuring, and portfolio monitoring, in addition to managing the Associate and Analyst team. Mr. Dimitrov is the chairman of our investment adviser's internal valuation committee. He has prior experience in financial analysis, valuation, and investment research working with companies in the United States, as well as Europe. Mr. Dimitrov graduated from the Carroll Graduate School of Management at Boston College with an M.S. in Finance and has a B.S. in Business Administration from the University of Maine.

The table below shows the dollar range of shares of common stock beneficially owned by each portfolio manager of our investment adviser as of March 31, 2010.

| Name of Portfolio Manager | Dollar Range of Equity Securities in Fifth Street(1)(2)(3) |
|---|---|
| Leonard M. Tannenbaum | Over $1,000,000 |
| Marc A. Goodman | $500,001 — $1,000,000 |
| Juan E. Alva | $100,001 — $500,000 |
| Bernard D. Berman | $100,001 — $500,000 |
| Ivelin M. Dimitrov | $50,001 — $100,000 |

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.

(2) The dollar range of equity securities beneficially owned by our directors is based on a stock price of $11.61 per share as of March 31, 2010.

(3) The dollar range of equity securities beneficially owned are: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000, $100,001-$500,000, $500,001-$1,000,000, or over $1,000,000.

## INVESTMENT ADVISORY AGREEMENT

### Overview of Our Investment Adviser

***Management Services***

Our investment adviser, Fifth Street Management, is registered as an investment adviser under the Investment Advisers Act of 1940, or the "Advisers Act." Our investment adviser serves pursuant to the investment advisory agreement in accordance with the 1940 Act. Subject to the overall supervision of our Board of Directors, our investment adviser manages our day-to-day operations and provides us with investment advisory services. Under the terms of the investment advisory agreement, our investment adviser:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- determines what securities we purchase, retain or sell;
- identifies, evaluates and negotiates the structure of the investments we make; and
- executes, monitors and services the investments we make.

Our investment adviser's services under the investment advisory agreement may not be exclusive and it is free to furnish similar services to other entities so long as its services to us are not impaired.

***Management Fee***

We pay our investment adviser a fee for its services under the investment advisory agreement consisting of two components — a base management fee and an incentive fee. The cost of both the base management fee payable to our investment adviser and any incentive fees earned by our investment adviser will ultimately be borne by our common stockholders.

*Base Management Fee*

The base management fee is calculated at an annual rate of 2% of our gross assets, which includes any borrowings for investment purposes. The base management fee is payable quarterly in arrears, and is calculated based on the value of our gross assets at the end of each fiscal quarter, and appropriately adjusted on a pro rata basis for any equity capital raises or repurchases during such quarter. The base management fee for any partial month or quarter will be appropriately pro rated. Our investment adviser permanently waived the portion of the base management fee attributable to cash and cash equivalents (as defined in the notes to our Consolidated Financial Statements) as of the end of each quarter beginning March 31, 2010. As a result, our base management fee will be calculated at an annual rate of 2% of our gross assets, including any investments made with borrowings, but excluding any cash and cash equivalents (as defined in the notes to our Consolidated Financial Statements) as of the end of each quarter.

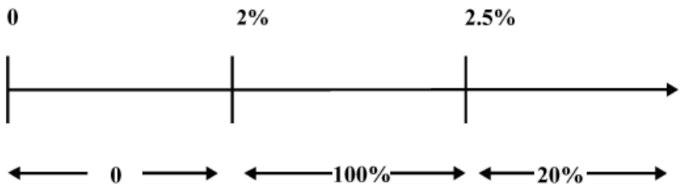
*Incentive Fee*

The incentive fee has two parts. The first part is calculated and payable quarterly in arrears based on our "Pre-Incentive Fee Net Investment Income" for the immediately preceding fiscal quarter. For this purpose, "Pre-Incentive Fee Net Investment Income" means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the fiscal quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement with FSC, Inc., and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding fiscal quarter, will be compared to a “hurdle rate” of 2% per quarter (8% annualized), subject to a “catch-up” provision measured as of the end of each fiscal quarter. Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee. The operation of the incentive fee with respect to our Pre-Incentive Fee Net Investment Income for each quarter is as follows:

- no incentive fee is payable to the investment adviser in any fiscal quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 2% (the “preferred return” or “hurdle”).
- 100% 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 or equal to 2.5% in any fiscal quarter (10% annualized) is payable to the investment adviser. We refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle rate but is less than or equal to 2.5%) as the “catch-up.” The “catch-up” provision is intended to provide our investment adviser with an incentive fee of 20% on all of our Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when our Pre-Incentive Fee Net Investment Income exceeds 2.5% in any fiscal quarter.
- 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.5% in any fiscal quarter (10% annualized) is payable to the investment adviser once the hurdle is reached and the catch-up is achieved.

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

**Quarterly Incentive Fee Based on “Pre-Incentive Fee Net Investment Income”**
**Pre-Incentive Fee Net Investment Income**
**(expressed as a percentage of the value of net assets)**




**Percentage of Pre-Incentive Fee Net Investment**
**Income allocated to income-related portion of incentive fee**

The second part of the incentive fee is determined and payable in arrears as of the end of each fiscal year (or upon termination of the investment advisory agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each fiscal year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees, provided that, the incentive fee determined as of September 30, 2008 was calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation from inception.

**Example 1: Income Related Portion of Incentive Fee for Each Fiscal Quarter**

***Alternative 1***

*Assumptions*

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

Hurdle rate(1) = 2%

Management fee(2) = 0.5%

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

Pre-Incentive Fee Net Investment Income

(investment income − (management fee + other expenses) = 0.55%

Pre-Incentive Fee Net Investment Income does not exceed hurdle rate, therefore there is no income-related incentive fee.

***Alternative 2***

*Assumptions*

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

Hurdle rate(1) = 2%

Management fee(2) = 0.5%

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

Pre-Incentive Fee Net Investment Income

(investment income − (management fee + other expenses) = 2.2%

Incentive fee = 100% × Pre-Incentive Fee Net Investment Income (subject to "catch-up")(4)
= 100% × (2.2% – 2%)
= 0.2%

Pre-Incentive Fee Net Investment Income exceeds the hurdle rate, but does not fully satisfy the "catch-up" provision, therefore the income related portion of the incentive fee is 0.2%.

***Alternative 3***

*Assumptions*

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

Hurdle rate(1) = 2%

Management fee(2) = 0.5%

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

Pre-Incentive Fee Net Investment Income

(investment income − (management fee + other expenses) = 2.8%

Incentive fee = 100% × Pre-Incentive Fee Net Investment Income (subject to "catch-up")(4)

Incentive fee = 100% × "catch-up" + (20% × (Pre-Incentive Fee Net Investment Income – 2.5%))

Catch up = 2.5% – 2%
= 0.5%

Incentive fee = (100% × 0.5%) + (20% × (2.8% – 2.5%))
= 0.5% + (20% × 0.3%)
= 0.5% + 0.06%
= 0.56%

Pre-Incentive Fee Net Investment Income exceeds the hurdle rate, and fully satisfies the "catch-up" provision, therefore the income related portion of the incentive fee is 0.56%.

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(1) Represents 8% annualized hurdle rate.

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

(4) The "catch-up" provision is intended to provide our investment adviser with an incentive fee of 20% on all Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when our net investment income exceeds 2.5% in any fiscal quarter.

**Example 2: Capital Gains Portion of Incentive Fee(*):**

***Alternative 1:***

*Assumptions*

Year 1: $20 million investment made in Company A ("Investment A"), and $30 million investment made in Company B ("Investment B")

Year 2: Investment A sold for $50 million and fair market value ("FMV") of Investment B determined to be $32 million

Year 3: FMV of Investment B determined to be $25 million

Year 4: Investment B sold for $31 million

The capital gains portion of the incentive fee would be:

Year 1: None

Year 2: Capital gains incentive fee of $6 million — ($30 million realized capital gains on sale of Investment A multiplied by 20%)

Year 3: None — $5 million (20% multiplied by ($30 million cumulative capital gains less $5 million cumulative capital depreciation)) less $6 million (previous capital gains fee paid in Year 2)

Year 4: Capital gains incentive fee of $200,000 — $6.2 million ($31 million cumulative realized capital gains multiplied by 20%) less $6 million (capital gains incentive fee taken in Year 2)

***Alternative 2***

*Assumptions*

Year 1: $20 million investment made in Company A ("Investment A"), $30 million investment made in Company B ("Investment B") and $25 million investment made in Company C ("Investment C")

Year 2: Investment A sold for $50 million, FMV of Investment B determined to be $25 million and FMV of Investment C determined to be $25 million

Year 3: FMV of Investment B determined to be $27 million and Investment C sold for $30 million

Year 4: FMV of Investment B determined to be $35 million

Year 5: Investment B sold for $20 million

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

Year 1: None

Year 2: $5 million capital gains incentive fee — 20% multiplied by $25 million ($30 million realized capital gains on Investment A less unrealized capital depreciation on Investment B)

Year 3: $1.4 million capital gains incentive fee(1) — $6.4 million (20% multiplied by $32 million ($35 million cumulative realized capital gains less $3 million unrealized capital depreciation)) less $5 million capital gains incentive fee received in Year 2

Year 4: None

Year 5: None — $5 million (20% multiplied by $25 million (cumulative realized capital gains of $35 million less realized capital losses of $10 million)) less $6.4 million cumulative capital gains incentive fee paid in Year 2 and Year 3(2)

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

(1) As illustrated in Year 3 of Alternative 1 above, if Fifth Street were to be wound up on a date other than its fiscal year end of any year, Fifth Street may have paid aggregate capital gains incentive fees that are more than the amount of such fees that would be payable if Fifth Street had been wound up on its fiscal year end of such year.

(2) As noted above, it is possible that the cumulative aggregate capital gains fee received by our investment adviser ($6.4 million) is effectively greater than $5 million (20% of cumulative aggregate realized capital gains less net realized capital losses or net unrealized depreciation ($25 million)).

**Payment of Our Expenses**

Our primary operating expenses are the payment of a base management fee and any incentive fees under the investment advisory agreement and the allocable portion of overhead and other expenses incurred by FSC, Inc. in performing its obligations under the administration agreement. Our investment management fee compensates our investment adviser for its work in identifying, evaluating, negotiating, executing, monitoring and servicing our investments. We bear all other expenses of our operations and transactions, including (without limitation) fees and expenses relating to:

- offering expenses;
- the investigation and monitoring of our investments;
- the cost of calculating our net asset value;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- management and incentive fees payable pursuant to the investment advisory agreement;
- fees payable to third parties relating to, or associated with, making investments and valuing investments (including third-party valuation firms);
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts (including attendance at investment conferences and similar events);
- federal and state registration fees;
- any exchange listing fees;
- federal, state and local taxes;
- independent directors’ fees and expenses;
- brokerage commissions;
- costs of proxy statements, stockholders’ reports and notices;
- costs of preparing government filings, including periodic and current reports with the SEC;
- fidelity bond, liability insurance and other insurance premiums; and

- printing, mailing, independent accountants and outside legal costs and all other direct expenses incurred by either our investment adviser or us in connection with administering our business, including payments under the administration agreement that will be based upon our allocable portion of overhead and other expenses incurred by FSC, Inc. in performing its obligations under the administration agreement and the compensation of our chief financial officer and chief compliance officer, and their staff. FSC, Inc. has voluntarily determined to forgo receiving reimbursement for the services performed for us by our chief compliance officer, Bernard D. Berman, given his compensation arrangement with our investment adviser. However, although FSC, Inc. currently intends to forgo its right to receive such reimbursement, it is under no obligation to do so and may cease to do so at any time in the future.

**Duration and Termination**

The investment advisory agreement was first approved by our Board of Directors on December 13, 2007 and by a majority of the limited partners of Fifth Street Mezzanine Partners III, L.P. through a written consent first solicited on December 14, 2007. On March 14, 2008, our Board of Directors, including all of the directors who are not “interested persons” as defined in the 1940 Act, approved an amendment to the investment advisory agreement that revised the investment advisory agreement to clarify the calculation of the base management fee. Such amendment was also approved by a majority of our outstanding voting securities through a written consent first solicited on April 7, 2008. Unless earlier terminated as described below, the investment advisory agreement, as amended, will remain in effect for a period of two years from the date it was approved by the Board of Directors and will remain in effect from year-to-year thereafter if approved annually by the Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The investment advisory agreement will automatically terminate in the event of its assignment. The investment advisory agreement may be terminated by either party without penalty upon not more than 60 days’ written notice to the other. The investment advisory agreement may also be terminated, without penalty, upon the vote of a majority of our outstanding voting securities.

**Indemnification**

The investment advisory agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of their respective duties or by reason of the reckless disregard of their respective duties and obligations, our investment adviser and its officers, managers, agents, employees, controlling persons, members (or their owners) and any other person or entity affiliated with it, are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys’ fees and amounts reasonably paid in settlement) arising from the rendering of our investment adviser’s services under the investment advisory agreement or otherwise as our investment adviser.

**Organization of our Investment Adviser**

Our investment adviser is a Delaware limited liability company that registered as an investment adviser under the Advisers Act. The principal address of our investment adviser is 10 Bank Street, Suite 1210, White Plains, NY 10606.

**Board Approval of the Investment Advisory Agreement**

At a meeting of our Board of Directors held on February 24, 2010, our Board of Directors unanimously voted to approve the investment advisory agreement. In reaching a decision to approve the investment advisory agreement, the Board of Directors reviewed a significant amount of information and considered, among other things:

- the nature, quality and extent of the advisory and other services to be provided to us by Fifth Street Management;
- the fee structures of comparable externally managed business development companies that engage in similar investing activities; and

- our projected operating expenses and expense ratio compared to business development companies with similar investment objectives;
- any existing and potential sources of indirect income to Fifth Street Management from its relationship with us and the profitability of that relationship, including through the investment advisory agreement;
- information about the services to be performed and the personnel performing such services under the investment advisory agreement;
- the organizational capability and financial condition of Fifth Street Management and its affiliates; and
- various other matters.

Based on the information reviewed and the discussions detailed above, the Board of Directors, including all of the directors who are not “interested persons” as defined in the 1940 Act, concluded that the investment advisory fee rates and terms are reasonable in relation to the services provided and approved the investment advisory agreement and the administration agreement as being in the best interests of our stockholders.

## ADMINISTRATION AGREEMENT

We have also entered into an administration agreement with FSC, Inc. under which FSC, Inc. provides administrative services for us, including office facilities and equipment and clerical, bookkeeping and recordkeeping services at such facilities. Under the administration agreement, FSC, Inc. also performs, or oversees the performance of, our required administrative services, which includes being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, FSC, Inc. assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others. For providing these services, facilities and personnel, we reimburse FSC, Inc. the allocable portion of overhead and other expenses incurred by FSC, Inc. in performing its obligations under the administration agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief financial officer and chief compliance officer, and their staff. FSC, Inc. has voluntarily determined to forgo receiving reimbursement for the services performed for us by our chief compliance officer, Bernard D. Berman, given his compensation arrangement with our investment adviser. However, although FSC, Inc. currently intends to forgo its right to receive such reimbursement, it is under no obligation to do so and may cease to do so at any time in the future. FSC, Inc. may also provide on our behalf managerial assistance to our portfolio companies. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

The administration agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of their respective duties or by reason of the reckless disregard of their respective duties and obligations, FSC, Inc. and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of services under the administration agreement or otherwise as administrator for us.

## LICENSE AGREEMENT

We have also entered into a license agreement with Fifth Street Capital LLC pursuant to which Fifth Street Capital LLC has agreed to grant us a non-exclusive, royalty-free license to use the name "Fifth Street." Under this agreement, we will have a right to use the "Fifth Street" name, for so long as Fifth Street Management or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we will have no legal right to the "Fifth Street" name.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We have entered into an investment advisory agreement with Fifth Street Management, our investment adviser. Fifth Street Management is controlled by Leonard M. Tannenbaum, its managing member and the chairman of our Board and our chief executive officer. Pursuant to the investment advisory agreement, fees payable to our investment adviser will be equal to (a) a base management fee of 2.0% of the value of our gross assets, which includes any borrowings for investment purposes, and (b) an incentive fee based on our performance. Our investment adviser has agreed to permanently waive that portion of its base management fee attributable to our assets held in the form of cash and cash equivalents as of the end of each quarter beginning on March 31, 2010. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our "Pre-Incentive Fee Net Investment Income" for the immediately preceding quarter, subject to a 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 (or upon termination of the investment advisory agreement) and equals 20% of our "Incentive Fee Capital Gains," which equals our realized capital gains on a cumulative basis from inception through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee.

The investment advisory agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. Since we entered into the investment advisory agreement in December 2007, we have paid our investment adviser $8,375,878 and $13,729,321 for the fiscal years ended September 30, 2008 and September 30, 2009, respectively, under the investment advisory agreement.

Pursuant to the administration agreement with FSC, Inc., which is controlled by Mr. Tannenbaum, FSC, Inc. will furnish us with the facilities and administrative services necessary to conduct our day-to-day operations, including equipment, clerical, bookkeeping and recordkeeping services at such facilities. In addition, FSC, Inc. will assist us in connection with the determination and publishing of our net asset value, the preparation and filing of tax returns and the printing and dissemination of reports to our stockholders. We will pay FSC, Inc. our allocable portion of overhead and other expenses incurred by it in performing its obligations under the administration agreement, including a portion of the rent and the compensation of our chief financial officer and our chief compliance officer, and their staff. FSC, Inc. has voluntarily determined to forgo receiving reimbursement for the services performed for us by our chief compliance officer, Bernard D. Berman, given his compensation arrangement with our investment adviser. However, although FSC, Inc. currently intends to forgo its right to receive such reimbursement, it is under no obligation to do so and may cease to do so at any time in the future. The administration agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. Since we entered into the administration agreement in December 2007, we have paid FSC, Inc. $1,569,912 and $1,295,512 for the fiscal years ended September 30, 2008 and September 30, 2009, respectively, under the administration agreement.

We have also entered into a license agreement with Fifth Street Capital LLC pursuant to which Fifth Street Capital LLC has agreed to grant us a non-exclusive, royalty-free license to use the name "Fifth Street." Under this agreement, we will have a right to use the "Fifth Street" name, for so long as Fifth Street Management LLC or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we will have no legal right to the "Fifth Street" name. Fifth Street Capital LLC is controlled by Mr. Tannenbaum, its managing member.

## CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common stock by:

- each person known to us to beneficially own 5% or more of the outstanding shares of our common stock;
- each of our directors and each executive officers; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Unless otherwise indicated, percentage of beneficial ownership is based on 45,282,596 shares of common stock outstanding as of March 31, 2010.

Unless otherwise indicated, to our knowledge, each stockholder listed below has sole voting and investment power with respect to the shares beneficially owned by the stockholder, and maintains an address c/o Fifth Street Finance Corp., 10 Bank Street, Suite 1210, White Plains, NY 10606.

| Name | Number of Shares Owned Beneficially | Percentage |
|---|---|---|
| **Stockholders Owning 5% or greater of our Outstanding Shares** | | |
| Greenlight Entities(1) | 2,284,492 | 5.04% |
| **Interested Directors:** | | |
| Leonard M. Tannenbaum(2) | 1,391,557 | 3.07% |
| Bernard D. Berman(3) | 11,468 | * |
| **Independent Directors:** | | |
| Brian S. Dunn(4) | 6,000 | * |
| Richard P. Dutkiewicz(4) | 1,000 | * |
| Byron J. Haney(4) | 10,000 | * |
| Frank C. Meyer | 95,304 | * |
| Douglas F. Ray | 2,500 | * |
| **Executive Officers:** | | |
| William H. Craig(5) | 9,754 | * |
| Marc A. Goodman | 55,531 | * |
| **All officers and directors as a group (nine persons)** | 1,583,114 | 3.50% |

* Represents less than 1%.

(1) Based upon information contained in the Schedule 13G/A filed by (i) Greenlight Capital, L.L.C.; (ii) Greenlight Capital, Inc.; (iii) DME Advisors, L.P.; (iv) DME Advisors GP, L.L.C. and (v) David Einhorn on February 16, 2010 (collectively, the “Greenlight Entities”). Greenlight Capital, L.L.C. (“Greenlight LLC”) may be deemed the beneficial owner of 1,014,322 shares of common stock held for the account of Greenlight Capital, L.P. (“Greenlight Fund”), and Greenlight Capital Qualified, L.P. (“Greenlight Qualified”); Greenlight Capital, Inc. (“Greenlight Inc”) may be deemed the beneficial owner of 1,703,857 shares of common stock held for the accounts of Greenlight Fund, Greenlight Qualified and Greenlight Capital Offshore, Ltd. (“Greenlight Offshore”). DME Advisors, L.P. (“Advisors”) may be deemed the beneficial owner of 580,635 shares of common stock held for the account of the managed account for which Advisors acts as investment manager; DME Advisors GP, L.L.C. (“DME GP”) may be deemed the beneficial owner of 580,635 shares of common stock held for the account of the managed account for which Advisors acts as investment manager; Mr. Einhorn may be deemed the beneficial owner of 2,284,492 shares of common stock. This number consists of: (A) an aggregate of 1,014,322 shares of common stock held for the accounts of Greenlight Fund and Greenlight Qualified, (B) 689,535 shares of common stock held for the account of Greenlight Offshore, and (C) 580,635 shares of common stock held for the managed account for which Advisors acts as investment manager. Greenlight LLC is the general partner of Greenlight Fund and Greenlight Qualified; Greenlight Inc serves as investment adviser to Greenlight Offshore. Greenlight, Inc, Greenlight L.L.C., DME Advisors and DME GP are located at 2 Grand Central Tower, 140 East 45th Street, 24th Floor, New York, New York 10017. Pursuant to

Rule 13d-4, each of the Greenlight Entities disclaims all such beneficial ownership except to the extent of their pecuniary interest in any shares of common stock, if applicable.

(2) The total number of shares reported includes: 1,381,557 shares of which Mr. Tannenbaum is the direct beneficial owner; 99,867 shares Mr. Tannenbaum holds in a margin account; 525,000 shares Mr. Tannenbaum has pledged as security to Wachovia Bank, National Association; and 10,000 shares owned by the Leonard M. & Elizabeth T. Tannenbaum Foundation, a 501(c)(3) corporation for which Mr. Tannenbaum serves as the President. With respect to the 10,000 shares held by the Leonard M. & Elizabeth T. Tannenbaum Foundation, Mr. Tannenbaum has sole voting and investment power over all 10,000 shares, but has no pecuniary interest in, and expressly disclaims beneficial ownership of, the shares.

(3) Includes 11,100 shares held in margin accounts.

(4) Shares are held in a brokerage account and may be used as security on a margin basis.

(5) Pursuant to Rule 16a-1, Mr. Craig disclaims beneficial ownership of 6,199 shares of common stock owned by his spouse.

The following table sets forth, as of March 31, 2010, the dollar range of our equity securities that is beneficially owned by each of our directors and nominees for director. We are not part of a "family of investment companies," as that term is defined in the 1940 Act.

| | Dollar Range of Equity Securities Beneficially Owned(1)(2)(3) |
|---|---|
| **Interested Directors:** | |
| Leonard M. Tannenbaum | Over $1,000,000 |
| Bernard D. Berman | $100,001 — $500,000 |
| **Independent Directors:** | |
| Brian S. Dunn | $50,001 — $100,000 |
| Richard P. Dutkiewicz | $10,001 — $50,000 |
| Byron J. Haney | $100,001 — $500,000 |
| Frank C. Meyer | Over $1,000,000 |
| Douglas F. Ray | $10,001 — $50,000 |

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.

(2) The dollar range of equity securities beneficially owned in us is based on the closing price for our common stock of $11.61 on March 31, 2010 on the New York Stock Exchange.

(3) The dollar range of equity securities beneficially owned are: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000, $100,001-$500,000, $500,001-$1,000,000, or over $1,000,000.

## DIVIDEND REINVESTMENT PLAN

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

No action will be required on the part of a registered stockholder to have their cash distributions reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying American Stock Transfer & Trust Company LLC, the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than 3 days prior to the dividend payment date for distributions to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive distributions in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 3 days prior to the dividend payment date, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share. Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election. If the shareholder request is received less than 3 days prior to the dividend payment date then that dividend will be reinvested. However, all subsequent dividends will be paid out in cash on all balances.

We intend to use newly issued shares to implement the plan when our shares are trading at a premium to net asset value. Under such circumstances, the number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the New York Stock Exchange on the distribution payment date. Market price per share on that date will be the closing price for such shares on the New York Stock Exchange or, if no sale is reported for such day, at the average of their reported bid and asked prices. We reserve the right to purchase shares in the open market in connection with our implementation of the plan if either (1) the price at which newly-issued shares are to be credited does not exceed 110% of the last determined net asset value of the shares; or (2) we have advised the plan administrator that since such net asset value was last determined, we have become aware of events that indicate the possibility of a material change in the per share net asset value as a result of which the net asset value of the shares on the payment date might be higher than the price at which the plan administrator would credit newly-issued shares to stockholders. Shares purchased in open market transactions by the plan administrator will be allocated to a stockholder based on the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased in the open market.

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

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

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at *www.amstock.com*, by filling out the transaction request form located at the bottom of their statement and sending it to the plan administrator at P.O. Box 922, Wall Street Station, New York, New York, 10269-0560, or by calling the plan administrators at 1-866-665-2281.

We may terminate the plan upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any distribution by us. All correspondence concerning the plan should be directed to the plan administrator by mail at 6201 15th Avenue, Brooklyn, New York, 11219, or by telephone at 1-866-665-2280.

## DESCRIPTION OF OUR SECURITIES

*The following description summarizes material provisions of the Delaware General Corporation Law and our restated certificate of incorporation and amended and restated bylaws. This summary is not necessarily complete, and we refer you to the Delaware General Corporation Law and our restated certificate of incorporation and amended and restated bylaws for a more detailed description of the provisions summarized below.*

### Capital Stock

Our authorized capital stock consists of 150,000,000 shares of common stock, par value $0.01 per share, of which, 45,282,596 shares were outstanding as of June 3, 2010.

Our common stock is listed on the New York Stock Exchange under the ticker symbol “FSC.” No stock has been authorized for issuance under any equity compensation plans. Under Delaware law, our stockholders generally will not be personally liable for our debts or obligations.

Set forth below is chart describing the classes of our securities outstanding as of June 3, 2010:

| (1)<br>Title of Class | (2)<br>Amount Authorized | (3)<br>Amount Held by us or for Our Account | (4)<br>Amount Outstanding Exclusive of Amount Under Column 3 |
|---|---|---|---|
| Common Stock | 150,000,000 | — | 45,282,596 |

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

### Debt

On November 16, 2009, Funding, our wholly-owned bankruptcy remote, special purpose subsidiary, and we, entered into the Loan Agreement, with respect to the Wells Fargo facility, with Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, as administrative agent, each of the additional institutional and conduit lenders party thereto from time to time, and each of the lender agents party thereto from time to time, in the amount of $50 million with an accordion feature, which allows for potential future expansion of the Wells Fargo facility up to $100 million. The Wells Fargo facility is secured by all of the assets of Funding, and all of our equity interest in Funding. The Wells Fargo facility bears interest at LIBOR plus 4% per annum and has a maturity date of November 16, 2012. The facility may be extended for up to two additional years upon the mutual consent of Wells Fargo Securities, LLC and each of the lender parties thereto. We intend to use the net proceeds of the Wells Fargo facility to fund a portion of our loan origination activities and for general corporate purposes. As of March 31, 2010, we had no borrowings outstanding under the Wells Fargo facility.

In connection with the Wells Fargo facility, we concurrently entered into (i) a Purchase and Sale Agreement with Funding, pursuant to which we will sell to Funding certain loan assets we have originated or acquired, or will originate or acquire and (ii) a Pledge Agreement with Wells Fargo Bank, National Association, pursuant to which we pledged all of our equity interests in Funding as security for the payment of Funding’s obligations under the Loan Agreement and other documents entered into in connection with the Wells Fargo facility.

The Loan Agreement and related agreements governing the Wells Fargo facility required both Funding and us to, among other things (i) make representations and warranties regarding the collateral as well as each of our businesses, (ii) agree to certain indemnification obligations, and (iii) comply with various covenants, servicing procedures, limitations on acquiring and disposing of assets, reporting requirements and other customary requirements for similar credit facilities. The Wells Fargo facility documents also included usual and customary default provisions such as the failure to make timely payments under the Wells Fargo facility, a change in control of Funding, and the failure by Funding or us to materially perform under the Loan Agreement and related agreements governing the Wells Fargo facility, which, if not complied with, could accelerate repayment under the Wells Fargo facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations. At March 31, 2010, we were in compliance with the terms of the Wells Fargo facility.

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

Under our restated certificate of incorporation, we will fully indemnify any person who was or is involved in any actual or threatened action, suit or proceeding (whether civil, criminal, administrative or investigative) by reason of the fact that such person is or was one of our directors or officers or is or was serving at our request as a director or officer of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, against expenses (including attorney's fees), judgments, fines and amounts paid or to be paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding. Our restated certificate of incorporation also provides that our directors will not be personally liable for monetary damages to us for breaches of their fiduciary duty as directors, except for a breach of their duty of loyalty to us or our stockholders, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or for any transaction from which the director derived an improper personal benefit. So long as we are regulated under the 1940 Act, the above indemnification and limitation of liability will be limited by the 1940 Act or by any valid rule, regulation or order of the SEC thereunder. The 1940 Act provides, among other things, that a company may not indemnify any director or officer against liability to it or its stockholders to which he or she might otherwise be subject by reason of his or her willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office unless a determination is made by final decision of a court, by vote of a majority of a quorum of directors who are disinterested, non-party directors or by independent legal counsel that the liability for which indemnification is sought did not arise out of the foregoing conduct.

Delaware law also provides that indemnification permitted under the law shall not be deemed exclusive of any other rights to which the directors and officers may be entitled under the corporation's bylaws, any agreement, a vote of stockholders or otherwise.

Our restated certificate of incorporation permits us to secure insurance on behalf of any person who is or was or has agreed to become a director or officer of Fifth Street or is or was serving at our request as a director or officer of another enterprise for any liability arising out of his or her actions, regardless of whether the Delaware General Corporation Law would permit indemnification. We have obtained liability insurance for our officers and directors.

**Delaware Law and Certain Certificate of Incorporation and Bylaw Provisions; Anti-Takeover Measures**

We are subject to the provisions of Section 203 of the General Corporation Law of Delaware. In general, the statute prohibits a publicly held Delaware corporation from engaging in a "business combination" with "interested stockholders" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes certain mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to exceptions, an "interested stockholder" is a person who, together with his, her or its affiliates and associates, owns, or within three years did own, 15% or more of the corporation's voting stock.

Our restated certificate of incorporation and amended and restated bylaws provide that:

- the Board of Directors be divided into three classes, as nearly equal in size as possible, with staggered three-year terms;

- directors may be removed only for cause by the affirmative vote of the holders of two-thirds of the shares of our capital stock entitled to vote; and
- any vacancy on the Board of Directors, however the vacancy occurs, including a vacancy due to an enlargement of the Board of Directors, may only be filled by vote of the directors then in office.

The classification of our Board of Directors and the limitations on removal of directors and filling of vacancies could have the effect of making it more difficult for a third party to acquire us, or of discouraging a third party from acquiring us.

Our restated certificate of incorporation and amended and restated bylaws also provide that:

- any action required or permitted to be taken by the stockholders at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting and may not be taken by written action in lieu of a meeting; and
- special meetings of the stockholders may only be called by our Board of Directors, chairman or chief executive officer.

Our amended and restated bylaws provide that, in order for any matter to be considered “properly brought” before a meeting, a stockholder must comply with requirements regarding advance notice to us. These provisions could delay until the next stockholders’ meeting stockholder actions which are favored by the holders of a majority of our outstanding voting securities. These provisions may also discourage another person or entity from making a tender offer for our common stock, because such person or entity, even if it acquired a majority of our outstanding voting securities, would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders meeting, and not by written consent.

Delaware’s corporation law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation’s certificate of incorporation or bylaws, unless a corporation’s certificate of incorporation or bylaws requires a greater percentage. Under our amended and restated bylaws and our restated certificate of incorporation, the affirmative vote of the holders of at least $66^2/_3$% of the shares of our capital stock entitled to vote will be required to amend or repeal any of the provisions of our amended and restated bylaws. However, the vote of at least $66^2/_3$% of the shares of our capital stock then outstanding and entitled to vote in the election of directors, voting together as a single class, will be required to amend or repeal any provision of our restated certificate of incorporation pertaining to the Board of Directors, limitation of liability, indemnification, stockholder action or amendments to our certificate of incorporation. In addition, our restated certificate of incorporation permits our Board of Directors to amend or repeal our amended and restated bylaws by a majority vote.

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, a trader in securities that elects to use a market-to-market method of accounting for its securities holdings, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the IRS regarding this offering. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

A “U.S. stockholder” generally is a beneficial owner of shares of our common stock who is for U.S. federal income tax purposes:

- A citizen or individual resident of the United States;
- A corporation or other entity treated as a corporation, for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- A trust if a court within the United States is asked to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantive decisions of the trust; or
- An estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A “Non-U.S. stockholder” generally is a beneficial owner of shares of our common stock who is for U.S. federal income tax purposes:

- A nonresident alien individual;
- A foreign corporation; or
- An estate or trust that in either case is not subject to U.S. federal income tax on a net income basis on income or gain from a note.

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

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

### Election to be Taxed as a RIC

As a business development company, we have elected to be treated, and intend to qualify annually, as a RIC under Subchapter M of the Code, beginning with our 2008 taxable year. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any income that we distribute to our stockholders as dividends. To continue to qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to qualify for RIC tax treatment we must distribute to our stockholders, for each taxable year, at least 90% of our "investment company taxable income," which is generally our ordinary income plus the excess of our realized net short-term capital gains over our realized net long-term capital losses (the "Annual Distribution Requirement").

**Taxation as a Regulated Investment Company**

If we:

- qualify as a RIC; and
- satisfy the Annual Distribution Requirement,

then we will not be subject to U.S. federal income tax on the portion of our income we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years (the "Excise Tax Avoidance Requirement"). We generally will endeavor in each taxable year to make sufficient distributions to our stockholders to avoid any U.S. federal excise tax on our earnings.

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

- continue to qualify as a business development company under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to loans of certain securities, gains from the sale of stock or other securities, net income from certain "qualified publicly traded partnerships," or other income derived with respect to our business of investing in such stock or securities (the "90% Income Test"); and
- diversify our holdings so that at the end of each quarter of the taxable year:
  - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and
  - no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain "qualified publicly traded partnerships" (the "Diversification Tests").

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as PIK interest and deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

The remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

**Taxation of U.S. Stockholders**

Distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our "investment company taxable income" (which is, generally, our net ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent such distributions paid by us in taxable years beginning before January 1, 2011 to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions ("Qualifying Dividends") may be eligible for a maximum tax rate of 15%. In this regard, it is anticipated that distributions paid by us will generally not be attributable to dividends and, therefore, generally will not qualify for the 15% maximum rate applicable to Qualifying Dividends. Distributions of our net capital gains (which are generally our realized net long-term capital gains in excess of realized net short-term capital losses) made in taxable years beginning before January 1, 2011 and properly designated by us as "capital gain dividends" will be taxable to a U.S. stockholder as long-term capital gains that are currently taxable at a maximum rate of 15% in the case of individuals, trusts or estates, regardless of the U.S. stockholder's holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

We may retain some or all of our realized net long-term capital gains in excess of realized net short-term capital losses, but designate the retained net capital gain as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. Because we expect to pay tax on any retained capital gains at our regular corporate tax rate, and because that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual U.S. stockholders will be treated as having paid will exceed the tax they owe on the capital gain distribution and such excess generally may be refunded or claimed as a credit against the U.S. stockholder's other U.S. federal income tax obligations. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's cost basis for his, her or its common stock. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

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

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

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

In general, U.S. stockholders taxed at individual rates currently are subject to a maximum U.S. federal income tax rate of 15% on their net capital gain (i.e., the excess of realized net long-term capital gains over realized net short-term capital losses) recognized in taxable years beginning before January 1, 2011, including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by such U.S. stockholders. The maximum rate on long-term capital gains for U.S. stockholders taxed at individual rates is scheduled to return to 20% for tax years beginning after December 31, 2010. In addition, for taxable years beginning after December 31, 2012, individuals with income in excess of $200,000 ($250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their "net investment income," which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). Corporate U.S. stockholders currently are subject to U.S. federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate U.S. stockholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year any net capital losses of a non-corporate U.S. stockholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate U.S. stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the IRS (including the amount of dividends, if any, eligible for the 15% maximum rate). Dividends paid by us generally will not be eligible for the dividends-received deduction or the preferential tax rate applicable to Qualifying Dividends because our income generally will not consist of dividends. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation.

We may be required to withhold U.S. federal income tax ("backup withholding") currently at a rate of 28% from all distributions to any U.S. stockholder (other than a corporation (for payments before January 1, 2012), a financial institution, or a stockholder that otherwise qualifies for an exemption) (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding or (2) with respect to whom the IRS notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability, provided that proper information is provided to the IRS.

U.S. stockholders that hold their common stock through foreign accounts or intermediaries will be subject to U.S. withholding tax at a rate of 30% on dividends and proceeds of sale of our common stock paid after December 31, 2012 if certain disclosure requirements related to U.S. accounts are not satisfied.

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

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

Distributions of our "investment company taxable income" to Non-U.S. stockholders (including interest income and realized net short-term capital gains in excess of realized long-term capital losses, which generally would be free of withholding if paid to Non-U.S. stockholders directly) will be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of our current and accumulated earnings and profits unless an applicable exception applies. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, we will not be required to withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to U.S. federal income tax at the rates applicable to U.S. persons. (Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.)

However, for taxable years beginning before January 1, 2011, if certain pending legislation is enacted, no withholding will be required with respect to certain distributions if (i) the distributions are properly designated in a notice timely delivered to our stockholders as "interest-related dividends" or "short-term capital gain dividends," (ii) the distributions are derived from sources specified in the Code for such dividends and (iii) certain other requirements are satisfied. Currently, we do not anticipate that any significant amount of our distributions will be designated as eligible for this proposed exemption from withholding, but no assurance can be provided that the pending legislation establishing this exemption will be enacted. Actual or deemed distributions of our net capital gains to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our common stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder.

The tax consequences to Non-U.S. stockholders entitled to claim the benefits of an applicable tax treaty or that are individuals that are present in the United States for 183 days or more during a taxable year may be different from those described herein. Non-U.S. stockholders are urged to consult their tax advisers with respect to the procedure for claiming the benefit of a lower treaty rate and the applicability of foreign taxes.

If we distribute our net capital gains in the form of deemed rather than actual distributions, a Non-U.S. stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the stockholder's allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return. For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a Non-U.S. stockholder.

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

Recently enacted legislation that becomes effective after December 31, 2012, generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the U.S. Treasury to report certain required information with respect to accounts held by U.S. persons (or held by foreign entities that have U.S. persons as substantial owners). The types of income subject to the tax include U.S. source interest and dividends and the gross proceeds from the sale of any property that could produce U.S.-source interest or dividends. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a 10% or greater U.S. owner or provides the withholding agent with identifying information on each 10% or greater U.S. owner. When these provisions become effective, depending on the status of a Non-U.S. Holder and the status of the intermediaries through which they hold their shares, Non-U.S. Holders could be subject to this 30% withholding tax with respect to distributions on their shares and proceeds from the sale of their shares. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes.

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

**Failure to Qualify as a Regulated Investment Company**

If we were unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates, regardless of whether we make any distributions to our stockholders. Distributions would not be required, and any distributions made in taxable years beginning before January 1, 2011 would be taxable to our stockholders as ordinary dividend income that, subject to certain limitations, may be eligible for the 15% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain.

# REGULATION

## Business Development Company Regulations

We have elected to be regulated as a business development company under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their affiliates, principal underwriters and affiliates of those affiliates or underwriters. The 1940 Act requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities.

The 1940 Act defines “a majority of the outstanding voting securities” as the lesser of (i) 67% or more of the voting securities present at a meeting if the holders of more than 50% of our outstanding voting securities are present or represented by proxy or (ii) 50% of our voting securities.

As a business development company, we will not generally be permitted to invest in any portfolio company in which our investment adviser or any of its affiliates currently have an investment or to make any co-investments with our investment adviser or its affiliates without an exemptive order from the SEC. We currently do not intend to apply for an exemptive order that would permit us to co-invest with vehicles managed by our investment adviser or its affiliates.

### *Qualifying Assets*

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company’s total assets. The principal categories of qualifying assets relevant to our business are any of the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:

(a) is organized under the laws of, and has its principal place of business in, the United States;

(b) is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and

(c) satisfies any of the following:

(i) does not have any class of securities that is traded on a national securities exchange;

(ii) has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than $250 million;

(iii) is controlled by a business development company or a group of companies including a business development company and the business development company has an affiliated person who is a director of the eligible portfolio company; or

(iv) is a small and solvent company having total assets of not more than $4 million and capital and surplus of not less than $2 million.

(2) Securities of any eligible portfolio company that we control.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a business development company must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above.

***Managerial Assistance to Portfolio Companies***

In order to count portfolio securities as qualifying assets for the purpose of the 70% test, we must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where we purchase such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the business development company, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

***Temporary Investments***

Pending investment in other types of “qualifying assets,” as described above, our investments may consist of cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement (which is substantially similar to a secured loan) involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price that is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests in order to qualify as a RIC for U.S. federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our investment adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

***Senior Securities***

We are permitted, under specified conditions, to issue multiple classes of debt and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we may be prohibited from making distribution to our stockholders or repurchasing such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see “Risk Factors — Risks Relating to Our Business and Structure — Regulations governing our operation as a business development company and RIC affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth” and “— Because we borrow money, the potential for loss on amounts invested in us will be magnified and may increase the risk of investing in us.”

***Common Stock***

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and that of our stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). We may also make rights offerings to our stockholders at prices per share less than the net asset value per share, subject to applicable requirements of the 1940 Act. See "Risk Factors — Risks Relating to Our Business and Structure — Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth."

***Code of Ethics***

We have adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act and we have also approved the investment adviser's code of ethics that was adopted by it under Rule 17j-1 under the 1940 Act and Rule 204A-1 of the Advisers Act. These codes establish procedures for personal investments and restrict certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. You may also read and copy the codes of ethics at the SEC's Public Reference Room located at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the codes of ethics are available on the EDGAR Database on the SEC's Internet site at *http://www.sec.gov.*

***Compliance Policies and Procedures***

We and our investment adviser have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws and are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation. Our chief compliance officer is responsible for administering these policies and procedures.

***Proxy Voting Policies and Procedures***

We have delegated our proxy voting responsibility to our investment adviser. The proxy voting policies and procedures of our investment adviser are set forth below. (The guidelines are reviewed periodically by our investment adviser and our non-interested directors, and, accordingly, are subject to change).

*Introduction*

As an investment adviser registered under the Investment Advisers Act, our investment adviser has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, it recognizes that it must vote client securities in a timely manner free of conflicts of interest and in the best interests of its clients.

These policies and procedures for voting proxies for the investment advisory clients of our investment adviser are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

*Proxy policies*

Our investment adviser will vote proxies relating to our securities in the best interest of our stockholders. It will review on a case-by-case basis each proposal submitted for a stockholder vote to determine its impact on the portfolio securities held by us. Although our investment adviser will generally vote against proposals that may have a negative impact on our portfolio securities, it may vote for such a proposal if there exists compelling long-term reasons to do so.

The proxy voting decisions of our investment adviser are made by the senior officers who are responsible for monitoring each of our investments. To ensure that its vote is not the product of a conflict of interest, it will require that: (a) anyone involved in the decision making process disclose to its chief compliance officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (b) employees involved in the decision making process or vote administration are prohibited from revealing how our investment adviser intends to vote on a proposal in order to reduce any attempted influence from interested parties.

*Proxy voting records*

You may obtain information, without charge, regarding how we voted proxies with respect to our portfolio securities by making a written request for proxy voting information to: Chief Compliance Officer, 10 Bank Street, Suite 1210, White Plains, NY 10606.

***Other***

We will be subject to periodic examination by the SEC for compliance with the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person’s office.

**Securities Exchange Act and Sarbanes-Oxley Act Compliance**

We are subject to the reporting and disclosure requirements of the Exchange Act, including the filing of quarterly, annual and current reports, proxy statements and other required items. In addition, we are subject to the Sarbanes-Oxley Act, which imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. For example:

- pursuant to Rule 13a-14 of the Exchange Act, our chief executive officer and chief financial officer are required to certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 of Regulation S-K, our periodic reports are required to disclose our conclusions about the effectiveness of our disclosure controls and procedures; and
- pursuant to Rule 13a-15 of the Exchange Act, our management will be required to prepare a report regarding its assessment of our internal control over financial reporting. Our independent registered public accounting firm will be required to audit our internal control over financial reporting.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We intend to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

**Small Business Investment Company Regulations**

In August 2009, we formed Fifth Street Mezzanine Partners IV, L.P. In February 2010, Fifth Street Mezzanine Partners IV, L.P. received final approval to be licensed by the United States Small Business Administration, or SBA, as a small business investment company, or SBIC. Our SBIC subsidiary received a capital commitment from the SBA in the amount of $75 million, and will only be able to access up to half of the commitment until after it is examined by the SBA.

The SBIC license allows our SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with 10-year maturities.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $18 million and have average annual fully taxed net income not exceeding $6 million for the two most recent fiscal years. In addition, an SBIC must devote 25% of its investment activity to “smaller” concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding $6 million and has average annual fully taxed net income not exceeding $2 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services.

SBA regulations currently limit the amount that our SBIC subsidiary may borrow up to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of March 31, 2010, our SBIC subsidiary had $75 million in regulatory capital. The SBA issued a capital commitment to our SBIC subsidiary in the amount of $75 million. Our SBIC subsidiary will not be able to access more than half of the commitment until it is examined by the SBA, and we cannot predict the timing for completion of an examination by the SBA.

The SBA restricts the ability of SBICs to repurchase their capital stock. SBA regulations also include restrictions on a “change of control” or transfer of an SBIC and require that SBICs invest idle funds in accordance with SBA regulations. In addition, our SBIC subsidiary may also be limited in its ability to make distributions to us if it does not have sufficient capital, in accordance with SBA regulations.

Our SBIC subsidiary is subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. Receipt of an SBIC license does not assure that our SBIC subsidiary will receive SBA guaranteed debenture funding, which is dependent upon our SBIC subsidiary continuing to be in compliance with SBA regulations and policies. The SBA, as a creditor, will have a superior claim to our SBIC subsidiary’s assets over our stockholders in the event we liquidate our SBIC subsidiary or the SBA exercises its remedies under the SBA-guaranteed debentures issued by our SBIC subsidiary upon an event of default.

**The New York Stock Exchange Corporate Governance Regulations**

The New York Stock Exchange has adopted corporate governance regulations that listed companies must comply with. We are in compliance with such corporate governance listing standards applicable to business development companies.

## PLAN OF DISTRIBUTION

We may sell our common stock through underwriters or dealers, “at the market” to or through a market maker or into an existing trading market or otherwise, directly to one or more purchasers or through agents or through a combination of any such methods of sale. Any underwriter or agent involved in the offer and sale of our common stock will also be named in the applicable prospectus supplement.

The distribution of our common stock may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share of our common stock less any underwriting commissions or discounts must equal or exceed the net asset value per share of our common stock.

In connection with the sale of our common stock, underwriters or agents may receive compensation from us or from purchasers of our common stock, for whom they may act as agents, in the form of discounts, concessions or commissions.

Underwriters may sell our common stock to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our common stock may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of our common stock may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable prospectus supplement.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell common stock covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment).

Any of our common stock sold pursuant to a prospectus supplement will be listed on the New York Stock Exchange, or another exchange on which our common stock is traded.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of our common stock may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our common stock from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of our common stock shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

In order to comply with the securities laws of certain states, if applicable, our common stock offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, our common stock may not be sold unless it has been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority, Inc. will not be greater than 10% for the sale of any securities being registered.

## CUSTODIAN, TRANSFER AND DISTRIBUTION PAYING AGENT AND REGISTRAR

Our portfolio securities are held under a custody agreement by Bank of America, National Association. The address of the custodian is: Bank of America Corporate Center, 100 N Tryon Street, Charlotte, NC 28255-0001. American Stock Transfer & Trust Company acts as our transfer agent, distribution paying agent and registrar. The principal business address of our transfer agent is 59 Maiden Lane, New York, New York, 10038, telephone number: (212) 936-5100.

## BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we intend to generally acquire and dispose of our investments in privately negotiated transactions, we expect to infrequently use brokers in the normal course of our business. Subject to policies established by our Board of Directors, our investment adviser is primarily responsible for the execution of the publicly-traded securities portion of our portfolio transactions and the allocation of brokerage commissions. Our investment adviser does not execute transactions through any particular broker or dealer, but seeks to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While our investment adviser will generally seek reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, our investment adviser may select a broker based partly upon brokerage or research services provided to our investment adviser and us and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if our investment adviser determines in good faith that such commission is reasonable in relation to the services provided.

## LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus and certain other legal matters will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, D.C. Certain legal matters will be passed upon for the underwriters, if any, by the counsel named in the prospectus supplement, if any.

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audited consolidated financial statements and schedule included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the report of Grant Thornton LLP, our former independent registered public accountants, upon the authority of said firm as experts in accounting and auditing in giving said report. Grant Thornton LLP's principal business address is 175 West Jackson Boulevard, 20th floor, Chicago IL 60604.

## CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

On February 11, 2010, we dismissed Grant Thornton LLP as our independent registered public accounting firm. During the fiscal years ended September 30, 2008 and 2009 and through February 11, 2010, there were no disagreements between us and Grant Thornton LLP with respect to any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Grant Thornton LLP, would have caused it to make reference to the subject matter of such disagreements in its reports on the financial statements for such years.

On February 11, 2010, we engaged PricewaterhouseCoopers LLP as our new independent registered public accounting firm to audit our consolidated financial statements for the fiscal year ending September 30, 2010.

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our shares of common stock offered by this prospectus or any prospectus supplement. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus or any prospectus supplement.

We file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC's website at *http://www.sec.gov*. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, 100 F Street, NE, Washington, DC 20549.

## PRIVACY NOTICE

We are committed to protecting your privacy. This privacy notice explains the privacy policies of Fifth Street and its affiliated companies. This notice supersedes any other privacy notice you may have received from Fifth Street.

We will safeguard, according to strict standards of security and confidentiality, all information we receive about you. The only information we collect from you is your name, address, number of shares you hold and your social security number. This information is used only so that we can send you annual reports and other information about us, and send you proxy statements or other information required by law.

We do not share this information with any non-affiliated third party except as described below.

- *Authorized Employees of Our Investment Adviser.* It is our policy that only authorized employees of our investment adviser who need to know your personal information will have access to it.
- *Service Providers.* We may disclose your personal information to companies that provide services on our behalf, such as recordkeeping, processing your trades, and mailing you information. These companies are required to protect your information and use it solely for the purpose for which they received it.
- *Courts and Government Officials.* If required by law, we may disclose your personal information in accordance with a court order or at the request of government regulators. Only that information required by law, subpoena, or court order will be disclosed.

## INDEX TO FINANCIAL STATEMENTS

**Fifth Street Finance Corp.**
**Consolidated Balance Sheets**
**(unaudited)**

| | March 31, 2010 | September 30, 2009 |
|---|---|---|
| **ASSETS** | | |
| **Investments at fair value:** | | |
| Control investments (cost 3/31/10: $12,045,029; cost 9/30/09: $12,045,029) | $ 8,171,182 | $ 5,691,107 |
| Affiliate investments (cost 3/31/10: $54,530,199; cost 9/30/09: $71,212,035) | 52,052,097 | 64,748,560 |
| Non-control/Non-affiliate investments (cost 3/31/10: $419,735,310; cost 9/30/09: $243,975,221) | 400,642,117 | 229,171,470 |
| **Total investments at fair value** | **460,865,396** | **299,611,137** |
| Cash and cash equivalents | 23,468,594 | 113,205,287 |
| Interest and fees receivable | 4,648,429 | 2,866,991 |
| Due from portfolio company | 75,803 | 154,324 |
| Prepaid expenses and other assets | 1,785,996 | 49,609 |
| **Total Assets** | **$ 490,844,218** | **$ 415,887,348** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Liabilities:** | | |
| Accounts payable, accrued expenses and other liabilities | $ 638,800 | $ 723,856 |
| Base management fee payable | 2,336,878 | 1,552,160 |
| Incentive fee payable | 2,801,562 | 1,944,263 |
| Due to FSC, Inc. | 551,055 | 703,900 |
| Interest payable | 24,537 | — |
| Payments received in advance from portfolio companies | 94,381 | 190,378 |
| Offering costs payable | — | 216,720 |
| **Total Liabilities** | **6,447,213** | **5,331,277** |
| **Stockholders' Equity:** | | |
| Preferred stock, $0.01 par value, 200,000 shares authorized, no shares issued and outstanding | — | — |
| Common stock, $0.01 par value, 49,800,000 shares authorized, 45,282,596 and 37,878,987 shares issued and outstanding at March 31, 2010 and September 30, 2009 | 452,826 | 378,790 |
| Additional paid-in-capital | 518,621,766 | 439,989,597 |
| Net unrealized depreciation on investments | (25,445,142) | (27,621,147) |
| Net realized loss on investments | (17,112,797) | (14,310,713) |
| Accumulated undistributed net investment income | 7,880,352 | 12,119,544 |
| **Total Stockholders' Equity** | **484,397,005** | **410,556,071** |
| **Total Liabilities and Stockholders' Equity** | **$ 490,844,218** | **$ 415,887,348** |

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**
**Consolidated Statements of Operations**
**(unaudited)**

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|---|---|---|---|---|
| **Interest income:** | | | | |
| Control investments | $ (41,919) | $ — | $ 182,827 | $ — |
| Affiliate investments | 2,257,404 | 2,649,912 | 4,516,905 | 5,368,398 |
| Non-control/Non-affiliate investments | 11,874,938 | 6,605,804 | 19,548,264 | 13,477,109 |
| Interest on cash and cash equivalents | 5,521 | 10,765 | 201,183 | 89,955 |
| **Total interest income** | **14,095,944** | **9,266,481** | **24,449,179** | **18,935,462** |
| **PIK interest income:** | | | | |
| Control investments | — | — | — | — |
| Affiliate investments | 323,533 | 443,809 | 655,149 | 796,846 |
| Non-control/Non-affiliate investments | 1,981,640 | 1,456,893 | 3,611,798 | 2,920,641 |
| **Total PIK interest income** | **2,305,173** | **1,900,702** | **4,266,947** | **3,717,487** |
| **Fee income:** | | | | |
| Control investments | — | — | — | — |
| Affiliate investments | 425,261 | 257,258 | 679,038 | 704,171 |
| Non-control/Non-affiliate investments | 1,018,639 | 495,466 | 1,680,003 | 1,112,076 |
| **Total fee income** | **1,443,900** | **752,724** | **2,359,041** | **1,816,247** |
| **Dividend and other income:** | | | | |
| Control investments | — | — | — | — |
| Affiliate investments | — | — | — | — |
| Non-control/Non-affiliate investments | 11,333 | — | 22,666 | — |
| Other income | — | — | — | 35,396 |
| **Total dividend and other income** | **11,333** | **—** | **22,666** | **35,396** |
| **Total Investment Income** | **17,856,350** | **11,919,907** | **31,097,833** | **24,504,592** |
| **Expenses:** | | | | |
| Base management fee | 2,336,878 | 1,488,079 | 4,603,881 | 2,858,754 |
| Incentive fee | 2,801,562 | 1,871,827 | 4,888,826 | 3,924,422 |
| Professional fees | 329,014 | 416,925 | 630,619 | 802,868 |
| Board of Directors fees | 43,000 | 49,000 | 81,000 | 88,250 |
| Interest expense | 260,941 | 128,201 | 352,120 | 168,359 |
| Administrator expense | 318,806 | 241,168 | 570,624 | 421,598 |
| General and administrative expenses | 559,901 | 237,399 | 1,142,524 | 542,651 |
| **Total expenses** | **6,650,102** | **4,432,599** | **12,269,594** | **8,806,902** |
| Base management fee waived | — | — | (727,067) | — |
| **Net Expenses** | **6,650,102** | **4,432,599** | **11,542,527** | **8,806,902** |
| **Net Investment Income** | **11,206,248** | **7,487,308** | **19,555,306** | **15,697,690** |
| **Unrealized appreciation (depreciation) on investments:** | | | | |
| Control investments | 486,853 | — | 2,480,075 | — |
| Affiliate investments | 3,327,908 | 3,121,821 | 3,727,842 | (2,747,604) |
| Non-control/Non-affiliate investments | (2,638,050) | 4,627,913 | (4,031,912) | (7,985,100) |
| **Net unrealized appreciation (depreciation) on investments** | **1,176,711** | **7,749,734** | **2,176,005** | **(10,732,704)** |
| **Realized gain (loss) on investments:** | | | | |
| Control investments | — | — | — | — |
| Affiliate investments | (2,908,084) | (4,000,000) | (2,908,084) | (4,000,000) |
| Non-control/Non-affiliate investments | — | (8,400,000) | 106,000 | (8,400,000) |
| **Net realized loss on investments** | **(2,908,084)** | **(12,400,000)** | **(2,802,084)** | **(12,400,000)** |
| **Net increase (decrease) in net assets resulting from operations** | **$ 9,474,875** | **$ 2,837,042** | **$ 18,929,227** | **$ (7,435,014)** |
| **Net investment income per common share — basic and diluted** | **$ 0.26** | **$ 0.33** | **$ 0.48** | **$ 0.69** |
| **Net unrealized appreciation (depreciation) per common share** | **0.03** | **0.33** | **0.06** | **(0.49)** |
| **Net realized loss per common share** | **(0.07)** | **(0.54)** | **(0.07)** | **(0.54)** |
| **Earnings (loss) per common share — basic and diluted** | **$ 0.22** | **$ 0.12** | **$ 0.47** | **$ (0.34)** |
| Weighted average common shares outstanding — basic and diluted | 43,019,350 | 22,752,668 | 40,421,657 | 22,656,383 |

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**
**Consolidated Statements of Changes in Net Assets**
**(unaudited)**

| | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|---|---|---|
| **Operations:** | | |
| Net investment income | $ 19,555,306 | $ 15,697,690 |
| Net unrealized appreciation (depreciation) on investments | 2,176,005 | (10,732,704) |
| Net realized loss on investments | (2,802,084) | (12,400,000) |
| **Net increase (decrease) in net assets from operations** | **18,929,227** | **(7,435,014)** |
| **Stockholder transactions:** | | |
| Distributions to stockholders from net investment income | (23,794,498) | (15,815,427) |
| **Net decrease in net assets from stockholder transactions** | **(23,794,498)** | **(15,815,427)** |
| **Capital share transactions:** | | |
| Issuance of common stock | 77,537,266 | — |
| Issuance of common stock under dividend reinvestment plan | 1,168,939 | 1,729,790 |
| Repurchases of common stock | — | (462,482) |
| **Net increase in net assets from capital share transactions** | **78,706,205** | **1,267,308** |
| **Total increase (decrease) in net assets** | **73,840,934** | **(21,983,133)** |
| Net assets at beginning of period | 410,556,071 | 294,335,839 |
| **Net assets at end of period** | **$ 484,397,005** | **$ 272,352,706** |
| **Net asset value per common share** | **$ 10.70** | **$ 11.94** |
| Common shares outstanding at end of period | 45,282,596 | 22,802,821 |

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**
**Consolidated Statements of Cash Flows**
**(unaudited)**

| | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net increase (decrease) in net assets resulting from operations | $ 18,929,227 | $ (7,435,014) |
| Net unrealized (appreciation) depreciation on investments | (2,176,005) | 10,732,704 |
| Net realized loss on investments | 2,802,084 | 12,400,000 |
| PIK interest income, net of cash received | (3,631,753) | (3,553,912) |
| Recognition of fee income | (2,359,041) | (1,816,247) |
| Fee income received | 6,466,569 | 2,227,846 |
| Accretion of original issue discount on investments | (448,427) | (400,738) |
| Other income | — | (35,396) |
| **Change in operating assets and liabilities:** | | |
| Increase in interest and fees receivable | (1,781,438) | (411,335) |
| Decrease in due from portfolio company | 78,521 | 36,873 |
| Increase in prepaid expenses and other assets | (1,736,387) | (258,640) |
| Decrease in accounts payable, accrued expenses and other liabilities | (85,056) | (124,025) |
| Increase in base management fee payable | 784,718 | 106,867 |
| Increase in incentive fee payable | 857,299 | 57,814 |
| Decrease in due to FSC, Inc. | (152,845) | (192,880) |
| Increase (decrease) in interest payable | 24,537 | (35,936) |
| Decrease in payments received in advance from portfolio companies | (95,997) | (58,306) |
| Purchase of investments | (177,416,609) | (47,850,000) |
| Proceeds from the sale of investments | 4,191,721 | — |
| Principal payments received on investments (scheduled repayments and revolver paydowns) | 4,932,202 | 2,892,201 |
| Principal payments received on investments (payoffs) | 6,385,000 | 8,350,000 |
| **Net cash used by operating activities** | **(144,431,680)** | **(25,368,124)** |
| **Cash flows from financing activities:** | | |
| Dividends paid in cash | (22,625,559) | (14,085,637) |
| Repurchases of common stock | — | (462,482) |
| Borrowings | 38,000,000 | 22,000,000 |
| Repayments of borrowings | (38,000,000) | (1,000,000) |
| Proceeds from the issuance of common stock | 78,086,148 | — |
| Offering costs paid | (765,602) | (268,065) |
| **Net cash provided by financing activities** | **54,694,987** | **6,183,816** |
| **Net decrease in cash and cash equivalents** | **(89,736,693)** | **(19,184,308)** |
| Cash and cash equivalents, beginning of period | 113,205,287 | 22,906,376 |
| **Cash and cash equivalents, end of period** | **$ 23,468,594** | **$ 3,722,068** |
| **Supplemental Information:** | | |
| Cash paid for interest | $ 213,855 | $ 141,795 |
| Non-cash financing activities: | | |
| Issuance of shares of common stock under dividend reinvestment plan | $ 1,168,939 | $ 1,729,790 |

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**

**Consolidated Schedule of Investments**
**March 31, 2010**
**(unaudited)**

| Portfolio Company/ Type of Investment (1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Control Investments(3)** | | | | |
| **Lighting By Gregory, LLC (14)(15)** | Housewares & Specialties | | | |
| First Lien Term Loan A, 9.75% due 2/28/2013 | | $ 5,158,489 | $ 4,728,589 | $ 3,324,924 |
| First Lien Term Loan B, 14.5% due 2/28/2013 | | 7,969,990 | 6,906,440 | 4,846,258 |
| 97.38% membership interest | | | 410,000 | — |
| | | | **12,045,029** | **8,171,182** |
| **Total Control Investments** | | | **$ 12,045,029** | **$ 8,171,182** |
| **Affiliate Investments(4)** | | | | |
| **O'Currance, Inc.** | Data Processing & Outsourced Services | | | |
| First Lien Term Loan A, 16.875% due 3/21/2012 | | 10,741,185 | 10,616,958 | 10,523,617 |
| First Lien Term Loan B, 16.875%, 3/21/2012 | | 2,314,211 | 2,280,235 | 2,380,876 |
| 1.75% Preferred Membership interest in O'Currance Holding Co., LLC | | | 130,413 | 130,413 |
| 3.3% Membership Interest in O'Currance Holding Co., LLC | | | 250,000 | 3,305 |
| | | | **13,277,606** | **13,038,211** |
| **MK Network, LLC** | Healthcare technology | | | |
| First Lien Term Loan A, 13.5% due 6/1/2012 | | 9,500,000 | 9,272,590 | 9,225,025 |
| First Lien Term Loan B, 17.5% due 6/1/2012 | | 5,049,964 | 4,849,255 | 4,846,212 |
| First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010(10) | | — | — | — |
| 11,030 Membership Units(6) | | | 771,575 | — |
| | | | **14,893,420** | **14,071,237** |
| **Martini Park, LLC(9)(15)** | Restaurants | | | |
| First Lien Term Loan, 14% due 2/20/2013 | | 4,571,400 | 3,408,351 | 2,220,905 |
| 5% membership interest | | | 650,000 | — |
| | | | **4,058,351** | **2,220,905** |
| **Caregiver Services, Inc.** | Healthcare services | | | |
| Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013 | | 7,855,893 | 7,453,752 | 7,808,586 |
| Second Lien Term Loan B, 16.5% due 2/25/2013 | | 14,463,950 | 13,766,672 | 13,554,536 |
| 1,080,399 shares of Series A Preferred Stock | | | 1,080,398 | 1,358,622 |
| | | | **22,300,822** | **22,721,744** |
| **Total Affiliate Investments** | | | **$ 54,530,199** | **$ 52,052,097** |
| **Non-Control/Non-Affiliate Investments(7)** | | | | |

| Portfolio Company/ Type of Investment (1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **CPAC, Inc.(9)** | Household Products & Specialty Chemicals | | | |
| Second Lien Term Loan, 17.5% due 4/13/2012 | | 1,000,000 | 1,000,000 | 1,000,000 |
| | | | **1,000,000** | **1,000,000** |
| **Vanguard Vinyl, Inc.(9)** | Building Products | | | |
| First Lien Term Loan, 12% due 3/30/2013 | | 7,000,000 | 6,811,565 | 5,986,783 |
| First Lien Revolver, LIBOR+7% (10% floor) due 3/30/2013 | | 1,750,000 | 1,703,947 | 1,498,709 |
| 25,641 Shares of Series A Preferred Stock | | | 253,846 | — |
| 25,641 Shares of Common Stock | | | 2,564 | — |
| | | | **8,771,922** | **7,485,492** |
| **Repechage Investments Limited** | Restaurants | | | |
| First Lien Term Loan, 15.5% due 10/16/2011 | | 3,955,807 | 3,647,742 | 3,652,668 |
| 7,500 shares of Series A Preferred Stock of Elephant & Castle, Inc. | | | 750,000 | 558,138 |
| | | | **4,397,742** | **4,210,806** |
| **Traffic Control & Safety Corporation** | Construction and Engineering | | | |
| Second Lien Term Loan, 15% due 6/29/2014 | | 19,601,335 | 19,347,925 | 16,824,249 |
| 24,750 shares of Series B Preferred Stock | | | 247,500 | — |
| 25,000 shares of Common Stock | | | 2,500 | — |
| | | | **19,597,925** | **16,824,249** |
| **Nicos Polymers & Grinding Inc.(9)(15)** | Environmental & facilities services | | | |
| First Lien Term Loan A, LIBOR+5% (10% floor), due 7/17/2012 | | 3,123,367 | 3,040,465 | 1,835,925 |
| First Lien Term Loan B, 13.5% due 7/17/2012 | | 6,079,060 | 5,713,125 | 3,346,849 |
| 3.32% Interest in Crownbrook Acquisition I LLC | | | 168,086 | — |
| | | | **8,921,676** | **5,182,774** |
| **TBA Global, LLC(9)** | Media: Advertising | | | |
| Second Lien Term Loan A, LIBOR+5% (10% floor), due 8/3/2010 | | 101,979 | 101,977 | 109,158 |
| Second Lien Term Loan B, 14.5% due 8/3/2012 | | 11,018,142 | 10,706,196 | 10,658,791 |
| 53,994 Senior Preferred Shares | | | 215,975 | 215,975 |
| 191,977 Shares A Shares | | | 191,977 | 13,456 |
| | | | **11,216,125** | **10,997,380** |
| **Fitness Edge, LLC** | Leisure Facilities | | | |
| First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012 | | 1,500,000 | 1,492,777 | 1,510,709 |
| First Lien Term Loan B, 15% due 8/8/2012 | | 5,560,507 | 5,489,197 | 5,499,527 |
| 1,000 Common Units | | | 42,908 | 91,263 |
| | | | **7,024,882** | **7,101,499** |

| Portfolio Company/<br>Type of Investment (1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Filet of Chicken(9)** | Food Distributors | | | |
| Second Lien Term Loan, 14.5% due 7/31/2012 | | 9,341,854 | 9,021,995 | 8,880,527 |
| | | | **9,021,995** | **8,880,527** |
| **Boot Barn(9)** | Footwear and Apparel | | | |
| Second Lien Term Loan, 14.5% due 10/3/2013 | | 23,030,378 | 22,730,784 | 22,688,420 |
| 24,706 shares of Series A Preferred Stock | | | 247,060 | 28,764 |
| 1,308 shares of Common Stock | | | 131 | — |
| | | | **22,977,975** | **22,717,184** |
| **Premier Trailer Leasing, Inc.(9)(14)(15)** | Trailer Leasing Services | | | |
| Second Lien Term Loan, 16.5% due 10/23/2012 | | 18,151,010 | 17,063,645 | 8,065,658 |
| 285 shares of Common Stock | | | 1,140 | — |
| | | | **17,064,785** | **8,065,658** |
| **Pacific Press Technologies, Inc.** | | | | |
| Second Lien Term Loan, 14.75% due 1/10/2013 | Capital Goods | 9,951,227 | 9,787,138 | 9,609,027 |
| 33,463 shares of Common Stock | | | 344,513 | 5,810 |
| | | | **10,131,651** | **9,614,837** |
| **Rose Tarlow, Inc.(9)** | Home Furnishing Retail | | | |
| First Lien Term Loan, 12% due 1/25/2014 | | 10,195,152 | 10,037,180 | 8,455,134 |
| First Lien Revolver, LIBOR+4% (9% floor) due 1/25/2014(10) | | 1,550,000 | 1,540,097 | 1,311,686 |
| 0.00% membership interest in RTMH Acquisition Company(13) | | | 1,275,000 | — |
| 0.00% membership interest in RTMH Acquisition Company(13) | | | 25,000 | — |
| | | | **12,877,277** | **9,766,820** |
| **Goldco, LLC** | | | | |
| Second Lien Term Loan, 17.5% due 1/31/2013 | Restaurants | 8,187,786 | 8,070,425 | 8,113,550 |
| | | | **8,070,425** | **8,113,550** |
| **Rail Acquisition Corp.** | Manufacturing - Mechanical Products | | | |
| First Lien Term Loan, 17% due 4/1/2013 | | 15,420,845 | 15,197,757 | 14,846,867 |
| | | | **15,197,757** | **14,846,867** |
| **Western Emulsions, Inc.** | Emulsions Manufacturing | | | |
| Second Lien Term Loan, 15% due 6/30/2014 | | 17,637,889 | 17,392,084 | 17,701,865 |
| | | | **17,392,084** | **17,701,865** |

| Portfolio Company/<br>Type of Investment (1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Storytellers Theaters Corporation** | Entertainment - Theaters | | | |
| First Lien Term Loan, 15% due 7/16/2014 | | 7,367,750 | 7,270,614 | 7,380,662 |
| First Lien Revolver, LIBOR+3.5% (10% floor), due 7/16/2014 | | 500,000 | 485,834 | 464,609 |
| 1,692 shares of Common Stock | | | 169 | 49,990 |
| 20,000 shares of Preferred Stock | | | 200,000 | 200,000 |
| | | | **7,956,617** | **8,095,261** |
| **HealthDrive Corporation(9)** | Healthcare services | | | |
| First Lien Term Loan A, 10% due 7/17/2013 | | 7,600,000 | 7,405,155 | 7,582,154 |
| First Lien Term Loan B, 13% due 7/17/2013 | | 10,127,137 | 9,997,137 | 9,624,445 |
| First Lien Revolver, 12% due 7/17/2013 | | 500,000 | 487,000 | 561,074 |
| | | | **17,889,292** | **17,767,673** |
| **idX Corporation** | Merchandise Display | | | |
| Second Lien Term Loan, 14.5% due 7/1/2014 | | 13,451,457 | 13,181,541 | 12,932,624 |
| | | | **13,181,541** | **12,932,624** |
| **Cenegenics, LLC** | Healthcare services | | | |
| First Lien Term Loan, 17% due 10/27/2014 | | 20,412,116 | 19,399,601 | 19,700,763 |
| 414,419 Common Units(6) | | | 598,382 | 1,837,618 |
| | | | **19,997,983** | **21,538,381** |
| **IZI Medical Products, Inc.** | Healthcare technology | | | |
| First Lien Term Loan A, 12% due 3/31/2014 | | 5,200,000 | 5,121,540 | 5,190,455 |
| First Lien Term Loan B, 16% due 3/31/2014 | | 17,172,066 | 16,537,062 | 16,781,037 |
| First Lien Revolver, 10% due 3/31/2014(11) | | — | (40,000) | (40,000) |
| 453,755 Preferred units of IZI Holdings, LLC | | | 453,755 | 586,775 |
| | | | **22,072,357** | **22,518,267** |
| **Trans-Trade, Inc.** | Air freight & logistics | | | |
| First Lien Term Loan, 15.5% due 9/10/2014 | | 11,156,007 | 11,008,084 | 11,135,248 |
| First Lien Revolver, 12% due 9/10/2014(11) | | — | (35,333) | (35,333) |
| | | | **10,972,751** | **11,099,915** |
| **Riverlake Equity Partners II, LP** | Multi-sector holdings | | | |
| 1.63% limited partnership interest | | | 33,640 | 33,640 |
| | | | **33,640** | **33,640** |
| **Riverside Fund IV, LP** | Multi-sector holdings | | | |
| 0.25% limited partnership interest | | | 82,969 | 82,969 |
| | | | **82,969** | **82,969** |

| Portfolio Company/ Type of Investment (1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **ADAPCO, Inc.** | Fertilizers & agricultural chemicals | | | |
| First Lien Term Loan A, 10% due 12/17/2014 | | 10,000,000 | 9,742,971 | 9,638,921 |
| First Lien Term Loan B, 14% due 12/17/2014 | | 14,081,842 | 13,709,057 | 13,897,287 |
| First Lien Term Revolver, 10% due 12/17/2014 | | 3,500,000 | 3,233,726 | 3,210,100 |
| | | | **26,685,754** | **26,746,308** |
| **Ambath/Rebath Holdings, Inc.** | Home improvement retail | | | |
| First Lien Term Loan A, LIBOR+7% (10% floor) due 12/30/2014 | | 10,000,000 | 9,736,169 | 9,344,205 |
| First Lien Term Loan B, 15% due 12/30/2014 | | 22,140,861 | 21,561,711 | 21,890,059 |
| First Lien Term Revolver, LIBOR+6.5% (9.5% floor) due 12/30/2014 | | 750,000 | 674,400 | 694,046 |
| | | | **31,972,280** | **31,928,310** |
| **JTC Education, Inc.** | Education services | | | |
| First Lien Term Loan, LIBOR+9.5% (12.5% floor) due 12/31/2014 | | 31,250,000 | 30,353,332 | 30,307,895 |
| First Lien Revolver, LIBOR+9.5% (12.5% floor) due 12/31/2014(11) | | — | (280,000) | (280,000) |
| | | | **30,073,332** | **30,027,895** |
| **Tegra Medical, LLC** | Healthcare equipment | | | |
| First Lien Term Loan A, LIBOR+7% (10% floor) due 12/31/2014 | | 28,000,000 | 27,479,496 | 27,041,530 |
| First Lien Term Loan B, 14% due 12/31/2014 | | 18,392,674 | 18,051,074 | 18,697,833 |
| First Lien Revolver, LIBOR+7% (10% floor) due 12/31/2014(11) | | — | (74,667) | (74,667) |
| | | | **45,455,903** | **45,664,696** |
| **Flatout, Inc.** | Food retail | | | |
| First Lien Term Loan A, 10% due 12/31/2014 | | 7,550,000 | 7,335,300 | 7,335,300 |
| First Lien Term Loan B, 15% due 12/31/2014 | | 12,765,709 | 12,404,082 | 12,404,082 |
| First Lien Revolver, 10% due 12/31/2014(11) | | — | (42,712) | (42,712) |
| | | | **19,696,670** | **19,696,670** |
| **Psilos Group Partners IV, LP** | Multi-sector holdings | | | |
| 0.22% limited partnership interest(12) | | | — | — |
| **Total Non-Control/Non-Affiliate Investments** | | | **$ 419,735,310** | **$ 400,642,117** |
| ***Total Portfolio Investments*** | | | **$ 486,310,538** | **$ 460,865,396** |

(1) All debt investments are income producing. Equity is non-income producing unless otherwise noted.

(2) See Note 3 to the Consolidated Financial Statements for portfolio composition by geographic region.

(3) Control Investments are defined by the Investment Company Act of 1940 (“1940 Act”) as investments in companies in which the Company owns more than 25% of the voting securities or maintains greater than 50% of the board representation.

(4) Affiliate Investments are defined by the 1940 Act as investments in companies in which the Company owns between 5% and 25% of the voting securities.

(5) Equity ownership may be held in shares or units of companies related to the portfolio companies.

(6) Income producing through payment of dividends or distributions.

(7) Non-Control/Non-Affiliate Investments are defined by the 1940 Act as investments that are neither Control Investments nor Affiliate Investments.

(8) Principal includes accumulated PIK interest and is net of repayments.

(9) Interest rates have been adjusted on certain term loans and revolvers. These rate adjustments are temporary in nature due to financial or payment covenant violations in the original credit agreements, or permanent in nature per loan amendment or waiver documents. The table below summarizes these rate adjustments by portfolio company:

| Portfolio Company | Effective date | Cash interest | PIK interest | Reason |
|---|---|---|---|---|
| Rose Tarlow, Inc. | January 1, 2009 | +0.5% on Term Loan, + 3.0% on Revolver | + 2.5% on Term Loan | Tier pricing per waiver agreement |
| Martini Park, LLC | October 1, 2008 | -6.0% on Term Loan | + 6.0% on Term Loan | Per waiver agreement |
| Vanguard Vinyl, Inc. | April 1, 2008 | + 0.5% on Term Loan | | Per loan amendment |
| Nicos Polymers & Grinding, Inc. | February 10, 2008 | | + 2.0% on Term Loan A & B | Per waiver agreement |
| TBA Global, LLC | February 15, 2008 | | + 2.0% on Term Loan B | Per waiver agreement |
| Filet of Chicken | January 1, 2009 | + 1.0% on Term Loan | | Tier pricing per waiver agreement |
| Boot Barn | January 1, 2009 | + 1.0% on Term Loan | + 2.5% on Term Loan | Tier pricing per waiver agreement |
| Premier Trailer Leasing, Inc. | August 4, 2009 | + 4.0% on Term Loan | | Default interest per credit agreement |
| HealthDrive Corporation | April 30, 2009 | + 2.0% on Term Loan A | | Per waiver agreement |

(10) Revolving credit line has been suspended and is deemed unlikely to be renewed in the future.

(11) Amounts represent unearned income related to undrawn commitments.

(12) Represents an unfunded commitment to fund limited partnership interest.

(13) Represents a de minimis membership interest percentage.

(14) Investment was on cash non-accrual status as of March 31, 2010.

(15) Investment was on PIK non-accrual status as of March 31, 2010.

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**

**Consolidated Schedule of Investments**
**September 30, 2009**

| Portfolio Company/ Type of Investment(1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Control Investments(3)** | | | | |
| **Lighting by Gregory, LLC (15)(16)** | Housewares & Specialties | | | |
| First Lien Term Loan A, 9.75% due 2/28/2013 | | $ 4,800,003 | $ 4,728,589 | $ 2,419,627 |
| First Lien Term Loan B, 14.5% due 2/28/2013 | | 7,115,649 | 6,906,440 | 3,271,480 |
| 97.38% membership interest | | | 410,000 | — |
| | | | **12,045,029** | **5,691,107** |
| **Total Control Investments** | | | **$ 12,045,029** | **$ 5,691,107** |
| **Affiliate Investments(4)** | | | | |
| **O'Currance, Inc.** | Data Processing & Outsourced Services | | | |
| First Lien Term Loan A, 16.875% due 3/21/2012 | | $ 10,526,514 | $ 10,370,246 | $ 10,186,501 |
| First Lien Term Loan B, 16.875% due 3/21/2012 | | 2,765,422 | 2,722,952 | 2,919,071 |
| 1.75% Preferred Membership Interest in O'Currance Holding Co., LLC | | | 130,413 | 130,413 |
| 3.3% Membership Interest in O'Currance Holding Co., LLC | | | 250,000 | 53,831 |
| | | | **13,473,611** | **13,289,816** |
| **CPAC, Inc.(9)(16)** | Household Products & Specialty Chemicals | | | |
| Second Lien Term Loan, 17.5% due 4/13/2012 | | 11,398,948 | 9,506,805 | 4,448,661 |
| Charge-off of cost basis of impaired loan(12) | | | (4,000,000) | — |
| 2,297 shares of Common Stock | | | 2,297,000 | — |
| | | | **7,803,805** | **4,448,661** |
| **Elephant & Castle, Inc.** | Restaurants | | | |
| Second Lien Term Loan, 15.5% due 4/20/2012 | | 8,030,061 | 7,553,247 | 7,311,604 |
| 7,500 shares of Series A Preferred Stock | | | 750,000 | 492,469 |
| | | | **8,303,247** | **7,804,073** |
| **MK Network, LLC** | Healthcare technology | | | |
| First Lien Term Loan A, 13.5% due 6/1/2012 | | 9,500,000 | 9,220,111 | 9,033,826 |
| First Lien Term Loan B, 17.5% due 6/1/2012 | | 5,212,692 | 4,967,578 | 5,163,544 |
| First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010(10) | | — | — | — |
| 11,030 Membership Units(6) | | | 771,575 | — |
| | | | **14,959,264** | **14,197,370** |
| **Martini Park, LLC(9)(16)** | Restaurants | | | |
| First Lien Term Loan, 14% due 2/20/2013 | | 4,390,798 | 3,408,351 | 2,068,303 |
| 5% membership interest | | | 650,000 | — |
| | | | **4,058,351** | **2,068,303** |

| Portfolio Company/<br>Type of Investment(1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Caregiver Services, Inc.** | Healthcare services | | | |
| Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013 | | 8,570,595 | 8,092,364 | 8,225,400 |
| Second Lien Term Loan B, 16.5% due 2/25/2013 | | 14,242,034 | 13,440,995 | 13,508,338 |
| 1,080,399 shares of Series A Preferred Stock | | | 1,080,398 | 1,206,599 |
| | | | **22,613,757** | **22,940,337** |
| **Total Affiliate Investments** | | | **$ 71,212,035** | **$ 64,748,560** |
| **Non-Control/Non-Affiliate Investments(7)** | | | | |
| **Best Vinyl Acquisition Corporation(9)** | Building Products | | | |
| Second Lien Term Loan, 12% due 3/30/2013 | | 7,000,000 | 6,779,947 | 6,138,582 |
| 25,641 Shares of Series A Preferred Stock | | | 253,846 | 20,326 |
| 25,641 Shares of Common Stock | | | 2,564 | — |
| | | | **7,036,357** | **6,158,908** |
| **Traffic Control & Safety Corporation** | Construction and Engineering | | | |
| Second Lien Term Loan, 15% due 6/29/2014 | | 19,310,587 | 19,025,031 | 17,693,780 |
| 24,750 shares of Series B Preferred Stock | | | 247,500 | 158,512 |
| 25,000 shares of Common Stock | | | 2,500 | — |
| | | | **19,275,031** | **17,852,292** |
| **Nicos Polymers & Grinding Inc.(9)(16)** | Environmental & facilities services | | | |
| First Lien Term Loan A, LIBOR+5% (10% floor), due 7/17/2012 | | 3,091,972 | 3,040,465 | 2,162,593 |
| First Lien Term Loan B, 13.5% due 7/17/2012 | | 5,980,128 | 5,716,250 | 3,959,643 |
| 3.32% Interest in Crownbrook Acquisition I LLC | | | 168,086 | — |
| | | | **8,924,801** | **6,122,236** |
| **TBA Global, LLC(9)** | Media: Advertising | | | |
| Second Lien Term Loan A, LIBOR+5% (10% floor), due 8/3/2010 | | 2,583,805 | 2,576,304 | 2,565,305 |
| Second Lien Term Loan B, 14.5% due 8/3/2012 | | 10,797,936 | 10,419,185 | 10,371,277 |
| 53,994 Senior Preferred Shares | | | 215,975 | 162,621 |
| 191,977 Shares A Shares | | | 191,977 | — |
| | | | **13,403,441** | **13,099,203** |
| **Fitness Edge, LLC** | Leisure Facilities | | | |
| First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012 | | 1,750,000 | 1,740,069 | 1,753,262 |
| First Lien Term Loan B, 15% due 8/8/2012 | | 5,490,743 | 5,404,192 | 5,321,281 |
| 1,000 Common Units | | | 42,908 | 70,354 |
| | | | **7,187,169** | **7,144,897** |

| Portfolio Company/<br>Type of Investment(1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Filet of Chicken(9)** | Food Distributors | | | |
| Second Lien Term Loan, 14.5% due 7/31/2012 | | 9,307,547 | 8,922,946 | 8,979,657 |
| | | | **8,922,946** | **8,979,657** |
| **Boot Barn(9)** | Footwear and Apparel | | | |
| Second Lien Term Loan, 14.5% due 10/3/2013 | | 22,518,091 | 22,175,818 | 22,050,462 |
| 24,706 shares of Series A Preferred Stock | | | 247,060 | 32,259 |
| 1,308 shares of Common Stock | | | 131 | — |
| | | | **22,423,009** | **22,082,721** |
| **Premier Trailer Leasing, Inc.(15)(16)** | Trailer Leasing Services | | | |
| Second Lien Term Loan, 16.5% due 10/23/2012 | | 17,855,617 | 17,063,645 | 9,860,940 |
| 285 shares of Common Stock | | | 1,140 | — |
| | | | **17,064,785** | **9,860,940** |
| **Pacific Press Technologies, Inc.** | Capital Goods | | | |
| Second Lien Term Loan, 14.75% due 1/10/2013 | | 9,813,993 | 9,621,279 | 9,606,186 |
| 33,463 shares of Common Stock | | | 344,513 | 160,299 |
| | | | **9,965,792** | **9,766,485** |
| **Rose Tarlow, Inc.(9)** | Home Furnishing Retail | | | |
| First Lien Term Loan, 12% due 1/25/2014 | | 10,191,188 | 10,016,956 | 8,827,182 |
| First Lien Revolver, LIBOR+4% (9% floor) due 1/25/2014(10) | | 1,550,000 | 1,538,806 | 1,509,219 |
| 0.00% membership interest in RTMH Acquisition Company(14) | | | 1,275,000 | — |
| 0.00% membership interest in RTMH Acquisition Company(14) | | | 25,000 | — |
| | | | **12,855,762** | **10,336,401** |
| **Goldco, LLC** | Restaurants | | | |
| Second Lien Term Loan, 17.5% due 1/31/2013 | | 8,024,147 | 7,926,647 | 7,938,639 |
| | | | **7,926,647** | **7,938,639** |
| **Rail Acquisition Corp.** | Manufacturing - Mechanical Products | | | |
| First Lien Term Loan, 17% due 4/1/2013 | | 15,668,956 | 15,416,411 | 15,081,138 |
| | | | **15,416,411** | **15,081,138** |
| **Western Emulsions, Inc.** | Emulsions Manufacturing | | | |
| Second Lien Term Loan, 15% due 6/30/2014 | | 11,928,600 | 11,743,630 | 12,130,945 |
| | | | **11,743,630** | **12,130,945** |

| Portfolio Company/ Type of Investment(1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Storytellers Theaters Corporation** | Entertainment - Theaters | | | |
| First Lien Term Loan, 15% due 7/16/2014 | | 7,275,313 | 7,166,749 | 7,162,190 |
| First Lien Revolver, LIBOR+3.5% (10% floor), due 7/16/2014 | | 250,000 | 234,167 | 223,136 |
| 1,692 shares of Common Stock | | | 169 | — |
| 20,000 shares of Preferred Stock | | | 200,000 | 156,256 |
| | | | **7,601,085** | **7,541,582** |
| **HealthDrive Corporation(9)** | Healthcare services | | | |
| First Lien Term Loan A, 10% due 7/17/2013 | | 7,800,000 | 7,574,591 | 7,731,153 |
| First Lien Term Loan B, 13% due 7/17/2013 | | 10,076,089 | 9,926,089 | 9,587,523 |
| First Lien Revolver, 12% due 7/17/2013 | | 500,000 | 485,000 | 534,693 |
| | | | **17,985,680** | **17,853,369** |
| **idX Corporation** | Merchandise Display | | | |
| Second Lien Term Loan, 14.5% due 7/1/2014 | | 13,316,247 | 13,014,576 | 13,074,682 |
| | | | **13,014,576** | **13,074,682** |
| **Cenegenics, LLC** | Healthcare services | | | |
| First Lien Term Loan, 17% due 10/27/2013 | | 10,372,069 | 10,076,277 | 10,266,770 |
| 116,237 Common Units(6) | | | 151,108 | 515,782 |
| | | | **10,227,385** | **10,782,552** |
| **IZI Medical Products, Inc.** | Healthcare technology | | | |
| First Lien Term Loan A, 12% due 3/31/2014 | | 5,600,000 | 5,504,943 | 5,547,944 |
| First Lien Term Loan B, 16% due 3/31/2014 | | 17,042,500 | 16,328,120 | 16,532,244 |
| First Lien Revolver, 10% due 3/31/2014(11) | | — | (45,000) | (45,000) |
| 453,755 Preferred units of IZI Holdings, LLC | | | 453,755 | 530,016 |
| | | | **22,241,818** | **22,565,204** |
| **Trans-Trade, Inc.** | Air freight & logistics | | | |
| First Lien Term Loan, 15.5% due 9/10/2014 | | 11,016,042 | 10,798,229 | 10,838,952 |
| First Lien Revolver, 12% due 9/10/2014(11) | | — | (39,333) | (39,333) |
| | | | **10,758,896** | **10,799,619** |
| **Riverlake Equity Partners II, LP** | Multi-sector holdings | | | |
| 0.14% limited partnership interest (13) | | | — | — |
| **Riverside Fund IV, LP** | Multi-sector holdings | | | |
| 0.92% limited partnership interest(13) | | | — | — |
| **Total Non-Control/Non-Affiliate Investments** | | | **$ 243,975,221** | **$ 229,171,470** |
| ***Total Portfolio Investments*** | | | **$ 327,232,285** | **$ 299,611,137** |

(1) All debt investments are income producing. Equity is non-income producing unless otherwise noted.

(2) See Note 3 to the Consolidated Financial Statements for portfolio composition by geographic region.

(3) Control Investments are defined by the Investment Company Act of 1940 (“1940 Act”) as investments in companies in which the Company owns more than 25% of the voting securities or maintains greater than 50% of the board representation.

(4) Affiliate Investments are defined by the 1940 Act as investments in companies in which the Company owns between 5% and 25% of the voting securities.

(5) Equity ownership may be held in shares or units of companies related to the portfolio companies.

(6) Income producing through payment of dividends or distributions.

(7) Non-Control/Non-Affiliate Investments are defined by the 1940 Act as investments that are neither Control Investments nor Affiliate Investments.

(8) Principal includes accumulated PIK interest and is net of repayments.

(9) Interest rates have been adjusted on certain term loans and revolvers. These rate adjustments are temporary in nature due to financial or payment covenant violations in the original credit agreements, or permanent in nature per loan amendment or waiver documents. The table below summarizes these rate adjustments by portfolio company:

| Portfolio Company | Effective date | Cash interest | PIK interest | Reason |
|---|---|---|---|---|
| CPAC, Inc. | November 21, 2008 | — | + 1.0% on Term Loan | Per waiver agreement |
| Rose Tarlow, Inc. | January 1, 2009 | +0.5% on Term Loan, + 3.0% on Revolver | + 2.5% on Term Loan | Tier pricing per waiver agreement |
| Martini Park, LLC | October 1, 2008 | — 6.0% on Term Loan | + 6.0% on Term Loan | Per waiver agreement |
| Best Vinyl Acquisition Corporation | April 1, 2008 | + 0.5% on Term Loan | — | Per loan amendment |
| Nicos Polymers & Grinding, Inc. | February 10, 2008 | — | + 2.0% on Term Loan A & B | Per waiver agreement |
| TBA Global, LLC | February 15, 2008 | — | + 2.0% on Term Loan A & B | Per waiver agreement |
| Filet of Chicken | January 1, 2009 | + 1.0% on Term Loan | — | Tier pricing per waiver agreement |
| Boot Barn | January 1, 2009 | + 1.0% on Term Loan | + 2.5% on Term Loan | Tier pricing per waiver agreement |
| HealthDrive Corporation | April 30, 2009 | + 2.0% on Term Loan A | — | Per waiver agreement |

(10) Revolving credit line has been suspended and is deemed unlikely to be renewed in the future.

(11) Amounts represent unearned income related to undrawn commitments.

(12) All or a portion of the loan is considered permanently impaired and, accordingly, the charge-off of the cost basis has been recorded as a realized loss for financial reporting purposes.

(13) Represents an unfunded commitment to fund limited partnership interest.

(14) Represents a de minimis membership interest percentage.

(15) Investment was on cash non-accrual status as of September 30, 2009.

(16) Investment was on PIK non-accrual status as of September 30, 2009.

See notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1. Organization**

Fifth Street Mezzanine Partners III, L.P. (the "Partnership"), a Delaware limited partnership, was organized on February 15, 2007 to primarily invest in debt securities of small and/or middle market companies. FSMPIII GP, LLC was the Partnership's general partner (the "General Partner"). The Partnership's investments were managed by Fifth Street Management LLC (the "Investment Adviser"). The General Partner and Investment Adviser were under common ownership.

Effective January 2, 2008, the Partnership merged with and into Fifth Street Finance Corp. (the "Company"), an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940 (the "1940 Act"). The merger involved the exchange of shares between companies under common control. In accordance with the guidance on exchanges of shares between entities under common control, the Company's results of operations and cash flows for the year ended September 30, 2008 are presented as if the merger had occurred as of October 1, 2007. Accordingly, no adjustments were made to the carrying value of assets and liabilities (or the cost basis of investments) as a result of the merger. The Company is managed by the Investment Adviser. Prior to January 2, 2008, references to the Company are to the Partnership. Since January 2, 2008, references to the "Company," "FSC," "we" or "our" are to Fifth Street Finance Corp., unless the context otherwise requires.

The Company also has certain wholly-owned subsidiaries, including subsidiaries which are not consolidated for income tax filing purposes, which hold certain portfolio investments of the Company. The subsidiaries are consolidated with the Company, and the portfolio investments held by the subsidiaries are included in the Company's consolidated financial statements. All significant intercompany balances and transactions have been eliminated.

On June 17, 2008, the Company completed an initial public offering of 10,000,000 shares of its common stock at the offering price of $14.12 per share. On July 21, 2009, the Company completed a follow-on public offering of 9,487,500 shares of its common stock at the offering price of $9.25 per share. On September 25, 2009, the Company completed a follow-on public offering of 5,520,000 shares of its common stock at the offering price of $10.50 per share. On January 27, 2010, the Company completed a follow-on public offering of 7,000,000 shares of its common stock at the offering price of $11.20 per share, with 300,500 additional shares being sold as part of the underwriters' partial exercise of their over-allotment option on February 25, 2010. The Company's shares are currently listed on the New York Stock Exchange under the symbol "FSC."

On February 3, 2010, the Company's consolidated wholly-owned subsidiary, Fifth Street Mezzanine Partners IV, L.P., received a license, effective February 1, 2010, from the United States Small Business Administration, or SBA, to operate as a small business investment company, or SBIC, under Section 301(c) of the Small Business Investment Act of 1958. SBICs are designated to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses.

The SBIC license allows the Company's SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with 10-year maturities.

SBA regulations currently limit the amount that the Company's SBIC subsidiary may borrow up to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of March 31, 2010, the Company's SBIC subsidiary had $75 million in regulatory capital. The SBA has issued a capital commitment to the Company's SBIC subsidiary in the amount of $75 million. The Company's SBIC subsidiary will not be able to access more than half of the commitment until it is examined by the SBA, and the Company cannot predict the timing for completion of an examination by the SBA.

The SBA restricts the ability of SBICs to repurchase their capital stock. SBA regulations also include restrictions on a "change of control" or transfer of an SBIC and require that SBICs invest idle funds in accordance with SBA regulations. In addition, the Company's SBIC subsidiary may also be limited in its ability to make distributions to the Company if it does not have sufficient capital, in accordance with SBA regulations.

The Company's SBIC subsidiary is subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. Receipt of an SBIC license does not assure that the SBIC subsidiary will receive SBA-guaranteed debenture funding and is dependent upon the SBIC subsidiary continuing to be in compliance with SBA regulations and policies.

The SBA, as a creditor, will have a superior claim to our SBIC subsidiary's assets over the Company's stockholders in the event the Company liquidates the SBIC subsidiary or the SBA exercises its remedies under the SBA-guaranteed debentures issued by the SBIC subsidiary upon an event of default.

The Company applied for exemptive relief from the SEC to permit it to exclude the debt of the SBIC subsidiary guaranteed by the SBA from the 200% asset coverage test under the 1940 Act. If the Company receives an exemption for this SBA debt, the Company would have increased flexibility under the 200% asset coverage test.

**Note 2. Significant Accounting Policies**

***FASB Accounting Standards Codification:***

The issuance of *FASB Accounting Standards Codification* TM (the "Codification") on July 1, 2009 (effective for interim or annual reporting periods ending after September 15, 2009), changes the way that U.S. generally accepted accounting principles ("GAAP") are referenced. Beginning on that date, the Codification officially became the single source of authoritative nongovernmental GAAP; however, SEC registrants must also consider rules, regulations, and interpretive guidance issued by the SEC or its staff. The switch affects the way companies refer to GAAP in financial statements and in their accounting policies. All existing standards that were used to create the Codification became superseded. Instead, references to standards will consist solely of the number used in the Codification's structural organization.

Consistent with the effective date of the Codification, financial statements for periods ending after September 15, 2009, refer to the Codification structure, not pre-Codification historical GAAP.

***Basis of Presentation and Liquidity:***

The Consolidated Financial Statements of the Company have been prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X. In the opinion of management, all adjustments of a normal recurring nature considered necessary for the fair presentation of the Consolidated Financial Statements for the interim period have been made. The financial results of the Company's portfolio investments are not consolidated in the Company's financial statements.

Although the Company expects to fund the growth of its investment portfolio through the net proceeds of the recent and future equity offerings, the Company's dividend reinvestment plan, and issuances of senior securities or future borrowings, to the extent permitted by the 1940 Act, the Company cannot assure that its plans to raise capital will be successful. In addition, the Company intends to distribute to its stockholders between 90% and 100% of its taxable income each year in order to satisfy the requirements applicable to Regulated Investment Companies ("RICs") under Subchapter M of the Internal Revenue Code ("Code"). Consequently, the Company may not have the funds or the ability to fund new investments, to make additional investments in its portfolio companies, to fund its unfunded commitments to portfolio companies or to repay borrowings. In addition, the illiquidity of its portfolio investments may make it difficult for the Company to sell these investments when desired and, if the Company is required to sell these investments, the Company may realize significantly less than their recorded value.

***Use of Estimates:***

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions affecting amounts reported in the financial statements and accompanying notes. These estimates are based on the information that is currently available to the Company and on various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ materially from those estimates under different assumptions and conditions. The most significant estimate inherent in the preparation of the Company's consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation.

The consolidated financial statements include portfolio investments at fair value of $460.9 million and $299.6 million at March 31, 2010 and September 30, 2009, respectively. The portfolio investments represent 95.1% and 73.0% of stockholders' equity at March 31, 2010 and September 30, 2009, respectively, and their fair values have been determined by the Company's Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. The illiquidity of these portfolio investments may make it difficult for the Company to sell these investments when desired and, if the Company is required to sell these investments, it may realize significantly less than the investments' recorded value.

The Company classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, "Control Investments" are defined as investments in companies in which the Company owns more than 25% of the voting securities or has rights to maintain greater than 50% of the board representation; "Affiliate Investments" are defined as investments in companies in which the Company owns between 5% and 25% of the voting securities; and "Non-Control/Non-Affiliate Investments" are defined as investments that are neither Control Investments nor Affiliate Investments.

***Fair Value Measurements:***

In September 2006, the Financial Accounting Standards Board issued ASC 820 *Fair Value Measurements and Disclosures* ("ASC 820"), which was effective for fiscal years beginning after November 15, 2007. ASC 820 defines fair value as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available or reliable, valuation techniques are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the investments or market and the investments' complexity.

Effective October 1, 2008, the Company adopted ASC 820. Assets recorded at fair value in the Company's Consolidated Balance Sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

- Level 1 — Unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data at the measurement date for substantially the full term of the assets or liabilities.

- Level 3 — Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Under ASC 820, the Company performs detailed valuations of its debt and equity investments on an individual basis, using market based, income based, and bond yield approaches as appropriate.

Under the market approach, the Company estimates the enterprise value of the portfolio companies in which it invests. There is no one methodology to estimate enterprise value and, in fact, for any one portfolio company, enterprise value is best expressed as a range of fair values, from which the Company derives a single estimate of enterprise value. To estimate the enterprise value of a portfolio company, the Company analyzes various factors, including the portfolio company's historical and projected financial results. Typically, private companies are valued based on multiples of EBITDA, cash flows, net income, revenues, or in limited cases, book value. The Company generally requires portfolio companies to provide annual audited and quarterly and monthly unaudited financial statements, as well as annual projections for the upcoming fiscal year.

Under the income approach, the Company generally prepares and analyzes discounted cash flow models based on projections of the future free cash flows of the business. Under the bond yield approach, the Company uses bond yield models to determine the present value of the future cash flow streams of its debt investments. The Company reviews various sources of transactional data, including private mergers and acquisitions involving debt investments with similar characteristics, and assesses the information in the valuation process.

The Company also may, when conditions warrant, utilize an expected recovery model, whereby it uses alternate procedures to determine value when the customary approaches are deemed to be not as relevant or reliable.

The Company's Board of Directors undertakes a multi-step valuation process each quarter in connection with determining the fair value of our investments:

- The quarterly valuation process begins with each portfolio company or investment being initially valued by the deal team within the Investment Adviser responsible for the portfolio investment;
- Preliminary valuations are then reviewed and discussed with the principals of the Investment Adviser;
- Separately, an independent valuation firm engaged by the Board of Directors prepares preliminary valuations on a selected basis and submits a report to the Company;
- The deal team compares and contrasts its preliminary valuations to the report of the independent valuation firm and resolves any differences;
- The deal team prepares a final valuation report for the Valuation Committee of the Board of Directors;
- The Valuation Committee of the Board of Directors reviews the preliminary valuations, and the deal team responds and supplements the preliminary valuations to reflect any comments provided by the Valuation Committee;
- The Valuation Committee of the Board of Directors makes a recommendation to the Board of Directors; and
- The Board of Directors discusses valuations and determines the fair value of each investment in the Company's portfolio in good faith.

The fair value of all of the Company's investments at March 31, 2010 and September 30, 2009 was determined by the Board of Directors. The Board of Directors is solely responsible for the valuation of the portfolio investments at fair value as determined in good faith pursuant to the Company's valuation policy and a consistently applied valuation process.

Realized gain or loss on the sale of investments is the difference between the proceeds received from dispositions of portfolio investments and their stated costs. Realized losses may also be recorded in connection with the Company's determination that certain investments are other than temporarily impaired.

Interest income, adjusted for amortization of premium and accretion of original issue discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on investments when it is determined that interest is no longer collectible.

Distributions of earnings from portfolio companies are recorded as dividend income when the distribution is received.

The Company has investments in debt securities which contain a payment-in-kind or "PIK" interest provision. PIK interest is computed at the contractual rate specified in each investment agreement and added to the principal balance of the investment and recorded as income.

Fee income consists of the monthly collateral management fees that the Company receives in connection with its debt investments and the accreted portion of the debt origination and exit fees.

The Company capitalizes upfront loan origination fees received in connection with investments. The unearned fee income from such fees is accreted into fee income based on the effective interest method over the life of the investment. In connection with its investment, the Company sometimes receives nominal cost equity that is valued as part of the negotiation process with the particular portfolio company. When the Company receives nominal cost equity, the Company allocates its cost basis in its investment between its debt securities and its nominal cost equity at the time of origination. Any resulting discount from recording the loan is accreted into fee income over the life of the loan.

As of March 31, 2010, the Company was entitled to receive exit fees upon the future exit of certain investments. These fees will typically be paid to the Company upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees, which are contractually payable by borrowers to the Company, previously were to be recognized by the Company on a cash basis when received and not accrued or otherwise included in net investment income until received. None of the loans with exit fees, all of which were originated in 2008 and 2009, have been exited and, as a result, no exit fees were recognized. Beginning with the quarter ended December 31, 2009, the Company recognizes income pertaining to contractual exit fees on an accrual basis and adds exit fee income to the principal balance of the related loan to the extent the Company determines that collection of the exit fee income is probable. Additionally, the Company includes the cash flows of contractual exit fees that it determines are probable of collection in determining the fair value of its loans. The Company believes the effect of this cumulative adjustment in the quarter ended December 31, 2009 was not material to its financial statements as of any date or for any period.

***Cash and Cash Equivalents:***

Cash and cash equivalents consist of demand deposits and highly liquid investments with maturities of three months or less when acquired. The Company places its cash and cash equivalents with financial institutions and, at times, cash held in bank accounts may exceed the Federal Deposit Insurance Corporation insured limit.

***Offering Costs:***

Offering costs consist of fees and expenses paid in connection with the public offer and sale of the Company's common stock, including legal, accounting and printing fees. Approximately $0.5 million of offering costs were charged to capital during the six months ended March 31, 2010 relating to such public offerings.

***Income Taxes:***

As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed currently to its stockholders as a dividend. The Company anticipates distributing between 90% and 100% of its taxable income and gains, within the Subchapter M rules, and thus the Company anticipates that it will not incur any federal or state income tax at the RIC level. As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis (e.g., calendar year 2010). The Company anticipates timely distribution of its taxable income within the tax rules; however, the Company incurred a de minimis federal excise tax for calendar years 2008 and 2009. In addition, the Company may incur a federal excise tax in future years.

The purpose of the Company's taxable subsidiaries is to permit the Company to hold equity investments in portfolio companies which are "pass through" entities for federal tax purposes in order to comply with the "source income" requirements contained in the RIC tax requirements. The taxable subsidiaries are not consolidated with the Company for income tax purposes and may generate income tax expense as a result of their ownership of certain portfolio investments. This income tax expense, if any, is reflected in the Company's Consolidated Statements of Operations. The Company uses the asset and liability method to account for its taxable subsidiaries' income taxes. Using this method, the Company recognizes deferred tax assets and liabilities for the estimated future tax effects attributable to temporary differences between financial reporting and tax bases of assets and liabilities. In addition, the Company recognizes deferred tax benefits associated with net operating carry forwards that it may use to offset future tax obligations. The Company measures deferred tax assets and liabilities using the enacted tax rates expected to apply to taxable income in the years in which it expects to recover or settle those temporary differences.

The Company adopted Financial Accounting Standards Board ASC Topic 740 *Accounting for Uncertainty in Income Taxes* ("ASC 740") at inception on February 15, 2007. ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. Adoption of ASC 740 was applied to all open taxable years as of the effective date. The adoption of ASC 740 did not have an effect on the financial position or results of operations of the Company as there was no liability for unrecognized tax benefits and no change to the beginning capital of the Company. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof.

***Recent Accounting Pronouncements:***

In February 2010, the FASB amended its authoritative guidance related to subsequent events to alleviate potential conflicts with current United States Securities and Exchange Commission ("SEC") guidance. Effective immediately, these amendments remove the requirement that an SEC filer disclose the date through which it has evaluated subsequent events. The adoption of this guidance did not have a material impact on the Company's financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Improving Disclosures About Fair Value Measurements (Topic 820)*, which provides for improving disclosures about fair value measurements, primarily significant transfers in and out of Levels 1 and 2, and activity in Level 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for the interim and annual reporting periods beginning after December 15, 2009, while the disclosures about the purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010 and for the interim periods within those fiscal years. Except for certain detailed Level 3 disclosures, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those years, the new guidance became effective for the Company's fiscal 2010 second quarter. The Company did not have transfers of assets or liabilities in or out of Level 1 and Level 2 fair value measurements. The adoption of this disclosure-only guidance is included in Note 3 — Portfolio Investments and did not have a material impact on the Company's consolidated financial results.

In September 2009, the FASB issued Accounting Standards Update 2009-12, *Fair Value Measurements and Disclosures (Topic 820) — Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* , which provides guidance on estimating the fair value of an alternative investment, amending ASC 820-10. The amendment is effective for interim and annual periods ending after December 15, 2009. The adoption of this guidance did not have a material impact on either the Company's financial position or results of operations.

**Note 3. Portfolio Investments**

At March 31, 2010, 95.1% of stockholders' equity or $460.9 million was invested in 34 long-term portfolio investments and 4.8% of stockholders' equity or $23.5 million was invested in cash and cash equivalents. In comparison, at September 30, 2009, 73.0% of stockholders' equity or $299.6 million was invested in 28 long-term portfolio investments and 27.6% of stockholders' equity or $113.2 million was invested in cash and cash equivalents. As of March 31, 2010, all of the Company's debt investments were secured by first or second priority liens on the assets of the portfolio companies. Moreover, the Company held equity investments in certain of its portfolio companies consisting of common stock, preferred stock or limited liability company interests designed to provide the Company with an opportunity for an enhanced rate of return. These instruments generally do not produce a current return, but are held for potential investment appreciation and capital gain.

At March 31, 2010 and September 30, 2009, $375.4 million and $281.0 million, respectively, of the Company's portfolio debt investments at fair value were at fixed rates, which represented approximately 82.4% and 95.0%, respectively, of the Company's total portfolio of debt investments at fair value. During the three and six months ended March 31, 2010, the Company recorded net realized losses on investments of $2.9 million and $2.8 million, respectively. During the three and six months ended March 31, 2009, the Company recorded net realized losses on investments of $12.4 million. During the three and six months ended March 31, 2010, the Company recorded unrealized appreciation of $1.2 million and $2.2 million, respectively. During the three and six months ended March 31, 2009, the Company recorded unrealized appreciation (depreciation) of $7.7 million and ($10.7 million), respectively.

The composition of the Company's investments as of March 31, 2010 and September 30, 2009 at cost and fair value was as follows:

| | March 31, 2010 | | September 30, 2009 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Investments in debt securities | $ 477,881,037 | $ 455,668,658 | $ 317,069,667 | $ 295,921,400 |
| Investments in equity securities | 8,429,501 | 5,196,738 | 10,162,618 | 3,689,737 |
| **Total** | **$ 486,310,538** | **$ 460,865,396** | **$ 327,232,285** | **$ 299,611,137** |

The following table presents the financial instruments carried at fair value as of March 31, 2010, by caption on the Company's Consolidated Balance Sheet for each of the three levels of hierarchy established by ASC 820.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash equivalents | $ — | $ — | $ — | $ — |
| Investments in debt securities (first lien) | — | — | 317,721,667 | 317,721,667 |
| Investments in debt securities (second lien) | | | 137,946,991 | 137,946,991 |
| Investments in equity securities | — | — | 5,196,738 | 5,196,738 |
| **Total** | $ — | $ — | **$ 460,865,396** | **$ 460,865,396** |

When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the fact that the unobservable factors are the most significant to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated by external sources). Accordingly, the appreciation (depreciation) in the tables below include changes in fair value due in part to observable factors that are part of the valuation methodology.

The following table provides a roll-forward in the changes in fair value from January 1, 2010 to March 31, 2010, for all investments for which the Company determines fair value using unobservable (Level 3) factors.

| | First lien debt | Second lien debt | Equity | Total |
|---|---|---|---|---|
| Fair value as of January 1, 2010 | $ 280,768,502 | $ 152,254,769 | $ 3,670,269 | $ 436,693,540 |
| Net realized gains (losses) | — | (2,908,084) | — | (2,908,084) |
| Net unrealized appreciation (depreciation) | (408,039) | (1,828,808) | 3,413,558 | 1,176,711 |
| Purchases, issuances, settlements and other, net | 37,361,204 | (9,570,886) | (1,887,089) | 25,903,229 |
| **Fair value at March 31, 2010** | **$ 317,721,667** | **$ 137,946,991** | **$ 5,196,738** | **$ 460,865,396** |

The following table provides a roll-forward in the changes in fair value from January 1, 2009 to March 31, 2009, for all investments for which the Company determines fair value using unobservable (Level 3) factors.

| | First lien debt | Second lien debt | Equity | Total |
|---|---|---|---|---|
| Fair value as of January 1, 2009 | $ 104,634,347 | $ 163,472,449 | $ 3,104,354 | $ 271,211,150 |
| Net realized gains (losses) | — | (12,400,000) | — | (12,400,000) |
| Net unrealized appreciation (depreciation) | 5,036,965 | 2,971,320 | (258,551) | 7,749,734 |
| Purchases, issuances, settlements and other, net | 23,434,449 | 328,210 | 453,756 | 24,216,415 |
| **Fair value at March 31, 2009** | **$ 133,105,761** | **$ 154,371,979** | **$ 3,299,559** | **$ 290,777,299** |

The following table provides a roll-forward in the changes in fair value from September 30, 2009 to March 31, 2010, for all investments for which the Company determines fair value using unobservable (Level 3) factors.

| | First lien debt | Second lien debt | Equity | Total |
|---|---|---|---|---|
| Fair value as of September 30, 2009 | $ 142,016,942 | $ 153,904,458 | $ 3,689,737 | $ 299,611,137 |
| Net realized gains (losses) | — | (2,908,084) | — | (2,908,084) |
| Net unrealized appreciation (depreciation) | 1,477,258 | (2,541,371) | 3,240,118 | 2,176,005 |
| Purchases, issuances, settlements and other, net | 174,227,467 | (10,508,012) | (1,733,117) | 161,986,338 |
| **Fair value at March 31, 2010** | **$ 317,721,667** | **$ 137,946,991** | **$ 5,196,738** | **$ 460,865,396** |

The following table provides a roll-forward in the changes in fair value from September 30, 2008 to March 31, 2009, for all investments for which the Company determines fair value using unobservable (Level 3) factors.

| | First lien debt | Second lien debt | Equity | Total |
|---|---|---|---|---|
| Fair value as of September 30, 2008 | $ 96,666,351 | $ 172,488,597 | $ 4,604,206 | $ 273,759,154 |
| Net realized gains (losses) | — | (12,400,000) | — | (12,400,000) |
| Net unrealized appreciation (depreciation) | (2,737,273) | (5,899,140) | (2,096,291) | (10,732,704) |
| Purchases, issuances, settlements and other, net | 39,176,683 | 182,522 | 791,644 | 40,150,849 |
| **Fair value at March 31, 2009** | **$ 133,105,761** | **$ 154,371,979** | **$ 3,299,559** | **$ 290,777,299** |

Concurrent with its adoption of ASC 820, effective October 1, 2008, the Company augmented the valuation techniques it uses to estimate the fair value of its debt investments where there is not a readily available market value (Level 3). Prior to October 1, 2008, the Company estimated the fair value of its Level 3 debt investments by first estimating the enterprise value of the portfolio company which issued the debt investment. To estimate the enterprise value of a portfolio company, the Company analyzed various factors, including the portfolio company's historical and projected financial results. Typically, private companies are valued based on multiples of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), cash flow, net income, revenues or, in limited instances, book value.

In estimating a multiple to use for valuation purposes, the Company looked to private merger and acquisition statistics, discounted public trading multiples or industry practices. In some cases, the best valuation methodology may have been a discounted cash flow analysis based on future projections. If a portfolio company was distressed, a liquidation analysis may have provided the best indication of enterprise value.

If there was adequate enterprise value to support the repayment of the Company's debt, the fair value of the Level 3 loan or debt security normally corresponded to cost plus the amortized original issue discount unless the borrower's condition or other factors lead to a determination of fair value at a different amount.

Beginning on October 1, 2008, the Company also introduced a bond yield model to value these investments based on the present value of expected cash flows. The primary inputs into the model are market interest rates for debt with similar characteristics and an adjustment for the portfolio company's credit risk. The credit risk component of the valuation considers several factors including financial performance, business outlook, debt priority and collateral position. During the three months ended March 31, 2010 and March 31, 2009, the Company recorded net unrealized appreciation of $1.2 million and $7.7 million, respectively, on its investments. For the three months ended March 31, 2010, the Company's net unrealized appreciation consisted of $3.3 million of reclassifications to realized losses offset by unrealized depreciation of ($2.1 million) resulting from declines in EBITDA or market multiples of its portfolio companies requiring closer monitoring or performing below expectations.

The table below summarizes the changes in the Company's investment portfolio from September 30, 2009 to March 31, 2010.

| | Debt | Equity | Total |
|---|---|---|---|
| Fair value at September 30, 2009 | $ 295,921,400 | $ 3,689,737 | $ 299,611,137 |
| New investments | 176,852,726 | 563,883 | 177,416,609 |
| Redemptions/ repayments | (15,040,837) | — | (15,040,837) |
| Net accrual of PIK interest income | 3,631,753 | — | 3,631,753 |
| Accretion of original issue discount | 448,427 | — | 448,427 |
| Net change in unearned income | (4,157,365) | — | (4,157,365) |
| Recognition of exit fee income | 49,837 | — | 49,837 |
| Net unrealized appreciation (depreciation) | (1,064,113) | 3,240,118 | 2,176,005 |
| Net changes from unrealized to realized | (973,170) | (2,297,000) | (3,270,170) |
| **Fair value at March 31, 2010** | **$ 455,668,658** | **$ 5,196,738** | **$ 460,865,396** |

The Company's off-balance sheet arrangements consisted of $35.4 million and $9.8 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of March 31, 2010 and September 30, 2009, respectively. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet and are not reflected on the Company's Consolidated Balance Sheets.

A summary of the composition of the unfunded commitments (consisting of revolvers, term loans and limited partnership interests) as of March 31, 2010 and September 30, 2009 is shown in the table below:

| | March 31, 2010 | September 30, 2009 |
|---|---|---|
| Storyteller Theaters Corporation | $ 1,500,000 | $ 1,750,000 |
| HealthDrive Corporation | 1,500,000 | 1,500,000 |
| IZI Medical Products, Inc. | 2,500,000 | 2,500,000 |
| Trans-Trade, Inc. | 2,000,000 | 2,000,000 |
| Riverlake Equity Partners II, LP (limited partnership interest) | 966,360 | 1,000,000 |
| Riverside Fund IV, LP (limited partnership interest) | 917,031 | 1,000,000 |
| ADAPCO, Inc. | 6,500,000 | — |
| AmBath/ReBath Holdings, Inc. | 2,250,000 | — |
| JTC Education, Inc. | 10,000,000 | — |
| Tegra Medical, LLC | 4,000,000 | — |
| Vanguard Vinyl, Inc. | 750,000 | — |
| Flatout, Inc. | 1,500,000 | — |
| Psilos Group Partners IV, LP (limited partnership interest) | 1,000,000 | — |
| **Total** | **$ 35,383,391** | **$ 9,750,000** |

Summaries of the composition of the Company's investment portfolio at cost and fair value as a percentage of total investments are shown in the following tables:

| | March 31, 2010 | | September 30, 2009 | |
|---|---|---|---|---|
| **Cost:** | | | | |
| First lien debt | $ 328,256,903 | 67.50% | $ 153,207,248 | 46.82% |
| Second lien debt | 149,624,134 | 30.77% | 163,862,419 | 50.08% |
| Purchased equity | 3,170,368 | 0.65% | 4,170,368 | 1.27% |
| Equity grants | 5,142,524 | 1.06% | 5,992,250 | 1.83% |
| Limited partnership interests | 116,609 | 0.02% | — | 0.00% |
| **Total** | **$ 486,310,538** | **100.00%** | **$ 327,232,285** | **100.00%** |

| | March 31, 2010 | | September 30, 2009 | |
|---|---|---|---|---|
| **Fair value:** | | | | |
| First lien debt | $ 317,721,667 | 68.94% | $ 142,016,942 | 47.40% |
| Second lien debt | 137,946,991 | 29.93% | 153,904,458 | 51.37% |
| Purchased equity | 286,275 | 0.06% | 517,181 | 0.17% |
| Equity grants | 4,793,854 | 1.04% | 3,172,556 | 1.06% |
| Limited partnership interests | 116,609 | 0.03% | — | 0.00% |
| **Total** | **$ 460,865,396** | **100.00%** | **$ 299,611,137** | **100.00%** |

The Company invests in portfolio companies located in the United States. The following tables show the portfolio composition by geographic region at cost and fair value as a percentage of total investments. The geographic composition is determined by the location of the corporate headquarters of the portfolio company, which may not be indicative of the primary source of the portfolio company's business.

| | March 31, 2010 | | September 30, 2009 | |
|---|---|---|---|---|
| **Cost:** | | | | |
| Northeast | $ 157,538,291 | 32.39% | $ 103,509,164 | 31.63% |
| West | 108,750,453 | 22.36% | 98,694,596 | 30.16% |
| Southeast | 66,078,996 | 13.59% | 39,463,350 | 12.06% |
| Midwest | 53,386,524 | 10.98% | 22,980,368 | 7.02% |
| Southwest | 100,556,274 | 20.68% | 62,584,807 | 19.13% |
| **Total** | **$ 486,310,538** | **100.00%** | **$ 327,232,285** | **100.00%** |

| | March 31, 2010 | | September 30, 2009 | |
|---|---|---|---|---|
| **Fair value:** | | | | |
| Northeast | $ 147,688,678 | 32.05% | $ 87,895,220 | 29.34% |
| West | 102,401,357 | 22.22% | 93,601,893 | 31.24% |
| Southeast | 66,462,129 | 14.42% | 39,858,633 | 13.30% |
| Midwest | 52,575,356 | 11.41% | 22,841,167 | 7.62% |
| Southwest | 91,737,876 | 19.90% | 55,414,224 | 18.50% |
| **Total** | **$ 460,865,396** | **100.00%** | **$ 299,611,137** | **100.00%** |

The composition of the Company's portfolio by industry at cost and fair value as of March 31, 2010 and September 30, 2009 were as follows:

| | March 31, 2010 | | September 30, 2009 | |
|---|---|---|---|---|
| **Cost:** | | | | |
| Healthcare services | $ 60,188,097 | 12.38% | $ 50,826,822 | 15.53% |
| Healthcare equipment | 45,455,903 | 9.35% | — | 0.00% |
| Healthcare technology | 36,965,777 | 7.60% | 37,201,082 | 11.37% |
| Home improvement retail | 31,972,280 | 6.57% | — | 0.00% |
| Education services | 30,073,332 | 6.18% | — | 0.00% |
| Fertilizers & agricultural chemicals | 26,685,754 | 5.49% | — | 0.00% |
| Footwear and apparel | 22,977,975 | 4.72% | 22,423,009 | 6.85% |
| Food retail | 19,696,670 | 4.05% | — | 0.00% |
| Construction and engineering | 19,597,925 | 4.03% | 19,275,031 | 5.89% |
| Emulsions manufacturing | 17,392,084 | 3.58% | 11,743,630 | 3.59% |
| Trailer leasing services | 17,064,785 | 3.51% | 17,064,785 | 5.21% |
| Restaurants | 16,526,518 | 3.40% | 20,288,245 | 6.20% |
| Manufacturing — mechanical products | 15,197,757 | 3.13% | 15,416,411 | 4.71% |
| Data processing and outsourced services | 13,277,606 | 2.73% | 13,473,611 | 4.12% |
| Merchandise display | 13,181,541 | 2.71% | 13,014,576 | 3.98% |
| Home furnishing retail | 12,877,277 | 2.65% | 12,855,762 | 3.93% |
| Housewares & specialties | 12,045,029 | 2.48% | 12,045,029 | 3.68% |
| Media — Advertising | 11,216,125 | 2.31% | 13,403,441 | 4.10% |
| Air freight and logistics | 10,972,751 | 2.26% | 10,758,896 | 3.29% |
| Capital goods | 10,131,651 | 2.08% | 9,965,792 | 3.05% |
| Food distributors | 9,021,995 | 1.86% | 8,922,946 | 2.73% |
| Environmental & facilities services | 8,921,676 | 1.83% | 8,924,801 | 2.73% |
| Building products | 8,771,922 | 1.80% | 7,036,357 | 2.14% |
| Entertainment — theaters | 7,956,617 | 1.64% | 7,601,085 | 2.32% |
| Leisure facilities | 7,024,882 | 1.44% | 7,187,169 | 2.20% |
| Household products/ specialty chemicals | 1,000,000 | 0.21% | 7,803,805 | 2.38% |
| Multi-sector holdings | 116,609 | 0.01% | — | 0.00% |
| **Total** | **$ 486,310,538** | **100.00%** | **$ 327,232,285** | **100.00%** |

| | March 31, 2010 | | September 30, 2009 | |
|---|---|---|---|---|
| **Fair value:** | | | | |
| Healthcare services | $ 62,027,798 | 13.46% | $ 51,576,258 | 17.21% |
| Healthcare equipment | 45,664,696 | 9.91% | — | 0.00% |
| Healthcare technology | 36,589,504 | 7.94% | 36,762,574 | 12.27% |
| Home improvement retail | 31,928,310 | 6.93% | — | 0.00% |
| Education services | 30,027,895 | 6.52% | — | 0.00% |
| Fertilizers & agricultural chemicals | 26,746,308 | 5.80% | — | 0.00% |
| Footwear and apparel | 22,717,184 | 4.93% | 22,082,721 | 7.37% |
| Food retail | 19,696,670 | 4.27% | — | 0.00% |
| Emulsions manufacturing | 17,701,865 | 3.84% | 12,130,945 | 4.05% |
| Construction and engineering | 16,824,249 | 3.65% | 17,852,292 | 5.96% |
| Manufacturing — mechanical products | 14,846,867 | 3.22% | 15,081,138 | 5.03% |
| Restaurants | 14,545,261 | 3.16% | 17,811,015 | 5.94% |
| Data processing and outsourced services | 13,038,211 | 2.83% | 13,289,816 | 4.44% |
| Merchandise display | 12,932,624 | 2.81% | 13,074,682 | 4.36% |
| Air freight and logistics | 11,099,915 | 2.41% | 10,799,619 | 3.60% |
| Media — Advertising | 10,997,380 | 2.39% | 13,099,203 | 4.37% |
| Home furnishing retail | 9,766,820 | 2.12% | 10,336,401 | 3.45% |
| Capital goods | 9,614,837 | 2.09% | 9,766,485 | 3.26% |
| Food distributors | 8,880,527 | 1.93% | 8,979,657 | 3.00% |
| Housewares & specialties | 8,171,182 | 1.77% | 5,691,107 | 1.90% |
| Entertainment — theaters | 8,095,261 | 1.76% | 7,541,582 | 2.52% |
| Trailer leasing services | 8,065,658 | 1.75% | 9,860,940 | 3.29% |
| Building products | 7,485,492 | 1.62% | 6,158,908 | 2.06% |
| Leisure facilities | 7,101,499 | 1.54% | 7,144,897 | 2.38% |
| Environmental & facilities services | 5,182,774 | 1.12% | 6,122,236 | 2.04% |
| Household products/ specialty chemicals | 1,000,000 | 0.22% | 4,448,661 | 1.50% |
| Multi-sector holdings | 116,609 | 0.01% | — | 0.00% |
| **Total** | **$ 460,865,396** | **100.00%** | **$ 299,611,137** | **100.00%** |

The Company's investments are generally in small and mid-sized companies in a variety of industries. At March 31, 2010, the Company had no investments that represented greater than 10% of the total investment portfolio at fair value. At September 30, 2009, the Company had one investment that was greater than 10% of the total investment portfolio at fair value. This investment comprised 10.4% of the total portfolio at fair value. Income, consisting of interest, dividends, fees, other investment income, and realization of gains or losses on equity interests, can fluctuate upon repayment of an investment or sale of an equity interest and in any given year can be highly concentrated among several investments. For the three months ended March 31, 2010 and March 31, 2009, no individual investment produced income that exceeded 10% of investment income.

**Note 4. Fee Income**

The Company receives a variety of fees in the ordinary course of business. Certain fees, such as origination fees, are capitalized and amortized in accordance with ASC 310-20 *Nonrefundable Fees and Other Costs*. In accordance with ASC 820, the net unearned fee income balance is netted against the cost and fair value of the respective investments. Other fees, such as servicing fees, are classified as fee income and recognized as they are earned on a monthly basis.

Accumulated unearned fee income activity for the six months ended March 31, 2010 and March 31, 2009 was as follows:

| | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|---|---|---|
| Beginning unearned fee income balance | $ 5,589,630 | $ 5,236,265 |
| Net fees received | 6,469,801 | 2,227,846 |
| Unearned fee income recognized | (2,312,436) | (1,816,247) |
| **Ending unearned fee income balance** | **$ 9,746,995** | **$ 5,647,864** |

As of March 31, 2010, the Company was entitled to receive approximately $7.9 million in aggregate exit fees across 12 portfolio investments upon the future exit of those investments. These fees will typically be paid to the Company upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees, which are contractually payable by borrowers to the Company, previously were to be recognized on a cash basis when received and not accrued or otherwise included in net investment income until received. None of the loans with exit fees, all of which were originated in 2008 and 2009, have been exited and, as a result, no exit fees were recognized. Beginning with the quarter ended December 31, 2009, the Company recognizes income pertaining to contractual exit fees on an accrual basis and adds exit fee income to the principal balance of the related loan to the extent the Company determines that collection of the exit fee income is probable. Additionally, the Company includes the cash flows of contractual exit fees that it determines are probable of collection in determining the fair value of its loans. The Company believes the effect of this cumulative adjustment in the quarter ended December 31, 2009 was not material to its financial statements as of any date or for any period. For the three and six months ended March 31, 2010, fee income included approximately $23,000 and $50,000, respectively, of income from accrued exit fees.

The Company’s decision to accrue exit fees and the amount of each accrual involves subjective judgments and determinations based on the risks and uncertainties associated with the Company’s ability to ultimately collect exit fees relating to each individual loan, including the actions of the senior note holders to block the payment of the exit fees, the Company’s relationship with the equity sponsor, the potential modification and extension of a loan, and consideration of situations where exit fees have been added after the initial investment as a remedy for a covenant violation.

## Note 5. Share Data and Stockholders’ Equity

Effective January 2, 2008, the Partnership merged with and into the Company. At the time of the merger, all outstanding partnership interests in the Partnership were exchanged for 12,480,972 shares of common stock of the Company. An additional 26 fractional shares were payable to the stockholders in cash.

On June 17, 2008, the Company completed an initial public offering of 10,000,000 shares of its common stock at the offering price of $14.12 per share. The net proceeds totaled approximately $129.5 million net of investment banking commissions of approximately $9.9 million and offering costs of approximately $1.8 million.

On July 21, 2009, the Company completed a follow-on public offering of 9,487,500 shares of its common stock, which included the underwriters’ exercise of their over-allotment option, at the offering price of $9.25 per share. The net proceeds totaled approximately $82.7 million after deducting investment banking commissions of approximately $4.4 million and offering costs of $0.7 million.

On September 25, 2009, the Company completed a follow-on public offering of 5,520,000 shares of its common stock, which included the underwriters’ exercise of their over-allotment option, at the offering price of

$10.50 per share. The net proceeds totaled approximately $54.9 million after deducting investment banking commissions of approximately $2.8 million and offering costs of approximately $0.3 million.

On January 27, 2010, the Company completed a follow-on public offering of 7,000,000 shares of its common stock at the offering price of $11.20 per share, with 300,500 additional shares being sold as part of the underwriters' partial exercise of their over-allotment option on February 25, 2010. The net proceeds totaled approximately $77.5 million after deducting investment banking commissions of approximately $3.7 million and offering costs of approximately $0.5 million.

No dilutive instruments were outstanding and reflected in the Company's Consolidated Balance Sheet at March 31, 2010 or September 30, 2009. The following table sets forth the weighted average common shares outstanding for computing basic and diluted earnings per common share for the three and six months ended March 31, 2010 and March 31, 2009:

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|---|---|---|---|---|
| Weighted average common shares outstanding, basic and diluted | 43,019,350 | 22,752,688 | 40,421,657 | 22,656,383 |

During the fiscal year ended September 30, 2009 and the six months ended March 31, 2010, the Company had declared and paid dividends as follows: On December 9, 2008, the Company declared a dividend of $0.32 per share to stockholders of record on December 19, 2008, and a $0.33 per share dividend to stockholders of record on December 30, 2008. On December 18, 2008, the Company declared a special dividend of $0.05 per share to stockholders of record on December 30, 2008. On December 29, 2008, the Company paid a cash dividend of approximately $6.4 million and issued 105,326 common shares totaling approximately $0.8 million under the dividend reinvestment plan. On January 29, 2009, the Company paid a cash dividend of approximately $7.6 million and issued 161,206 common shares totaling approximately $1.0 million under the dividend reinvestment plan. On April 14, 2009, the Company declared a dividend of $0.25 per share to stockholders of record as of May 26, 2009. On June 25, 2009, the Company paid a cash dividend of approximately $5.6 million and issued 11,776 common shares totaling approximately $0.1 million under the dividend reinvestment plan. On August 3, 2009, the Company declared a dividend of $0.25 per share to stockholders of record as of September 8, 2009. On September 25, 2009, the Company paid a cash dividend of approximately $7.5 million and issued 56,890 common shares totaling approximately $0.6 million under the dividend reinvestment plan. On November 21, 2009, the Company declared a dividend of $0.27 per share to stockholders of record as of December 10, 2009. On December 29, 2009, the Company paid a cash dividend of approximately $9.7 million and issued 44,420 common shares totaling approximately $0.5 million under the dividend reinvestment plan. On January 12, 2010, the Company declared a dividend of $0.30 per share to stockholders of record as of March 3, 2010. On March 30, 2010, the Company paid a cash dividend of approximately $12.9 million and issued 58,869 common shares totaling approximately $0.7 million under the dividend reinvestment plan.

In October 2008, the Company's Board of Directors authorized a stock repurchase program to acquire up to $8 million of the Company's outstanding common stock. Stock repurchases under this program were made through the open market at times and in such amounts as Company management deemed appropriate. The stock repurchase program expired in December 2009. In October 2008, the Company repurchased 78,000 shares of common stock on the open market as part of its share repurchase program.

**Note 6. Line of Credit**

On November 16, 2009, Fifth Street Funding, LLC, a consolidated wholly-owned bankruptcy remote, special purpose subsidiary ("Funding"), and the Company entered into a Loan and Servicing Agreement ("Agreement"), with respect to a three-year credit facility ("Facility") with Wachovia Bank, National Association ("Wachovia"), Wells Fargo Securities, LLC, as administrative agent ("Wells Fargo"), each of the additional institutional and conduit lenders party thereto from time to time, and each of the lender agents party thereto from time to time, in the amount of $50 million with an accordion feature, which allows for potential future expansion of the Facility up to $100 million. The Facility is secured by all of the assets of Funding, and all of the Company's equity interest in Funding. The Facility bears interest at LIBOR plus 4.00% per annum and has a maturity date of November 16, 2012. The Facility may be extended for up to two additional years upon the mutual consent of Wells Fargo and each of the lender parties thereto. The Company intends to use the net proceeds of the Facility to fund a portion of its loan origination activities and for general corporate purposes.

In December 2009, the Company borrowed $38.0 million under the Facility. This amount was repaid in full in January 2010 and no amounts remained outstanding at March 31, 2010.

In connection with the Facility, the Company concurrently entered into (i) a Purchase and Sale Agreement with Funding, pursuant to which the Company will sell to Funding certain loan assets it has originated or acquired, or will originate or acquire and (ii) a Pledge Agreement with Wells Fargo Bank, National Association, pursuant to which the Company pledged all of its equity interests in Funding as security for the payment of Funding's obligations under the Agreement and other documents entered into in connection with the Facility.

The Agreement and related agreements governing the Facility required both Funding and the Company to, among other things (i) make representations and warranties regarding the collateral as well as each of their businesses, (ii) agree to certain indemnification obligations, and (iii) comply with various covenants, servicing procedures, limitations on acquiring and disposing of assets, reporting requirements and other customary requirements for similar credit facilities. The Facility agreements also include usual and customary default provisions such as the failure to make timely payments under the Facility, a change in control of Funding, and the failure by Funding or the Company to materially perform under the Agreement and related agreements governing the Facility, which, if not complied with, could accelerate repayment under the Facility, thereby materially and adversely affecting the Company's liquidity, financial condition and results of operations.

Each loan origination under the Facility is subject to the satisfaction of certain conditions. The Company cannot be assured that Funding will be able to borrow funds under the Facility at any particular time or at all.

Interest expense for the three and six months ended March 31, 2010 was $260,941 and $352,120, respectively. Interest expense for the three and six months ended March 31, 2009 was $128,201 and $168,359, respectively.

**Note 7. Interest and Dividend Income**

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. In accordance with the Company's policy, accrued interest is evaluated periodically for collectibility. The Company stops accruing interest on investments when it is determined that interest is no longer collectible. Distributions from portfolio companies are recorded as dividend income when the distribution is received.

The Company holds debt in its portfolio that contains a payment-in-kind ("PIK") interest provision. The PIK interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. The Company generally ceases accruing PIK interest if there is insufficient value to support the accrual or if the Company does not expect the portfolio company to be able to pay all principal and interest due. The Company's decision to cease accruing PIK interest involves subjective judgments and determinations based on available information about a particular portfolio company, including whether the portfolio company is current with respect to its payment of principal and interest on its loans and debt securities; monthly and quarterly financial statements and financial projections for the portfolio company; the Company's assessment of the portfolio company's business development success, including product development, profitability and the portfolio company's overall adherence to its business plan; information obtained by the Company in connection with periodic formal update interviews with the portfolio company's management and, if appropriate, the private equity sponsor; and information about the general economic and market conditions in which the portfolio company operates. Based on this and other information, the Company determines whether to cease accruing PIK interest on a loan or debt security. The Company's determination to cease accruing PIK interest on a loan or debt security is generally made well before the Company's full write-down of such loan or debt security.

Accumulated PIK interest activity for the six months ended March 31, 2010 and March 31, 2009 was as follows:

| | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|---|---|---|
| PIK balance at beginning of period | $ 12,059,478 | $ 5,367,032 |
| Gross PIK interest accrued | 5,187,143 | 4,170,923 |
| PIK income reserves | (920,196) | (453,436) |
| PIK interest received in cash | (635,194) | (163,575) |
| Loan exits and other PIK adjustments | (1,143,830) | — |
| **PIK balance at end of period** | **$ 14,547,401** | **$ 8,920,944** |

Two investments did not pay all of their scheduled monthly cash interest payments for the three months ended March 31, 2010. As of March 31, 2010, the Company had stopped accruing PIK interest and original issue discount ("OID") on four investments, including the two investments that had not paid all of their scheduled monthly cash interest payments. As of March 31, 2009, the Company had stopped accruing PIK interest and OID on four investments, including two investments that had not paid all of their scheduled monthly cash interest payments. Income non-accrual amounts for the three and six months ended March 31, 2010 and March 31, 2009 were as follows:

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|---|---|---|---|---|
| Cash interest income | $ 1,311,024 | $ 632,071 | $ 2,445,588 | $ 902,578 |
| PIK interest income | 451,313 | 249,035 | 920,196 | 453,436 |
| OID income | 103,911 | 97,350 | 207,822 | 194,700 |
| **Total** | **$ 1,866,248** | **$ 978,456** | **$ 3,573,606** | **$ 1,550,714** |

**Note 8. Taxable/Distributable Income and Dividend Distributions**

Taxable income differs from net increase (decrease) in net assets resulting from operations primarily due to: (1) unrealized appreciation (depreciation) on investments, as investment gains and losses are not included in taxable income until they are realized; (2) origination fees received in connection with investments in portfolio companies, which are amortized into interest income over the life of the investment for book purposes, are treated as taxable income upon receipt; (3) organizational and deferred offering costs; (4) recognition of interest income on certain loans; and (5) income or loss recognition on exited investments.

At September 30, 2009, the Company had a net capital loss carryforward of $1.5 million to offset net capital gains, to the extent provided by federal tax law. The capital loss carryforward will expire in the Company's tax year ending September 30, 2017.

Listed below is a reconciliation of "net increase in net assets resulting from operations" to taxable/distributable income for the three and six months ended March 31, 2010.

| | Three Months Ended March 31, 2010 | Six Months Ended March 31, 2010 |
|---|---|---|
| Net increase in net assets resulting from operations | $ 9,475,000 | $ 18,929,000 |
| Net change in unrealized appreciation from investments | (1,177,000) | (2,176,000) |
| Book/tax difference due to deferred loan origination fees, net | 187,000 | 4,161,000 |
| Book/tax difference due to organizational and deferred offering costs | (22,000) | (44,000) |
| Book/tax difference due to interest income on certain loans | 958,000 | 1,745,000 |
| Book/tax difference due to capital losses not recognized | 2,908,000 | 2,802,000 |
| Other book-tax differences | (11,000) | 67,000 |
| **Taxable/Distributable Income(1)** | **$ 12,318,000** | **$ 25,484,000** |

(1) The Company's taxable income for 2010 is an estimate and will not be finally determined until the Company files its tax return for the fiscal year ended September 30, 2010. Therefore, the final taxable income may be different than the estimate.

Distributions to stockholders are recorded on the declaration date. The Company is required to distribute annually to its stockholders at least 90% of its net ordinary income and net realized short-term capital gains in excess of net realized long-term capital losses for each taxable year in order to be eligible for the tax benefits allowed to a RIC under Subchapter M of the Code. The Company anticipates paying out as a dividend all or substantially all of those amounts. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based on management's estimate of the Company's annual taxable income. Based on that, a dividend is declared and paid each quarter. The Company maintains an "opt out" dividend reinvestment plan for its stockholders.

To date, the Company's Board of Directors declared, and the Company paid, the following distributions:

| | | | | |
|---|---|---|---|---|
| Quarterly | 5/1/2008 | 5/19/2008 | 6/3/2008 | $ 0.30 |
| Quarterly | 8/6/2008 | 9/10/2008 | 9/26/2008 | $ 0.31 |
| Quarterly | 12/9/2008 | 12/19/2008 | 12/29/2008 | $ 0.32 |
| Quarterly | 12/9/2008 | 12/30/2008 | 1/29/2009 | $ 0.33 |
| Special | 12/18/2008 | 12/30/2008 | 1/29/2009 | $ 0.05 |
| Quarterly | 4/14/2009 | 5/26/2009 | 6/25/2009 | $ 0.25 |
| Quarterly | 8/3/2009 | 9/8/2009 | 9/25/2009 | $ 0.25 |
| Quarterly | 11/12/2009 | 12/10/2009 | 12/29/2009 | $ 0.27 |
| Quarterly | 1/12/2010 | 3/3/2010 | 3/30/2010 | $ 0.30 |

For income tax purposes, the Company estimates that distributions in this calendar year will be composed entirely of ordinary income, and will be reflected as such on the Form 1099-DIV for the calendar year 2010. The Company anticipates declaring further distributions to its stockholders to meet the RIC distribution requirements.

As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis. Because the Company did not satisfy these distribution requirements for calendar years 2008 and 2009, the Company incurred a de minimis federal excise tax for those calendar years.

### Note 9. Realized Gains or Losses from Investments and Net Change in Unrealized Appreciation or Depreciation from Investments

Realized gains or losses are measured by the difference between the net proceeds from the sale or redemption and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and includes investments written-off during the period, net of recoveries. Net change in unrealized appreciation or depreciation from investments reflects the net change in the valuation of the portfolio pursuant to the Company's valuation guidelines and the reclassification of any prior period unrealized appreciation or depreciation on exited investments.

During the six months ended March 31, 2010, the Company recorded a realized loss in the amount of $2.9 million in connection with the sale of a portion of its interest in CPAC, Inc., and received a cash payment in the amount of $0.1 million representing a payment in full of all amounts due in connection with the cancellation of its loan agreement with American Hardwoods Industries, LLC. The Company recorded a $0.1 million reduction to the previously recorded $10.4 million realized loss on the investment in American Hardwoods. During the six months ended March 31, 2009, the Company recorded $12.4 million of realized losses on two of its portfolio company investments in connection with the determination that such investments were permanently impaired based on, among other things, analysis of changes in each portfolio company's business operations and prospects.

### Note 10. Concentration of Credit Risks

The Company places its cash in financial institutions, and at times, such balances may be in excess of the FDIC insured limit.

### Note 11. Related Party Transactions

***Base Management Fee***

The base management fee is calculated at an annual rate of 2% of the Company's gross assets, which includes any borrowings for investment purposes. The base management fee is payable quarterly in arrears, and will be calculated based on the value of the Company's gross assets at the end of each fiscal quarter, and appropriately adjusted on a pro rata basis for any equity capital raises or repurchases during such quarter. The base management fee for any partial month or quarter will be appropriately prorated.

On January 6, 2010, the Company announced that the Investment Adviser has voluntarily agreed to take the following actions:

- To waive the portion of its base management fee for the quarter ended December 31, 2009 attributable to four new portfolio investments, as well as cash and cash equivalents. The amount of the management fee waived was approximately $727,000; and

- To permanently waive that portion of its base management fee attributable to the Company's assets held in the form of cash and cash equivalents as of the end of each quarter beginning March 31, 2010.

For purposes of the waiver, cash and cash equivalents is as defined in the notes to the Company's Consolidated Financial Statements.

For the three and six months ended March 31, 2010, the net base management fee was approximately $2.3 million and $3.9 million, respectively. For the three and six months ended March 31, 2009, the net base management fee was approximately $1.5 million and $2.9 million, respectively. At March 31, 2010, the Company had a liability on its balance sheet in the amount of approximately $2.3 million reflecting the unpaid portion of the base management fee payable to the Investment Adviser.

***Incentive Fee***

The incentive fee portion of the investment advisory agreement has two parts. The first part is calculated and payable quarterly in arrears based on the Company's "Pre-Incentive Fee Net Investment Income" for the immediately preceding fiscal quarter. For this purpose, "Pre-Incentive Fee Net Investment Income" means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies) accrued during the fiscal quarter, minus the Company's operating expenses for the quarter (including the base management fee, expenses payable under the Company's administration agreement with FSC, Inc., and any interest expense and dividends paid on any issued and outstanding indebtedness or preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that the Company has not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of the Company's net assets at the end of the immediately preceding fiscal quarter, will be compared to a "hurdle rate" of 2% per quarter (8% annualized), subject to a "catch-up" provision measured as of the end of each fiscal quarter. The Company's net investment income used to calculate this part of the incentive fee is also included in the amount of its gross assets used to calculate the 2% base management fee. The operation of the incentive fee with respect to the Company's Pre-Incentive Fee Net Investment Income for each quarter is as follows:

- No incentive fee is payable to the Investment Adviser in any fiscal quarter in which the Company's Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 2% (the "preferred return" or "hurdle").
- 100% of the Company's Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than or equal to 2.5% in any fiscal quarter (10% annualized) is payable to the Investment Adviser. The Company refers to this portion of its Pre-Incentive Fee Net Investment Income (which exceeds the hurdle rate but is less than or equal to 2.5%) as the "catch-up." The "catch-up" provision is intended to provide the Investment Adviser with an incentive fee of 20% on all of the Company's Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when the Company's Pre-Incentive Fee Net Investment Income exceeds 2.5% in any fiscal quarter.
- 20% of the amount of the Company's Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.5% in any fiscal quarter (10% annualized) is payable to the Investment Adviser once the hurdle is reached and the catch-up is achieved (20% of all Pre-Incentive Fee Net Investment Income thereafter is allocated to the Investment Adviser).

The second part of the incentive fee will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the investment advisory agreement, as of the termination date), commencing on September 30, 2008, and equals 20% of the Company's realized capital gains, if any, on a cumulative basis from inception through the end of each fiscal year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The incentive fee determined as of September 30, 2008 was calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation from inception.

For the three and six months ended March 31, 2010, the incentive fee was approximately $2.8 million and $4.9 million, respectively. For the three and six months ended March 31, 2009, the incentive fee was approximately $1.9 million and $3.9 million, respectively. At March 31, 2010, the Company had a liability on its balance sheet in the amount of approximately $2.8 million reflecting the unpaid portion of the incentive fee payable to the Investment Adviser.

***Indemnification***

The investment advisory agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of their respective duties or by reason of the reckless disregard of their respective duties and obligations, the Company's Investment Adviser and its officers, managers, agents, employees, controlling persons, members (or their owners) and any other person or entity affiliated with it, are entitled to indemnification from the Company for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of the Investment Adviser's services under the investment advisory agreement or otherwise as the Company's Investment Adviser.

***Administration Agreement***

The Company has also entered into an administration agreement with FSC, Inc. under which FSC, Inc. provides administrative services for the Company, including office facilities and equipment, and clerical, bookkeeping and recordkeeping services at such facilities. Under the administration agreement, FSC, Inc. also performs or oversees the performance of the Company's required administrative services, which includes being responsible for the financial records which the Company is required to maintain and preparing reports to the Company's stockholders and reports filed with the SEC. In addition, FSC, Inc. assists the Company in determining and publishing the Company's net asset value, overseeing the preparation and filing of the Company's tax returns and the printing and dissemination of reports to the Company's stockholders, and generally overseeing the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. For providing these services, facilities and personnel, the Company reimburses FSC, Inc. the allocable portion of overhead and other expenses incurred by FSC, Inc. in performing its obligations under the administration agreement, including rent and the Company's allocable portion of the costs of compensation and related expenses of the Company's chief financial officer and chief compliance officer and their staff. FSC, Inc. has voluntarily determined to forgo receiving reimbursement for the services performed for the Company by its chief compliance officer, Bernard D. Berman, given his compensation arrangement with the Investment Adviser. However, although FSC, Inc. currently intends to forgo its right to receive such reimbursement, it is under no obligation to do so and may cease to do so at any time in the future. FSC, Inc. may also provide, on the Company's behalf, managerial assistance to the Company's portfolio companies. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For the three and six months ended March 31, 2010, the Company incurred administrative expenses of approximately $0.6 million and $1.0 million, respectively. At March 31, 2010, the Company had a liability on its balance sheet in the amount of approximately $0.6 million reflecting the unpaid portion of administrative expenses due to FSC, Inc.

**Note 12. Financial Highlights**

| | Three Months Ended March 31, 2010(1) | Three Months Ended March 31, 2009(1) | Six Months Ended March 31, 2010(1) | Six Months Ended March 31, 2009(1) |
|---|---|---|---|---|
| **Per share data (2):** | | | | |
| Net asset value at beginning of period | $ 10.82 | $ 11.86 | $ 10.84 | $ 13.02 |
| Dividends declared | (0.30) | — | (0.57) | (0.70) |
| Issuance of common stock | (0.04) | (0.04) | (0.04) | (0.03) |
| Repurchases of common stock | — | — | — | (0.02) |
| Net investment income | 0.26 | 0.33 | 0.48 | 0.69 |
| Unrealized appreciation (depreciation) on investments | 0.03 | 0.33 | 0.06 | (0.47) |
| Realized loss on investments | (0.07) | (0.54) | (0.07) | (0.55) |
| **Net asset value at end of period** | **$ 10.70** | **$ 11.94** | **$ 10.70** | **$ 11.94** |
| Per share market value at beginning of period | $ 10.74 | $ 7.55 | $ 10.93 | $ 10.05 |
| Per share market value at end of period | $ 11.61 | $ 7.74 | $ 11.61 | $ 7.74 |
| Total return(3) | 10.89% | 2.52% | 11.44% | (16.02)% |
| Common shares outstanding at beginning of period | 37,923,407 | 22,641,615 | 37,878,987 | 22,614,289 |
| Common shares outstanding at end of period | 45,282,596 | 22,802,821 | 45,282,596 | 22,802,821 |
| Stockholders' equity at beginning of period | $ 410,257,351 | $ 268,548,431 | $ 410,556,071 | $ 294,335,839 |
| Stockholders' equity at end of period | $ 484,397,005 | $ 272,352,706 | $ 484,397,005 | $ 272,352,706 |
| Average stockholders' equity(4) | $ 456,501,106 | $ 270,633,268 | $ 432,914,471 | $ 277,946,883 |
| Ratio of total expenses, excluding interest expense, to average stockholders' equity(5) | 5.68% | 6.45% | 5.18% | 6.23% |
| Ratio of total expenses to average stockholders' equity(5) | 5.91% | 6.64% | 5.35% | 6.35% |
| Ratio of net investment income to average stockholders' equity(5) | 9.96% | 11.22% | 9.06% | 11.33% |
| Total return to stockholders based on average stockholders' equity | 8.42% | 4.25% | 8.77% | (5.36)% |
| Ratio of portfolio turnover to average investments at fair value | 1.00% | 0.00% | 1.18% | 0.00% |
| Weighted average outstanding debt(6) | $ 11,928,015 | $ — | $ 6,151,216 | $ — |

(1) The amounts reflected in the financial highlights above represent net assets, income and expense ratios for all stockholders.

(2) Based on actual shares outstanding at the end of the corresponding period or weighted average shares outstanding for the period, as appropriate.

(3) Total return equals the increase or decrease of ending market value over beginning market value, plus distributions, divided by the beginning market value, assuming dividend reinvestment prices obtained under the Company's dividend reinvestment plan. Total return is not annualized.

(4) Calculated based upon the daily weighted average stockholders' equity for the period.

(5) Interim periods are annualized.

(6) Calculated based upon the daily weighted average of loans payable for the period.

**Note 13. Preferred Stock**

The Company's restated certificate of incorporation had not authorized any shares of preferred stock. However, on April 4, 2008, the Company's Board of Directors approved a certificate of amendment to its restated certificate of incorporation reclassifying 200,000 shares of its common stock as shares of non-convertible, non-participating preferred stock, with a par value of $0.01 and a liquidation preference of $500 per share ("Series A Preferred Stock") and authorizing the issuance of up to 200,000 shares of Series A Preferred Stock. The Company's certificate of amendment was also approved by the holders of a majority of the shares of its outstanding common stock through a written consent first solicited on April 7, 2008. On April 24, 2008, the Company filed its certificate of amendment and on April 25, 2008, it sold 30,000 shares of Series A Preferred Stock to a company controlled by Bruce E. Toll, one of the Company's directors at that time. For the three months ended June 30, 2008, the Company paid dividends of approximately $234,000 on the 30,000 shares of Series A Preferred Stock. The dividend payments were considered to be, and included in, interest expense for accounting purposes since the preferred stock has a mandatory redemption feature. On June 30, 2008, the Company redeemed 30,000 shares of Series A Preferred Stock at the mandatory redemption price of 101% of the liquidation preference or $15,150,000. The $150,000 was considered to be, and was included in, interest expense for accounting purposes due to the stock's mandatory redemption feature. As of March 31, 2010, no preferred stock was outstanding.

**Note 14. Subsequent Events**

On April 2, 2010, ADAPCO, Inc. drew $2.0 million on its credit line. Prior to the draw, the Company's unfunded commitment to ADAPCO was $6.5 million.

On April 7, 2010, Trans-Trade, Inc. drew $0.5 million on its previously undrawn credit line. Prior to the draw, the Company's unfunded commitment to Trans-Trade was $2.0 million.

On April 20, 2010, Vanguard Vinyl, Inc. repaid $0.25 million on its credit line. Prior to the repayment, the Company's unfunded commitment to Vanguard Vinyl was $0.75 million.

On April 20, 2010, at the Company's 2010 Annual Meeting, its stockholders approved, among other things, amendments to the Company's restated certificate of incorporation to increase the number of authorized shares of common stock from 49,800,000 shares to 150,000,000 shares and to remove the Company's authority to issue shares of Series A Preferred Stock.

On March 24, 2010, the Company's SBIC subsidiary received an approval from the SBA to draw an aggregate of $37.5 million under its outstanding SBA commitment of $75 million. On April 21, 2010, the Company's SBIC subsidiary drew $17.5 million from its SBA commitment to use to fund future transactions.

On April 30, 2010, the Company notified ING Capital LLC that the financing commitment for a syndicated three year revolving credit facility for up to $150 million had been terminated. However, the Company continues to discuss with ING the possibility of entering into an ING-led credit facility on more favorable terms.

On April 30, 2010, the Company closed an $11.0 million senior secured debt facility to support the acquisition of a technology-based marketing services company. The investment is backed by a private equity sponsor and $9.0 million was funded at closing. The terms of this investment include a $2.0 million revolver at an interest rate of LIBOR plus 6.0% per annum with a 3% LIBOR floor, a $5.0 million Term Loan A at an interest rate of LIBOR plus 7.0% per annum with a 3% LIBOR floor, and a $4.0 million Term Loan B at an interest rate of LIBOR plus 9.0% per annum in cash with a 3% LIBOR floor and 1.5% PIK. This is a first lien facility with a scheduled maturity of five years.

On May 3, 2010, the Company's Board of Directors declared a dividend of $0.32 per share, payable on June 30, 2010 to stockholders of record on May 20, 2010.

On May 3, 2010, the Company closed a $35.5 million senior secured debt facility to support the acquisition of a healthcare equipment manufacturing company. The investment is backed by a private equity sponsor and $31.5 million was funded at closing. The terms of this investment include a $5.0 million revolver at an interest rate of LIBOR plus 7.0% per annum with a 3% LIBOR floor and a $30.5 million Term Loan at an interest rate of LIBOR plus 9.75% per annum in cash with a 3% LIBOR floor and 1.0% PIK. This is a first lien facility with a scheduled maturity of five years.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders of
**Fifth Street Finance Corp.**

We have audited the accompanying consolidated balance sheets, including the consolidated schedule of investments, of Fifth Street Finance Corp. (a Delaware corporation and successor to Fifth Street Mezzanine Partners III, L.P.) (the “Company”) as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows and the financial highlights (included in Note 12) for the years ended September 30, 2009 and 2008, and the period February 15, 2007 (inception) through September 30, 2007. Our audits of the basic financial statements included the Schedule of Investments In and Advances to Affiliates. These financial statements, financial highlights and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included physical inspection or confirmation of securities owned as of September 30, 2009 and 2008. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Fifth Street Finance Corp. as of September 30, 2009 and 2008, and the results of its operations, changes in net assets and its cash flows and financial highlights for the years ended September 30, 2009 and 2008, and the period February 15, 2007 (inception) through September 30, 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the accompanying consolidated financial statements, effective October 1, 2008, the Company adopted ASC 820, “Fair Value Measurements and Disclosures.”

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fifth Street Finance Corp.’s internal control over financial reporting as of September 30, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”*)* and our report dated December 9, 2009 expressed and unqualified opinion.

/s/ GRANT THORNTON LLP

New York, New York
December 9, 2009

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders
**Fifth Street Finance Corp.**

We have audited Fifth Street Finance Corp.'s (a Delaware corporation and successor to Fifth Street Mezzanine Partners III, L.P.) (the "Company") internal control over financial reporting as of September 30, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Fifth Street Capital Corp.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Fifth Street Capital Corp.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Fifth Street Capital Corp. maintained effective internal control over financial reporting in all material respects as of September 30, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets, including the consolidated schedule of investments, of Fifth Street Finance Corp. as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows and the financial highlights (included in Note 12) for the years ended September 30, 2009 and 2008, and the period February 15, 2007 (inception) through September 30, 2007 and our report dated December 9, 2009 expressed an unqualified opinion and included explanatory paragraphs regarding the Company's adoption of ASC 820, "Fair Value Measurements and Disclosures."

/s/ GRANT THORNTON LLP

New York, New York
December 9, 2009

**Fifth Street Finance Corp.**

**Consolidated Balance Sheets**

| | September 30, 2009 | September 30, 2008 |
|---|---|---|
| **ASSETS** | | |
| **Investments at Fair Value:** | | |
| Control investments (cost 9/30/09: $12,045,029; cost 9/30/08: $0) | $ 5,691,107 | $ — |
| Affiliate investments (cost 9/30/09: $71,212,035; cost 9/30/08: $81,820,636) | 64,748,560 | 71,350,417 |
| Non-control/Non-affiliate investments (cost 9/30/09 $243,975,221; cost 9/30/08 $208,764,349) | 229,171,470 | 202,408,737 |
| **Total Investments at Fair Value** | **299,611,137** | **273,759,154** |
| Cash and cash equivalents | 113,205,287 | 22,906,376 |
| Interest receivable | 2,866,991 | 2,367,806 |
| Due from portfolio company | 154,324 | 80,763 |
| Prepaid expenses and other assets | 49,609 | 34,706 |
| **Total Assets** | **$ 415,887,348** | **$ 299,148,805** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Liabilities:** | | |
| Accounts payable, accrued expenses and other liabilities | $ 723,856 | $ 567,691 |
| Base management fee payable | 1,552,160 | 1,381,212 |
| Incentive fee payable | 1,944,263 | 1,814,013 |
| Due to FSC, Inc. | 703,900 | 574,102 |
| Interest payable | — | 38,750 |
| Payments received in advance from portfolio companies | 190,378 | 133,737 |
| Offering costs payable | 216,720 | 303,461 |
| **Total Liabilities** | **5,331,277** | **4,812,966** |
| **Stockholders' Equity:** | | |
| Preferred stock, $0.01 par value, 200,000 shares authorized, no shares issued and outstanding | — | — |
| Common stock, $0.01 par value, 49,800,000 shares authorized, 37,878,987 and 22,614,289 shares issued and outstanding at September 30, 2009 and September 30, 2008 | 378,790 | 226,143 |
| Additional paid-in-capital | 439,989,597 | 300,524,155 |
| Net unrealized depreciation on investments | (27,621,147) | (16,825,831) |
| Net realized gain (loss) on investments | (14,310,713) | 62,487 |
| Accumulated undistributed net investment income | 12,119,544 | 10,348,885 |
| **Total Stockholders' Equity** | **410,556,071** | **294,335,839** |
| **Total Liabilities and Stockholders' Equity** | **$ 415,887,348** | **$ 299,148,805** |

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**

**Consolidated Statements of Operations**

| | Year Ended September 30, 2009 | Year Ended September 30, 2008 | For the Period February 15, 2007 (Inception) through September 30, 2007 |
|---|---|---|---|
| **Interest income:** | | | |
| Control investments | $ — | $ — | $ — |
| Affiliate investments | 10,632,844 | 8,804,543 | 2,407,709 |
| Non-control/Non-affiliate investments | 27,931,097 | 16,800,945 | 1,068,368 |
| Interest on cash and cash equivalents | 208,824 | 750,605 | — |
| **Total interest income** | **38,772,765** | **26,356,093** | **3,476,077** |
| **PIK interest income:** | | | |
| Control investments | — | — | — |
| Affiliate investments | 1,634,116 | 1,539,934 | 492,605 |
| Non-control/Non-affiliate investments | 5,821,173 | 3,357,464 | 96,190 |
| **Total PIK interest income** | **7,455,289** | **4,897,398** | **588,795** |
| **Fee income:** | | | |
| Control investments | — | — | — |
| Affiliate investments | 1,101,656 | 702,463 | 164,222 |
| Non-control/Non-affiliate investments | 2,440,538 | 1,105,576 | 64,610 |
| **Total fee income** | **3,542,194** | **1,808,039** | **228,832** |
| **Dividend and other income:** | | | |
| Control investments | — | — | — |
| Affiliate investments | — | 26,740 | 2,228 |
| Non-control/Non-affiliate investments | 22,791 | 130,971 | — |
| Other income | 35,396 | — | — |
| **Total dividend and other income** | **58,187** | **157,711** | **2,228** |
| **Total investment income** | **49,828,435** | **33,219,241** | **4,295,932** |
| **Expenses:** | | | |
| Base management fee | 6,060,690 | 4,258,334 | 1,564,189 |
| Incentive fee | 7,840,579 | 4,117,554 | — |
| Professional fees | 1,492,554 | 1,389,541 | 211,057 |
| Board of Directors fees | 310,250 | 249,000 | — |
| Organizational costs | — | 200,747 | 413,101 |
| Interest expense | 636,901 | 917,043 | 522,316 |
| Administrator expense | 796,898 | 978,387 | — |
| Line of credit guarantee expense | — | 83,333 | 250,000 |
| Transaction fees | — | 206,726 | 357,012 |
| General and administrative expenses | 1,500,197 | 674,360 | 18,867 |
| Total expenses | 18,638,069 | 13,075,025 | 3,336,542 |
| Base management fee waived | (171,948) | — | — |
| **Net expenses** | **18,466,121** | **13,075,025** | **3,336,542** |
| **Net investment income** | **31,362,314** | **20,144,216** | **959,390** |
| **Unrealized appreciation (depreciation) on investments:** | | | |
| Control investments | (1,792,015) | — | — |
| Affiliate investments | 286,190 | (10,570,012) | 99,792 |
| Non-control/Non-affiliate investments | (9,289,492) | (6,378,755) | 23,144 |
| **Total unrealized appreciation (depreciation) on investments** | **(10,795,317)** | **(16,948,767)** | **122,936** |
| **Realized gain (loss) on investments:** | | | |
| Control investments | — | — | — |
| Affiliate investments | (4,000,000) | — | — |
| Non-control/Non-affiliate investments | (10,373,200) | 62,487 | — |
| **Total realized gain (loss) on investments** | **(14,373,200)** | **62,487** | **—** |
| **Net increase in net assets resulting from operations** | **$ 6,193,797** | **$ 3,257,936** | **$ 1,082,326** |
| | | | |
| **Net Investment Income per common share — basic and diluted(1)** | $ 1.27 | $ 1.29 | N/A |
| Unrealized depreciation per common share | (0.44) | (1.09) | N/A |
| Realized gain (loss) per common share | (0.58) | 0.01 | N/A |
| **Earnings per common share — basic and diluted(1)** | **$ 0.25** | **$ 0.21** | **N/A** |
| Weighted average common shares — basic and diluted | 24,654,325 | 15,557,469 | N/A |

(1) The earnings and net investment income per share calculations for the year ended September 30, 2008 are based on the assumption that if the number of shares issued at the time of the merger on January 2, 2008 (12,480,972 shares of common stock) had been issued at the beginning of the fiscal year on October 1, 2007, the Company's earnings and net investment income per share would have been $0.21 and $1.29 per share, respectively.

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**

**Consolidated Statements of Changes in Net Assets**

| | Year Ended September 30, 2009 | Year Ended September 30, 2008 | For the Period February 15, 2007 (Inception) through September 30, 2007 |
|---|---|---|---|
| **Operations:** | | | |
| Net investment income | $ 31,362,314 | $ 20,144,216 | $ 959,390 |
| Net unrealized appreciation (depreciation) on investments | (10,795,317) | (16,948,767) | 122,936 |
| Net realized gains (losses) on investments | (14,373,200) | 62,487 | — |
| **Net increase in net assets resulting from operations** | **6,193,797** | **3,257,936** | **1,082,326** |
| **Stockholder transactions:** | | | |
| Distributions to stockholders from net investment income | (29,591,657) | (10,754,721) | — |
| **Net decrease in net assets from stockholder transactions** | **(29,591,657)** | **(10,754,721)** | **—** |
| **Capital share transactions:** | | | |
| Issuance of preferred stock | — | 15,000,000 | — |
| Issuance of common stock | 137,625,075 | 129,448,456 | — |
| Issuance of common stock under dividend reinvestment plan | 2,455,499 | 1,882,200 | — |
| Redemption of preferred stock | — | (15,000,000) | — |
| Repurchases of common stock | (462,482) | — | — |
| Issuance of common stock upon conversion of partnership interests | — | 169,420,000 | — |
| Redemption of partnership interest for common stock | — | (169,420,000) | — |
| Fractional shares paid to partners from conversion | — | (358) | — |
| Capital contributions from partners | — | 66,497,000 | 105,733,369 |
| Capital withdrawals by partners | — | (2,810,369) | — |
| **Net increase in net assets from capital share transactions** | **139,618,092** | **195,016,929** | 105,733,369 |
| **Total increase in net assets** | **116,220,232** | **187,520,144** | **106,815,695** |
| Net assets at beginning of period | 294,335,839 | 106,815,695 | — |
| **Net assets at end of period** | **$ 410,556,071** | **$ 294,335,839** | **$ 106,815,695** |
| **Net asset value per common share** | **$ 10.84** | **$ 13.02** | **N/A** |
| Common shares outstanding at end of period | 37,878,987 | 22,614,289 | N/A |

See notes to Consolidated Financial Statements.

## Fifth Street Finance Corp.

## Consolidated Statements of Cash Flows

| | Year Ended September 30, 2009 | Year Ended September 30, 2008 | For the Period February 15, 2007 (Inception) through September 30, 2007 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net increase in net assets resulting from operations | $ 6,193,797 | $ 3,257,936 | $ 1,082,326 |
| Change in unrealized (appreciation) depreciation on investments | 10,795,317 | 16,948,767 | (122,936) |
| Realized (gains) losses on investments | 14,373,200 | (62,487) | — |
| PIK interest income, net of cash received | (7,027,149) | (4,782,986) | (588,795) |
| Recognition of fee income | (3,542,194) | (1,808,039) | (228,832) |
| Fee income received | 3,895,559 | 5,478,011 | 1,795,125 |
| Accretion of original issue discount on investments | (842,623) | (954,436) | (265,739) |
| Other income | (35,396) | — | — |
| **Changes in operating assets and liabilities:** | | | |
| Increase in interest receivable | (499,185) | (1,613,183) | (754,623) |
| (Increase) decrease in due from portfolio company | (73,561) | 46,952 | (127,715) |
| (Increase) decrease in prepaid management fees | — | 252,586 | (252,586) |
| Increase in prepaid expenses and other assets | (14,903) | (34,706) | — |
| Increase in accounts payable, accrued expenses and other liabilities | 156,170 | 150,584 | 417,107 |
| Increase in base management fee payable | 170,948 | 1,381,212 | — |
| Increase in incentive fee payable | 130,250 | 1,814,013 | — |
| Increase in due to FSC, Inc. | 129,798 | 574,102 | — |
| Increase (decrease) in interest payable | (38,750) | 28,816 | 9,934 |
| Increase in payments received in advance from portfolio companies | 56,641 | 133,737 | — |
| Purchase of investments | (61,950,000) | (202,402,611) | (88,979,675) |
| Proceeds from the sale of investments | 144,000 | 62,487 | — |
| Principal payments received on investments (scheduled repayments and revolver paydowns) | 6,951,902 | 2,152,992 | — |
| Principal payments received on investments (payoffs) | 11,350,000 | — | — |
| **Net cash used in operating activities** | **(19,676,179)** | **(179,376,253)** | **(88,016,409)** |
| **Cash flows from financing activities:** | | | |
| Dividends paid in cash | (27,136,158) | (8,872,521) | — |
| Repurchases of common stock | (462,482) | — | — |
| Capital contributions | — | 66,497,000 | 105,733,369 |
| Capital withdrawals | — | (2,810,369) | — |
| Borrowings | 29,500,000 | 79,250,000 | 86,562,983 |
| Repayments of borrowings | (29,500,000) | (79,250,000) | (86,562,983) |
| Proceeds from the issuance of common stock | 138,578,307 | 131,316,000 | — |
| Proceeds from the issuance of mandatorily redeemable preferred stock | — | 15,000,000 | — |
| Redemption of preferred stock | — | (15,000,000) | — |
| Offering costs paid | (1,004,577) | (1,501,179) | (62,904) |
| Redemption of partnership interests for cash | — | (358) | — |
| **Net cash provided by financing activities** | **109,975,090** | **184,628,573** | **105,670,465** |
| **Net increase in cash and cash equivalents** | **90,298,911** | **5,252,320** | **17,654,056** |
| Cash and cash equivalents, beginning of period | 22,906,376 | 17,654,056 | — |
| **Cash and cash equivalents, end of period** | **$ 113,205,287** | **$ 22,906,376** | **$ 17,654,056** |
| **Supplemental Information:** | | | |
| Cash paid for interest | $ 425,651 | $ 888,227 | $ 512,382 |
| Non-cash financing activities: | | | |
| Issuance of shares of common stock under dividend reinvestment plan | $ 2,455,499 | $ 1,882,200 | $ — |
| Reinvested shares of common stock under dividend reinvestment plan | $ — | $ (1,882,200) | $ — |
| Redemption of partnership interests | $ — | $ (173,699,632) | $ — |
| Issuance of shares of common stock in exchange for partnership interests | $ — | $ 173,699,632 | $ — |

See notes to Consolidated Financial Statements.

## Fifth Street Finance Corp.

## Consolidated Schedule of Investments
## September 30, 2009

| Portfolio Company/Type of Investment(1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Control Investments(3)** | | | | |
| **Lighting by Gregory, LLC** | Housewares & Specialties | | | |
| First Lien Term Loan A, 9.75% due 2/28/2013 | | $ 4,800,003 | $ 4,728,589 | $ 2,419,627 |
| First Lien Term Loan B, 14.5% due 2/28/2013 | | 7,115,649 | 6,906,440 | 3,271,480 |
| 97.38% membership interest | | | 410,000 | — |
| | | | **12,045,029** | **5,691,107** |
| **Total Control Investments** | | | **$ 12,045,029** | **$ 5,691,107** |
| **Affiliate Investments(4)** | | | | |
| **O'Currance, Inc.** | Data Processing & Outsourced Services | | | |
| First Lien Term Loan A, 16.875% due 3/21/2012 | | $ 10,526,514 | $ 10,370,246 | $ 10,186,501 |
| First Lien Term Loan B, 16.875% due 3/21/2012 | | 2,765,422 | 2,722,952 | 2,919,071 |
| 1.75% Preferred Membership Interest in O'Currance Holding Co., LLC | | | 130,413 | 130,413 |
| 3.3% Membership Interest in O'Currance Holding Co., LLC | | | 250,000 | 53,831 |
| | | | **13,473,611** | **13,289,816** |
| **CPAC, Inc.(9)** | Household Products & Specialty Chemicals | | | |
| Second Lien Term Loan, 17.5% due 4/13/2012 | | 11,398,948 | 9,506,805 | 4,448,661 |
| Charge-off of cost basis of impaired loan(12) | | | (4,000,000) | — |
| 2,297 shares of Common Stock | | | 2,297,000 | — |
| | | | **7,803,805** | **4,448,661** |
| **Elephant & Castle, Inc.** | Restaurants | | | |
| Second Lien Term Loan, 15.5% due 4/20/2012 | | 8,030,061 | 7,553,247 | 7,311,604 |
| 7,500 shares of Series A Preferred Stock | | | 750,000 | 492,469 |
| | | | **8,303,247** | **7,804,073** |
| **MK Network, LLC** | Healthcare technology | | | |
| First Lien Term Loan A, 13.5% due 6/1/2012 | | 9,500,000 | 9,220,111 | 9,033,826 |
| First Lien Term Loan B, 17.5% due 6/1/2012 | | 5,212,692 | 4,967,578 | 5,163,544 |
| First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010(10) | | — | — | — |
| 11,030 Membership Units(6) | | | 771,575 | — |
| | | | **14,959,264** | **14,197,370** |
| **Martini Park, LLC(9)** | Restaurants | | | |
| First Lien Term Loan, 14% due 2/20/2013 | | 4,390,798 | 3,408,351 | 2,068,303 |
| 5% membership interest | | | 650,000 | — |
| | | | **4,058,351** | **2,068,303** |
| **Caregiver Services, Inc.** | Healthcare services | | | |
| Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013 | | 8,570,595 | 8,092,364 | 8,225,400 |
| Second Lien Term Loan B, 16.5% due 2/25/2013 | | 14,242,034 | 13,440,995 | 13,508,338 |
| 1,080,399 shares of Series A Preferred Stock | | | 1,080,398 | 1,206,599 |
| | | | **22,613,757** | **22,940,337** |
| **Total Affiliate Investments** | | | **$ 71,212,035** | **$ 64,748,560** |
| **Non-Control/Non-Affiliate Investments(7)** | | | | |
| **Best Vinyl Acquisition Corporation(9)** | Building Products | | | |
| Second Lien Term Loan, 12% due 3/30/2013 | | $ 7,000,000 | $ 6,779,947 | $ 6,138,582 |
| 25,641 Shares of Series A Preferred Stock | | | 253,846 | 20,326 |
| 25,641 Shares of Common Stock | | | 2,564 | — |
| | | | **7,036,357** | **6,158,908** |

**Fifth Street Finance Corp.**

**Consolidated Schedule of Investments**
**September 30, 2009**

| Portfolio Company/Type of Investment(1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Traffic Control & Safety Corporation** | Construction and Engineering | | | |
| Second Lien Term Loan, 15% due 6/29/2014 | | 19,310,587 | 19,025,031 | 17,693,780 |
| 24,750 shares of Series B Preferred Stock | | | 247,500 | 158,512 |
| 25,000 shares of Common Stock | | | 2,500 | — |
| | | | **19,275,031** | **17,852,292** |
| **Nicos Polymers & Grinding Inc.(9)** | Environmental & facilities services | | | |
| First Lien Term Loan A, LIBOR+5% (10% floor), due 7/17/2012 | | 3,091,972 | 3,040,465 | 2,162,593 |
| First Lien Term Loan B, 13.5% due 7/17/2012 | | 5,980,128 | 5,716,250 | 3,959,643 |
| 3.32% Interest in Crownbrook Acquisition I LLC | | | 168,086 | — |
| | | | **8,924,801** | **6,122,236** |
| **TBA Global, LLC(9)** | Media: Advertising | | | |
| Second Lien Term Loan A, LIBOR+5% (10% floor), due 8/3/2010 | | 2,583,805 | 2,576,304 | 2,565,305 |
| Second Lien Term Loan B, 14.5% due 8/3/2012 | | 10,797,936 | 10,419,185 | 10,371,277 |
| 53,994 Senior Preferred Shares | | | 215,975 | 162,621 |
| 191,977 Shares A Shares | | | 191,977 | — |
| | | | **13,403,441** | **13,099,203** |
| **Fitness Edge, LLC** | Leisure Facilities | | | |
| First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012 | | 1,750,000 | 1,740,069 | 1,753,262 |
| First Lien Term Loan B, 15% due 8/8/2012 | | 5,490,743 | 5,404,192 | 5,321,281 |
| 1,000 Common Units | | | 42,908 | 70,354 |
| | | | **7,187,169** | **7,144,897** |
| **Filet of Chicken(9)** | Food Distributors | | | |
| Second Lien Term Loan, 14.5% due 7/31/2012 | | 9,307,547 | 8,922,946 | 8,979,657 |
| | | | **8,922,946** | **8,979,657** |
| **Boot Barn(9)** | Footwear and Apparel | | | |
| Second Lien Term Loan, 14.5% due 10/3/2013 | | 22,518,091 | 22,175,818 | 22,050,462 |
| 24,706 shares of Series A Preferred Stock | | | 247,060 | 32,259 |
| 1,308 shares of Common Stock | | | 131 | — |
| | | | **22,423,009** | **22,082,721** |
| **Premier Trailer Leasing, Inc.** | Trailer Leasing Services | | | |
| Second Lien Term Loan, 16.5% due 10/23/2012 | | 17,855,617 | 17,063,645 | 9,860,940 |
| 285 shares of Common Stock | | | 1,140 | — |
| | | | **17,064,785** | **9,860,940** |
| **Pacific Press Technologies, Inc.** | Capital Goods | | | |
| Second Lien Term Loan, 14.75% due 1/10/2013 | | 9,813,993 | 9,621,279 | 9,606,186 |
| 33,463 shares of Common Stock | | | 344,513 | 160,299 |
| | | | **9,965,792** | **9,766,485** |
| **Rose Tarlow, Inc.(9)** | Home Furnishing Retail | | | |
| First Lien Term Loan, 12% due 1/25/2014 | | 10,191,188 | 10,016,956 | 8,827,182 |
| First Lien Revolver, LIBOR+4% (9% floor) due 1/25/2014(10) | | 1,550,000 | 1,538,806 | 1,509,219 |
| 0.00% membership interest in RTMH Acquisition Company(14) | | | 1,275,000 | — |
| 0.00% membership interest in RTMH Acquisition Company(14) | | | 25,000 | — |
| | | | **12,855,762** | **10,336,401** |

**Fifth Street Finance Corp.**

**Consolidated Schedule of Investments**
**September 30, 2009**

| Portfolio Company/Type of Investment(1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Goldco, LLC** | Restaurants | | | |
| Second Lien Term Loan, 17.5% due 1/31/2013 | | 8,024,147 | 7,926,647 | 7,938,639 |
| | | | **7,926,647** | **7,938,639** |
| **Rail Acquisition Corp.** | Manufacturing - Mechanical Products | | | |
| First Lien Term Loan, 17% due 4/1/2013 | | 15,668,956 | 15,416,411 | 15,081,138 |
| | | | **15,416,411** | **15,081,138** |
| **Western Emulsions, Inc.** | Emulsions Manufacturing | | | |
| Second Lien Term Loan, 15% due 6/30/2014 | | 11,928,600 | 11,743,630 | 12,130,945 |
| | | | **11,743,630** | **12,130,945** |
| **Storytellers Theaters Corporation** | Entertainment - Theaters | | | |
| First Lien Term Loan, 15% due 7/16/2014 | | 7,275,313 | 7,166,749 | 7,162,190 |
| First Lien Revolver, LIBOR+3.5% (10% floor), due 7/16/2014 | | 250,000 | 234,167 | 223,136 |
| 1,692 shares of Common Stock | | | 169 | — |
| 20,000 shares of Preferred Stock | | | 200,000 | 156,256 |
| | | | **7,601,085** | **7,541,582** |
| **HealthDrive Corporation(9)** | Healthcare facilities | | | |
| First Lien Term Loan A, 10% due 7/17/2013 | | 7,800,000 | 7,574,591 | 7,731,153 |
| First Lien Term Loan B, 13% due 7/17/2013 | | 10,076,089 | 9,926,089 | 9,587,523 |
| First Lien Revolver, 12% due 7/17/2013 | | 500,000 | 485,000 | 534,693 |
| | | | **17,985,680** | **17,853,369** |
| **idX Corporation** | Merchandise Display | | | |
| Second Lien Term Loan, 14.5% due 7/1/2014 | | 13,316,247 | 13,014,576 | 13,074,682 |
| | | | **13,014,576** | **13,074,682** |
| **Cenegenics, LLC** | Healthcare services | | | |
| First Lien Term Loan, 17% due 10/27/2013 | | 10,372,069 | 10,076,277 | 10,266,770 |
| 116,237 Common Units(6) | | | 151,108 | 515,782 |
| | | | **10,227,385** | **10,782,552** |
| **IZI Medical Products, Inc.** | Healthcare technology | | | |
| First Lien Term Loan A, 12% due 3/31/2014 | | 5,600,000 | 5,504,943 | 5,547,944 |
| First Lien Term Loan B, 16% due 3/31/2014 | | 17,042,500 | 16,328,120 | 16,532,244 |
| First Lien Revolver, 10% due 3/31/2014(11) | | — | (45,000) | (45,000) |
| 453,755 Preferred units of IZI Holdings, LLC | | | 453,755 | 530,016 |
| | | | **22,241,818** | **22,565,204** |
| **Trans-Trade, Inc.** | Air freight & logistics | | | |
| First Lien Term Loan, 15.5% due 9/10/2014 | | 11,016,042 | 10,798,229 | 10,838,952 |
| First Lien Revolver, 12% due 9/10/2014(11) | | — | (39,333) | (39,333) |
| | | | **10,758,896** | **10,799,619** |
| **Riverlake Equity Partners II, LP(13)** | Multi-sector holdings | | | |
| 0.14% limited partnership interest | | | — | — |
| **Riverside Fund IV, LP(13)** | Multi-sector holdings | | | |
| 0.92% limited partnership interest | | | — | — |
| **Total Non-Control/Non-Affiliate Investments** | | | **$ 243,975,221** | **$ 229,171,470** |
| ***Total Portfolio Investments*** | | | **$ 327,232,285** | **$ 299,611,137** |

(1) All debt investments are income producing. Equity is non-income producing unless otherwise noted.

(2) See Note 3 to Consolidated Financial Statements for summary geographic location.

(3) Control Investments are defined by the Investment Company Act of 1940 ("1940 Act") as investments in companies in which the Company owns more than 25% of the voting securities or maintains greater than 50% of the board representation.

(4) Affiliate Investments are defined by the 1940 Act as investments in companies in which the Company owns between 5% and 25% of the voting securities.

(5) Equity ownership may be held in shares or units of companies related to the portfolio companies.

(6) Income producing through payment of dividends or distributions.

(7) Non-Control/Non-Affiliate Investments are defined by the 1940 Act as investments that are neither Control Investments nor Affiliate Investments.

(8) Principal includes accumulated PIK interest and is net of repayments.

(9) Interest rates have been adjusted on certain term loans and revolvers. These rate adjustments are temporary in nature due to financial or payment covenant violations in the original credit agreements, or permanent in nature per loan amendment or waiver documents. The table below summarizes these rate adjustments by portfolio company:

| Portfolio Company | Effective date | Cash interest | PIK interest | Reason |
|---|---|---|---|---|
| CPAC, Inc. | November 21, 2008 | — | + 1.0% on Term Loan | Per waiver agreement |
| Rose Tarlow, Inc. | January 1, 2009 | +0.5% on Term Loan, + 3.0% on Revolver | + 2.5% on Term Loan | Tier pricing per waiver agreement |
| Martini Park, LLC | October 1, 2008 | − 6.0% on Term Loan | + 6.0% on Term Loan | Per waiver agreement |
| Best Vinyl Acquisition Corporation | April 1, 2008 | + 0.5% on Term Loan | — | Per loan amendment |
| Nicos Polymers & Grinding, Inc. | February 10, 2008 | — | + 2.0% on Term Loan A & B | Per waiver agreement |
| TBA Global, LLC | February 15, 2008 | — | + 2.0% on Term Loan A & B | Per waiver agreement |
| Filet of Chicken | January 1, 2009 | + 1.0% on Term Loan | — | Tier pricing per waiver agreement |
| Boot Barn | January 1, 2009 | + 1.0% on Term Loan | + 2.5% on Term Loan | Tier pricing per waiver agreement |
| HealthDrive Corporation | April 30, 2009 | + 2.0% on Term Loan A | — | Per waiver agreement |

(10) Revolving credit line has been suspended and is deemed unlikely to be renewed in the future.

(11) Amounts represent unearned income related to undrawn commitments.

(12) All or a portion of the loan is considered permanently impaired and, accordingly, the charge-off of the cost basis has been recorded as a realized loss for financial reporting purposes.

(13) Represents unfunded limited partnership interests that were closed prior to September 30, 2009.

(14) Represents a de minimis membership interest percentage.

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**

**Consolidated Schedule of Investments**
**September 30, 2008**

| Portfolio Company/Type of Investment(1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Control Investments(3)** | | | | |
| **Affiliate Investments(4)** | | | | |
| **O'Currance, Inc.** | Data Processing & Outsourced Services | | | |
| First Lien Term Loan A, 16.875% due 3/21/2012 | | $ 10,108,838 | $ 9,888,488 | $ 9,888,488 |
| First Lien Term Loan B, 16.875% due 3/21/2012 | | 3,640,702 | 3,581,245 | 3,581,245 |
| 1.75% Preferred Membership Interest in O'Currance Holding Co., LLC | | | 130,413 | 130,413 |
| 3.3% Membership Interest in O'Currance Holding Co., LLC | | | 250,000 | 97,156 |
| | | | **13,850,146** | **13,697,302** |
| **CPAC, Inc.** | Household Products & Specialty Chemicals | | | |
| Second Lien Term Loan, 17.5% due 4/13/2012 | | 10,613,769 | 9,556,805 | 3,626,497 |
| 2,297 shares of Common Stock | | | 2,297,000 | — |
| | | | **11,853,805** | **3,626,497** |
| **Elephant & Castle, Inc.** | Restaurants | | | |
| Second Lien Term Loan, 15.5% due 4/20/2012 | | 7,809,513 | 7,145,198 | 7,145,198 |
| 7,500 shares of Series A Preferred Stock | | | 750,000 | 196,386 |
| | | | **7,895,198** | **7,341,584** |
| **MK Network, LLC** | Healthcare technology | | | |
| First Lien Term Loan A, 13.5% due 6/1/2012 | | 9,500,000 | 9,115,152 | 9,115,152 |
| First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010 — undrawn revolver of $2,000,000(10) | | — | (11,113) | (11,113) |
| 6,114 Membership Units(6) | | | 584,795 | 760,441 |
| | | | **9,688,834** | **9,864,480** |
| **Rose Tarlow, Inc.** | Home Furnishing Retail | | | |
| First Lien Term Loan, 12% due 1/25/2014 | | 10,000,000 | 9,796,648 | 9,796,648 |
| First Lien Revolver, LIBOR+4% (9% floor) due 1/25/2014 — undrawn revolver of $2,650,000 | | 350,000 | 323,333 | 323,333 |
| 6.9% membership interest in RTMH Acquisition Company | | | 1,275,000 | 591,939 |
| 0.1% membership interest in RTMH Acquisition Company | | | 25,000 | 11,607 |
| | | | **11,419,981** | **10,723,527** |
| **Martini Park, LLC** | Restaurants | | | |
| First Lien Term Loan, 14% due 2/20/2013 | | 4,049,822 | 3,188,351 | 2,719,236 |
| 5% membership interest | | | 650,000 | — |
| | | | **3,838,351** | **2,719,236** |
| **Caregiver Services, Inc.** | Healthcare services | | | |
| Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013 | | 10,000,000 | 9,381,973 | 9,381,973 |
| Second Lien Term Loan B, 16.5% due 2/25/2013 | | 13,809,891 | 12,811,950 | 12,811,951 |
| 1,080,399 shares of Series A Preferred Stock | | | 1,080,398 | 1,183,867 |
| | | | **23,274,321** | **23,377,791** |
| **Total Affiliate Investments** | | | **$ 81,820,636** | **$ 71,350,417** |

**Fifth Street Finance Corp.**

**Consolidated Schedule of Investments**
**September 30, 2008**

| Portfolio Company/Type of Investment(1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Non-Control/Non-Affiliate Investments(7)** | | | | |
| **Best Vinyl Acquisition Corporation(9)** | Building Products | | | |
| Second Lien Term Loan, 12% due 3/30/2013 | | $ 7,000,000 | $ 6,716,712 | $ 6,716,712 |
| 25,641 Shares of Series A Preferred Stock | | | 253,846 | 253,846 |
| 25,641 Shares of Common Stock | | | 2,564 | 4,753 |
| | | | **6,973,122** | **6,975,311** |
| **Traffic Control & Safety Corporation** | Construction and Engineering | | | |
| Second Lien Term Loan, 15% due 6/29/2014 | | 18,741,969 | 18,503,268 | 18,503,268 |
| 24,750 shares of Series B Preferred Stock | | | 247,500 | 179,899 |
| 25,000 shares of Common Stock | | | 2,500 | — |
| | | | **18,753,268** | **18,683,167** |
| **Nicos Polymers & Grinding Inc.(9)** | Environmental & Facilities services | | | |
| First Lien Term Loan A, LIBOR+5% (10% floor), due 7/17/2012 | | 3,216,511 | 3,192,408 | 3,192,408 |
| First Lien Term Loan B, 13.5% due 7/17/2012 | | 5,786,547 | 5,594,313 | 5,594,313 |
| 3.32% Interest in Crownbrook Acquisition I LLC | | | 168,086 | 72,756 |
| | | | **8,954,807** | **8,859,477** |
| **TBA Global, LLC(9)** | Media: Advertising | | | |
| Second Lien Term Loan A, LIBOR+5% (10% floor), due 8/3/2010 | | 2,531,982 | 2,516,148 | 2,516,148 |
| Second Lien Term Loan B, 14.5% due 8/3/2012 | | 10,369,491 | 9,857,130 | 9,857,130 |
| 53,994 Senior Preferred Shares | | | 215,975 | 143,418 |
| 191,977 Shares A Shares | | | 191,977 | — |
| | | | **12,781,230** | **12,516,696** |
| **Fitness Edge, LLC** | Leisure Facilities | | | |
| First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012 | | 2,250,000 | 2,233,636 | 2,233,636 |
| First Lien Term Loan B, 15% due 8/8/2012 | | 5,353,461 | 5,206,261 | 5,206,261 |
| 1,000 Common Units | | | 42,908 | 55,033 |
| | | | **7,482,805** | **7,494,930** |
| **Filet of Chicken(9)** | Food Distributors | | | |
| Second Lien Term Loan, 14.5% due 7/31/2012 | | 12,516,185 | 11,994,788 | 11,994,788 |
| | | | **11,994,788** | **11,994,788** |
| **Boot Barn** | Footwear and Apparel | | | |
| Second Lien Term Loan, 14.5% due 10/3/2013 | | 18,095,935 | 17,788,078 | 17,788,078 |
| 24,706 shares of Series A Preferred Stock | | | 247,060 | 146,435 |
| 1,308 shares of Common Stock | | | 131 | — |
| | | | **18,035,269** | **17,934,513** |
| **American Hardwoods Industries Holdings, LLC** | Lumber Products | | | |
| Second Lien Term Loan, 15% due 10/15/2012 | | 10,334,704 | 10,094,129 | 4,384,489 |
| 24,375 Membership Units | | | 250,000 | — |
| | | | **10,344,129** | **4,384,489** |

**Fifth Street Finance Corp.**

**Consolidated Schedule of Investments**
**September 30, 2008**

| Portfolio Company/Type of Investment(1)(2)(5) | Industry | Principal(8) | Cost | Fair Value |
|---|---|---|---|---|
| **Premier Trailer Leasing, Inc.** | Trailer Leasing Services | | | |
| Second Lien Term Loan, 16.5% due 10/23/2012 | | 17,277,619 | 16,985,473 | 16,985,473 |
| 285 shares of Common Stock | | | 1,140 | — |
| | | | **16,986,613** | **16,985,473** |
| **Pacific Press Technologies, Inc.** | Capital Goods | | | |
| Second Lien Term Loan, 14.75% due 1/10/2013 | | 9,544,447 | 9,294,486 | 9,294,486 |
| 33,463 shares of Common Stock | | | 344,513 | 481,210 |
| | | | **9,638,999** | **9,775,696** |
| **Goldco, LLC** | Restaurants | | | |
| Second Lien Term Loan, 17.5% due 1/31/2013 | | 7,705,762 | 7,578,261 | 7,578,261 |
| | | | **7,578,261** | **7,578,261** |
| **Lighting by Gregory, LLC** | Housewares & Specialties | | | |
| First Lien Term Loan A, 9.75% due 2/28/2013 | | 4,500,002 | 4,420,441 | 4,420,441 |
| First Lien Term Loan B, 14.5% due 2/28/2013 | | 7,010,207 | 6,888,876 | 6,888,876 |
| 1.1% membership interest | | | 110,000 | 98,459 |
| | | | **11,419,317** | **11,407,776** |
| **Rail Acquisition Corp.** | Manufacturing - Mechanical Products | | | |
| First Lien Term Loan, 17% due 4/1/2013 | | 15,800,700 | 15,494,737 | 15,494,737 |
| | | | **15,494,737** | **15,494,737** |
| **Western Emulsions, Inc.** | Emulsions Manufacturing | | | |
| Second Lien Term Loan, 15% due 6/30/2014 | | 9,661,464 | 9,523,464 | 9,523,464 |
| | | | **9,523,464** | **9,523,464** |
| **Storytellers Theaters Corporation** | Entertainment - Theaters | | | |
| First Lien Term Loan, 15% due 7/16/2014 | | 11,824,414 | 11,598,248 | 11,598,248 |
| First Lien Revolver, LIBOR+3.5% (10% floor), due 7/16/2014 — undrawn revolver of $2,000,000(10) | | — | (17,566) | (17,566) |
| 1,692 shares of Common Stock | | | 169 | — |
| 20,000 shares of Preferred Stock | | | 200,000 | 196,588 |
| | | | **11,780,851** | **11,777,270** |
| **HealthDrive Corporation** | Healthcare facilities | | | |
| First Lien Term Loan A, 10% due 7/17/2013 | | 8,000,000 | 7,923,357 | 7,923,357 |
| First Lien Term Loan B, 13% due 7/17/2013 | | 10,008,333 | 9,818,333 | 9,818,333 |
| First Lien Revolver, 12% due 7/17/2013 — undrawn revolver of $1,500,000 | | 500,000 | 481,000 | 481,000 |
| | | | **18,222,690** | **18,222,690** |
| **idX Corporation** | Merchandise Display | | | |
| Second Lien Term Loan, 14.5% due 7/1/2014 | | 13,049,166 | 12,799,999 | 12,799,999 |
| | | | **12,799,999** | **12,799,999** |
| **Total Non-Control/Non-Affiliate Investments** | | | **$ 208,764,349** | **$ 202,408,737** |
| ***Total Portfolio Investments*** | | | **$ 290,584,985** | **$ 273,759,154** |

(1) All debt investments are income producing. Equity is non-income producing unless otherwise noted.

(2) See Note 3 to Consolidated Financial Statements for summary geographic location.

(3) Control Investments are defined by the Investment Company Act of 1940 ("1940 Act") as investments in companies in which the Company owns more than 25% of the voting securities or maintains greater than 50% of the board representation. As of September 30, 2008, the Company did not have a controlling interest in any of its investments.

(4) Affiliate Investments are defined by the 1940 Act as investments in companies in which the Company owns between 5% and 25% of the voting securities.

(5) Equity ownership may be held in shares or units of companies related to the portfolio companies.

(6) Income producing through payment of dividends or distributions.

(7) Non-Control/Non-Affiliate Investments are defined by the 1940 Act as investments that are neither Control Investments nor Affiliate Investments.

(8) Principal includes accumulated PIK interest and is net of repayments.

(9) Rates have been adjusted on the term loans, as follows:

| Portfolio Company | Effective date | Cash interest | PIK interest | Reason |
|---|---|---|---|---|
| Best Vinyl Acquisition Corporation | April 1, 2008 | +0.5% on Term Loan | — | Per loan amendment |
| Nicos Polymers & Grinding, Inc. | February 10, 2008 | — | +2.0% on Term Loan A & B | Per waiver agreement |
| TBA Global, LLC | February 15, 2008 | — | +2.0% on Term Loan A & B | Per waiver agreement |
| Filet of Chicken | August 1, 2008 | +1.0% on Term Loan | +1.0% on Term Loan | Per loan amendment |

(10) Amounts represent unearned income related to undrawn commitments.

See notes to Consolidated Financial Statements.

**Note 1. Organization**

Fifth Street Mezzanine Partners III, L.P. (the “Partnership”), a Delaware limited partnership, was organized on February 15, 2007 to primarily invest in debt securities of small and/or middle market companies. FSMPIII GP, LLC was the Partnership’s general partner (the “General Partner”). The Partnership’s investments were managed by Fifth Street Management LLC (the “Investment Adviser”). The General Partner and Investment Adviser were under common ownership.

Effective January 2, 2008, the Partnership merged with and into Fifth Street Finance Corp. (the “Company”), an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940 (the “1940 Act”). The merger involved the exchange of shares between companies under common control. In accordance with the guidance on exchanges of shares between entities under common control, the Company’s results of operations and cash flows for the year ended September 30, 2008 are presented as if the merger had occurred as of October 1, 2007. Accordingly, no adjustments were made to the carrying value of assets and liabilities (or the cost basis of investments) as a result of the merger. Fifth Street Finance Corp. is managed by the Investment Adviser. Prior to January 2, 2008, references to the Company are to the Partnership. Since January 2, 2008, references to the Company, FSC, “we” or “our” are to Fifth Street Finance Corp., unless the context otherwise requires.

The Company also has certain wholly-owned subsidiaries which hold certain portfolio investments of the Company. The subsidiaries are consolidated with the Company, and the portfolio investments held by the subsidiaries are included in the Company’s consolidated financial statements. All significant intercompany balances and transactions have been eliminated.

On June 17, 2008, the Company completed an initial public offering of 10,000,000 shares of its common stock at the offering price of $14.12 per share. On July 21, 2009, the Company completed a follow-on public offering of 9,487,500 shares of its common stock at the offering price of $9.25 per share. On September 25, 2009, the Company completed a follow-on public offering of 5,520,000 shares of its common stock at the offering price of $10.50 per share. The Company’s shares are currently listed on the New York Stock Exchange under the symbol “FSC.”

On May 19, 2009, the Company received a letter from the Investment Division of the Small Business Administration (the “SBA”) that invited the Company to continue moving forward with the licensing of a small business investment company (“SBIC”) subsidiary. The Company’s application to license this entity as an SBIC with the SBA is subject to the SBA approval. The Company’s SBIC subsidiary will be a wholly-owned subsidiary and will be able to rely on an exclusion from the definition of “investment company” under the 1940 Act, and thus will not elect to be treated as a business development company under the 1940 Act. The Company’s SBIC subsidiary will have an investment objective similar to the Company’s and will make similar types of investments in accordance with SBIC regulations.

**Note 2. Significant Accounting Policies**

***FASB Accounting Standards Codification***

The issuance of *FASB Accounting Standards Codification*™ (the “Codification”) on July 1, 2009 (effective for interim or annual reporting periods ending after September 15, 2009), changes the way that U.S. generally accepted accounting principles (“GAAP”) are referenced. Beginning on that date, the Codification officially became the single source of authoritative nongovernmental GAAP; however, SEC registrants must also consider rules, regulations, and interpretive guidance issued by the SEC or its staff. The switch affects the way companies refer to GAAP in financial statements and in their accounting policies. All existing standards that were used to create the Codification became superseded. Instead, references to standards will consist solely of the number used in the Codification’s structural organization. For example, it is no longer proper to refer to FASB Statement No. 157, *Fair Value Measurement*, which is now Codification Topic 820 *Fair Value Measurements and Disclosures* (“ASC 820”).

Consistent with the effective date of the Codification, financial statements for periods ending after September 15, 2009, refers to the Codification structure, not pre-Codification historical GAAP.

***Basis of Presentation and Liquidity:***

The Consolidated Financial Statements of the Company have been prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-K and Regulation S-X. The financial results of the Company's portfolio investments are not consolidated in the Company's financial statements.

The Company has evaluated all subsequent events through December 9, 2009.

Although the Company expects to fund the growth of its investment portfolio through the net proceeds from the recent and future equity offerings, the Company's dividend reinvestment plan, and issuances of senior securities or future borrowings, to the extent permitted by the 1940 Act, the Company cannot assure that its plans to raise capital will be successful. In addition, the Company intends to distribute to its stockholders between 90% and 100% of its taxable income each year in order to satisfy the requirements applicable to RICs under Subchapter M of the Internal Revenue Code ("Code"). Consequently, the Company may not have the funds or the ability to fund new investments, to make additional investments in its portfolio companies, to fund its unfunded commitments to portfolio companies or to repay borrowings. In addition, the illiquidity of its portfolio investments may make it difficult for the Company to sell these investments when desired and, if the Company is required to sell these investments, we may realize significantly less than their recorded value.

***Use of Estimates:***

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions affecting amounts reported in the financial statements and accompanying notes. These estimates are based on the information that is currently available to the Company and on various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ materially from those estimates under different assumptions and conditions. The most significant estimate inherent in the preparation of the Company's consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation.

The consolidated financial statements include portfolio investments at fair value of $299.6 million and $273.8 million at September 30, 2009 and September 30, 2008, respectively. The portfolio investments represent 73.0% and 93.0% of stockholders' equity at September 30, 2009 and September 30, 2008, respectively, and their fair values have been determined by the Company's Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. The illiquidity of these portfolio investments may make it difficult for the Company to sell these investments when desired and, if the Company is required to sell these investments, it may realize significantly less than the investments' recorded value.

The Company classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, "Control Investments" are defined as investments in companies in which the Company owns more than 25% of the voting securities or has rights to maintain greater than 50% of the board representation; "Affiliate Investments" are defined as investments in companies in which the Company owns between 5% and 25% of the voting securities; and "Non-Control/Non-Affiliate Investments" are defined as investments that are neither Control Investments nor Affiliate Investments.

***Significant Accounting Policies:***

*a)* Valuation:

As described below, effective October 1, 2008, the Company adopted ASC Topic 820 *Fair Value Measurements and Disclosures* (“ASC 820”). In accordance with that standard, the Company changed its presentation for all periods presented to net unearned fees against the associated debt investments. Prior to the adoption of ASC 820 on October 1, 2008, the Company reported unearned fees as a single line item on the Consolidated Balance Sheets and Consolidated Schedules of Investments. This change in presentation had no impact on the overall net cost or fair value of the Company’s investment portfolio and had no impact on the Company’s financial position or results of operations.

The following table summarizes the effect of the adoption of ASC 820 on the presentation of the Company’s investment portfolio in the Consolidated Financial Statements.

| | Fair Value as Reported in the September 30, 2008 Financial Statements as Filed in the September 30, 2008 Form 10-K | Change in Presentation of Unearned Fee Income to Conform with ASC 820 | Fair Value as Reported in the September 30, 2008 Consolidated Financial Statements as Filed in the September 30, 2009 Form 10-K |
|---|---|---|---|
| Affiliate investments | $ 73,106,057 | $ (1,755,640) | $ 71,350,417 |
| Non-control/Non-affiliate investments | 205,889,362 | (3,480,625) | 202,408,737 |
| Unearned fee income | (5,236,265) | 5,236,265 | — |
| **Total investments net of unearned fee income** | **$ 273,759,154** | **$ —** | **$ 273,759,154** |

*b)* Fair Value Measurements:

In September 2006, the Financial Accounting Standards Board issued ASC 820, which was effective for fiscal years beginning after November 15, 2007. ASC 820 defines fair value as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability’s fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the investments or market and the investments’ complexity.

Assets and liabilities recorded at fair value in the Company’s Consolidated Balance Sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

- Level 1 — Unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data at the measurement date for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Realized gain or loss on the sale of investments is the difference between the proceeds received from dispositions of portfolio investments and their stated costs. Realized losses may also be recorded in connection with the Company's determination that certain investments are permanently impaired.

Interest income, adjusted for amortization of premium and accretion of original issue discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on investments when it is determined that interest is no longer collectible.

Distributions of earnings from portfolio companies are recorded as dividend income when the distribution is received.

The Company has investments in debt securities which contain a payment in kind or "PIK" interest provision. PIK interest is computed at the contractual rate specified in each investment agreement and added to the principal balance of the investment and recorded as income.

Fee income consists of the monthly collateral management fees that the Company receives in connection with its debt investments and the accreted portion of the debt origination fees.

The Company capitalizes upfront loan origination fees received in connection with investments. The unearned fee income from such fees is accreted into fee income based on the effective interest method over the life of the investment. In connection with its investment, the Company sometimes receives nominal cost equity that is valued as part of the negotiation process with the particular portfolio company. When the Company receives nominal cost equity, the Company allocates its cost basis in its investment between its debt securities and its nominal cost equity at the time of origination. Any resulting discount from recording the loan is accreted into fee income over the life of the loan.

***Cash and Cash Equivalents:***

Cash and cash equivalents consist of demand deposits and highly liquid investments with maturities of three months or less, when acquired. The Company places its cash and cash equivalents with financial institutions and, at times, cash held in bank accounts may exceed the Federal Deposit Insurance Corporation insured limit.

***Offering Costs:***

Offering costs consist of fees paid to the underwriters, in addition to legal, accounting, regulatory and printing fees that are related to the Company's follow-on offerings which closed on July 21, 2009 and September 25, 2009. Accordingly, approximately $1.0 million of offering costs (net of the underwriting fees) have been charged to capital during the year ended September 30, 2009.

***Income Taxes:***

Prior to the merger of the Partnership with and into the Company, the Partnership was treated as a partnership for federal and state income tax purposes. The Partnership generally did not record a provision for income taxes because the partners report their shares of the partnership income or loss on their income tax returns. Accordingly, the taxable income was passed through to the partners and the Partnership was not subject to an entity level tax as of December 31, 2007.

As a partnership, Fifth Street Mezzanine Partners III, LP filed a calendar year tax return for a short year initial period from February 15, 2007 through December 31, 2007. Upon the merger, Fifth Street Finance Corp., the surviving C-Corporation, made an election to be treated as a RIC under the Code and adopted a September 30 tax year end. Accordingly, the first RIC tax return has been filed for the tax year beginning January 1, 2008 and ended September 30, 2008.

As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed currently to its stockholders as a dividend. The Company anticipates distributing between 90% and 100% of its taxable income and gains, within the Subchapter M rules, and thus the Company anticipates that it will not incur any federal or state income tax at the RIC level. As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis (i.e., calendar year 2009). The Company anticipates timely distribution of its taxable income within the tax rules, however, the Company incurred a de minimis federal excise tax for calendar year 2008 and may incur a federal excise tax for the calendar year 2009.

The purpose of the Company's taxable subsidiaries is to permit the Company to hold equity investments in portfolio companies which are "pass through" entities for federal tax purposes in order to comply with the "source income" requirements contained in the RIC tax requirements. The taxable subsidiaries are not consolidated with the Company for income tax purposes and may generate income tax expense as a result of their ownership of certain portfolio investments. This income tax expense, if any, is reflected in the Company's Consolidated Statements of Operations. The Company uses the asset and liability method to account for its taxable subsidiaries' income taxes. Using this method, the Company recognizes deferred tax assets and liabilities for the estimated future tax effects attributable to temporary differences between financial reporting and tax bases of assets and liabilities. In addition, the Company recognizes deferred tax benefits associated with net operating carry forwards that it may use to offset future tax obligations. The Company measures deferred tax assets and liabilities using the enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences.

The Company adopted Financial Accounting Standards Board ASC Topic 740 *Accounting for Uncertainty in Income Taxes* ("ASC 740") at inception on February 15, 2007. ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. Adoption of ASC 740 was applied to all open taxable years as of the effective date. The adoption of ASC 740 did not have an effect on the financial position or results of operations of the Company as there was no liability for unrecognized tax benefits and no change to the beginning capital of the Company. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof.

***Guarantees and Indemnification Agreements:***

The Company follows ASC 460 *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("ASC 460"). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees. The Interpretation has had no impact on the Company's consolidated financial statements.

***Recent Accounting Pronouncements***

In October 2009 the FASB issued Accounting Standards Update 2009-13, *Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements* which addresses accounting for multiple deliverable arrangements to enable vendors to account for products separately rather than as a combined unit. The amendments are effective prospectively for fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of this guidance to have a material impact on either its financial position or results of operations.

In September 2009 the FASB issued Accounting Standards Update 2009-12, *Fair Value Measurements and Disclosures (Topic 820) — Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* provides guidance on estimating the fair value of an alternative investment, amending ASC 820-10. The amendment is effective for interim and annual periods ending after December 15, 2009. The Company does not expect the adoption of this guidance to have a material impact on either its financial position or results of operations.

In February 2007, the FASB issued ASC Topic 825-10 *Financial Instruments* ("ASC 825-10") , which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of ASC 825-10 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently, and is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of ASC 820. While ASC 825-10 become effective for the Company's 2009 fiscal year, the Company did not elect the fair value measurement option for any of its financial assets or liabilities.

In December 2007, the FASB issued ASC Topic 810 *Noncontrolling Interests in Consolidated Financial* ("ASC 810"). ASC 810 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. ASC 810 requires that noncontrolling interests in subsidiaries be reported in the equity section of the controlling company's balance sheet. It also changes the manner in which the net income of the subsidiary is reported and disclosed in the controlling company's income statement. ASC 810 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not believe that the adoption of ASC 810 will have a material impact on either its financial position or results of operations.

Effective January 1, 2009 the Company adopted the guidance included in ASC Topic 815 *Derivatives and Hedging* ("ASC 815"), which requires additional disclosures for derivative instruments and hedging activities. The Company does not have any derivative instruments nor has it engaged in any hedging activities. ASC 815 has no impact on the Company's financial statements.

Effective July 1, 2009 the Company adopted the provisions of ASC Topic 855 *Subsequent Events* ("ASC 855"). ASC 855 incorporates the subsequent events guidance contained in the auditing standards literature into authoritative accounting literature. It also requires entities to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. See Note 2 — "Significant Accounting Policies — Basis of Presentation and Liquidity" for this new disclosure.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140" ("SFAS 166") (to be included in ASC 860 "Transfers and Servicing"). SFAS 166 will require more information about transfers of financial assets, eliminates the qualifying special purpose entity (QSPE) concept, changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS 166 is effective for the first annual reporting period that begins after November 15, 2009. The Company does not anticipate that SFAS 166 will have a material impact on the Company's financial statements. This statement has not yet been codified.

**Note 3. Portfolio Investments**

At September 30, 2009, 73.0% of stockholders' equity or $299.6 million was invested in 28 long-term portfolio investments and 27.6% of stockholders' equity or $113.2 million was invested in cash and cash equivalents. In comparison, at September 30, 2008, 93.0% of stockholders' equity or $273.8 million was invested in 24 long-term portfolio investments and 7.8% of stockholders' equity or $22.9 million was invested in cash and cash equivalents. As of September 30, 2009, all of the Company's debt investments were secured by first or second priority liens on the assets of the portfolio companies. Moreover, the Company held equity investments in its portfolio companies consisting of common stock, preferred stock or limited liability company interests designed to provide the Company with an opportunity for an enhanced rate of return. These instruments generally do not produce a current return, but are held for potential investment appreciation and capital gain.

At September 30, 2009 and September 30, 2008, $281.0 million and $251.5 million, respectively, of the Company's portfolio debt investments at fair value were at fixed rates, which represented approximately 95% and 93%, respectively, of the Company's total portfolio of debt investments at fair value. During the year ended September 30, 2009, the Company recorded realized losses of $14.4 million. During the year ended September 30, 2008, the Company recorded realized gains on investments of approximately $62,000. During the years ended September 30, 2009 and 2008, the Company recorded unrealized depreciation of $10.8 million and $16.9 million, respectively.

The composition of the Company's investments as of September 30, 2009 and September 30, 2008 at cost and fair value was as follows:

| | September 30, 2009 | | September 30, 2008 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Investments in debt securities | $ 317,069,667 | $ 295,921,400 | $ 281,264,010 | $ 269,154,948 |
| Investments in equity securities | 10,162,618 | 3,689,737 | 9,320,975 | 4,604,206 |
| **Total** | **$ 327,232,285** | **$ 299,611,137** | **$ 290,584,985** | **$ 273,759,154** |

The following table presents the financial instruments carried at fair value as of September 30, 2009, by caption on the Company's Consolidated Balance Sheet for each of the three levels of hierarchy established by ASC 820.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Control investments | $ — | $ — | $ 5,691,107 | $ 5,691,107 |
| Affiliate investments | — | — | 64,748,560 | 64,748,560 |
| Non-control/Non-affiliate investments | — | — | 229,171,470 | 229,171,470 |
| **Total investments at fair value** | **$ —** | **$ —** | **$ 299,611,137** | **$ 299,611,137** |

The following table provides a roll-forward in the changes in fair value from September 30, 2008 to September 30, 2009, for all investments for which the Company determines fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the fact that the unobservable factors are the most significant to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated by external sources). Accordingly, the appreciation (depreciation) in the table below includes changes in fair value due in part to observable factors that are part of the valuation methodology.

| | Control Investments | Affiliate Investments | Non-control/ Non-affiliate Investments | Total |
|---|---|---|---|---|
| Fair value as of September 30, 2008 | $ — | $ 71,350,417 | $ 202,408,737 | $ 273,759,154 |
| Total realized losses | — | (4,000,000) | (10,373,200) | (14,373,200) |
| Change in unrealized appreciation (depreciation) | (1,792,015) | 286,190 | (9,289,492) | (10,795,317) |
| Purchases, issuances, settlements and other, net | 7,483,122 | (2,888,047) | 46,425,425 | 51,020,500 |
| Transfers in (out) of Level 3 | — | — | — | — |
| **Fair value as of September 30, 2009** | **$ 5,691,107** | **$ 64,748,560** | **$ 229,171,470** | **$ 299,611,137** |

Concurrent with its adoption of ASC 820, effective October 1, 2008, the Company augmented the valuation techniques it uses to estimate the fair value of its debt investments where there is not a readily available market value

(Level 3). Prior to October 1, 2008, the Company estimated the fair value of its Level 3 debt investments by first estimating the enterprise value of the portfolio company which issued the debt investment. To estimate the enterprise value of a portfolio company, the Company analyzed various factors, including the portfolio companies historical and projected financial results. Typically, private companies are valued based on multiples of EBITDA (Earning Before Interest, Taxes, Depreciation and Amortization), cash flow, net income, revenues or, in limited instances, book value.

In estimating a multiple to use for valuation purposes, the Company looked to private merger and acquisition statistics, discounted public trading multiples or industry practices. In some cases, the best valuation methodology may have been a discounted cash flow analysis based on future projections. If a portfolio company was distressed, a liquidation analysis may have provided the best indication of enterprise value.

If there was adequate enterprise value to support the repayment of the Company's debt, the fair value of the Level 3 loan or debt security normally corresponded to cost plus the amortized original issue discount unless the borrower's condition or other factors lead to a determination of fair value at a different amount.

Beginning on October 1, 2008, the Company also introduced a bond yield model to value these investments based on the present value of expected cash flows. The primary inputs into the model are market interest rates for debt with similar characteristics and an adjustment for the portfolio company's credit risk. The credit risk component of the valuation considers several factors including financial performance, business outlook, debt priority and collateral position. During the years ended September 30, 2009 and 2008 and during the period ended September 30, 2007, the Company recorded net unrealized appreciation (depreciation) of ($10.8 million), ($16.9 million) and $0.1 million, respectively, on its investments. For the year ended September 30, 2009, the Company's net unrealized appreciation (depreciation) consisted of $14.3 million of reclassifications to realized losses, offset by unrealized depreciation of ($21.2 million) resulting from declines in EBITDA or market multiples of its portfolio companies requiring closer monitoring or performing below expectations; and approximately ($3.9) million of unrealized appreciation resulting from the adoption of ASC 820.

The table below summarizes the changes in the Company's investment portfolio from September 30, 2008 to September 30, 2009.

| | Debt | Equity | Total |
|---|---|---|---|
| Fair value at September 30, 2008 | $ 269,154,948 | $ 4,604,206 | $ 273,759,154 |
| New investments | 60,858,356 | 1,091,644 | 61,950,000 |
| Redemptions/repayments | (18,445,907) | — | (18,445,907) |
| Net accrual of PIK interest income | 7,027,149 | — | 7,027,149 |
| Accretion of original issue discount | 842,623 | — | 842,623 |
| Recognition of unearned income | (353,365) | — | (353,365) |
| Net unrealized depreciation | (9,039,204) | (1,756,113) | (10,795,317) |
| Net changes from unrealized to realized | (14,123,200) | (250,000) | (14,373,200) |
| **Fair value at September 30, 2009** | **$ 295,921,400** | **$ 3,689,737** | **$ 299,611,137** |

The Company's off-balance sheet arrangements consisted of $9.8 million and $24.7 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of September 30, 2009 and September 30, 2008, respectively. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet and are not reflected on the Company's Consolidated Balance Sheet.

A summary of the composition of the unfunded commitments (consisting of revolvers, term loans and limited partnership interests) as of September 30, 2009 and September 30, 2008 is shown in the table below:

| | September 30, 2009 | September 30, 2008 |
|---|---|---|
| MK Network, LLC | $ — | $ 2,000,000 |
| Rose Tarlow, Inc. | — | 2,650,000 |
| Martini Park, LLC | — | 11,000,000 |
| Fitness Edge, LLC | — | 1,500,000 |
| Western Emulsions, Inc. | — | 2,000,000 |
| Storyteller Theaters Corporation | 1,750,000 | 4,000,000 |
| HealthDrive Corporation | 1,500,000 | 1,500,000 |
| IZI Medical Products, Inc. | 2,500,000 | — |
| Trans-Trade, Inc. | 2,000,000 | — |
| Riverlake Equity Partners II, LP (limited partnership interest) | 1,000,000 | — |
| Riverside Fund IV, LP (limited partnership interest) | 1,000,000 | — |
| **Total** | **$ 9,750,000** | **$ 24,650,000** |

Summaries of the composition of the Company's investment portfolio at cost and fair value as a percentage of total investments are shown in the following tables:

| | September 30, 2009 | | September 30, 2008 | |
|---|---|---|---|---|
| **Cost:** | | | | |
| First lien debt | $ 153,207,248 | 46.82% | $ 108,716,148 | 37.41% |
| Second lien debt | 163,862,419 | 50.08% | 172,547,862 | 59.38% |
| Purchased equity | 4,170,368 | 1.27% | 4,120,368 | 1.42% |
| Equity grants | 5,992,250 | 1.83% | 5,200,607 | 1.79% |
| **Total** | **$ 327,232,285** | **100.00%** | **$ 290,584,985** | **100.00%** |
| **Fair Value:** | | | | |
| First lien debt | $ 142,016,942 | 47.40% | $ 108,247,033 | 39.54% |
| Second lien debt | 153,904,458 | 51.37% | 160,907,915 | 58.78% |
| Purchased equity | 517,181 | 0.17% | 2,001,213 | 0.73% |
| Equity grants | 3,172,556 | 1.06% | 2,602,993 | 0.95% |
| **Total** | **$ 299,611,137** | **100.00%** | **$ 273,759,154** | **100.00%** |

The Company invests in portfolio companies located in the United States. The following tables show the portfolio composition by geographic region at cost and fair value as a percentage of total investments. The geographic composition is determined by the location of the corporate headquarters of the portfolio company, which may not be indicative of the primary source of the portfolio company's business.

| | September 30, 2009 | | September 30, 2008 | |
|---|---|---|---|---|
| **Cost:** | | | | |
| Northeast | $ 103,509,164 | 31.63% | $ 89,699,936 | 30.87% |
| West | 98,694,596 | 30.16% | 81,813,016 | 28.15% |
| Southeast | 39,463,350 | 12.06% | 42,847,370 | 14.75% |
| Midwest | 22,980,368 | 7.02% | 22,438,998 | 7.72% |
| Southwest | 62,584,807 | 19.13% | 53,785,665 | 18.51% |
| **Total** | **$ 327,232,285** | **100.00%** | **$ 290,584,985** | **100.00%** |
| **Fair Value:** | | | | |
| Northeast | $ 87,895,220 | 29.34% | $ 73,921,159 | 27.00% |
| West | 93,601,893 | 31.24% | 80,530,516 | 29.42% |
| Southeast | 39,858,633 | 13.30% | 42,950,840 | 15.69% |
| Midwest | 22,841,167 | 7.62% | 22,575,695 | 8.25% |
| Southwest | 55,414,224 | 18.50% | 53,780,944 | 19.64% |
| **Total** | **$ 299,611,137** | **100.00%** | **$ 273,759,154** | **100.00%** |

The composition of the Company's portfolio by industry at cost and fair value as of September 30, 2009 and September 30, 2008 were as follows:

| | September 30, 2009 | | September 30, 2008 | |
|---|---|---|---|---|
| **Cost:** | | | | |
| Healthcare technology | $ 37,201,082 | 11.37% | $ 9,688,834 | 3.33% |
| Healthcare services | 32,841,142 | 10.04% | 23,274,321 | 8.01% |
| Footwear and apparel | 22,423,009 | 6.85% | 18,035,269 | 6.21% |
| Restaurants | 20,288,245 | 6.20% | 19,311,810 | 6.65% |
| Construction and engineering | 19,275,031 | 5.89% | 18,753,268 | 6.45% |
| Healthcare facilities | 17,985,680 | 5.50% | 18,222,690 | 6.27% |
| Trailer leasing services | 17,064,785 | 5.21% | 16,986,613 | 5.85% |
| Manufacturing — mechanical products | 15,416,411 | 4.71% | 15,494,737 | 5.33% |
| Data processing and outsourced services | 13,473,611 | 4.12% | 13,850,146 | 4.77% |
| Media — Advertising | 13,403,441 | 4.10% | 12,781,230 | 4.40% |
| Merchandise display | 13,014,576 | 3.98% | 12,799,999 | 4.40% |
| Home furnishing retail | 12,855,762 | 3.93% | 11,419,981 | 3.93% |
| Housewares & specialties | 12,045,029 | 3.68% | 11,419,317 | 3.93% |
| Emulsions manufacturing | 11,743,630 | 3.59% | 9,523,464 | 3.28% |
| Air freight and logistics | 10,758,896 | 3.29% | — | 0.00% |
| Capital goods | 9,965,792 | 3.05% | 9,638,999 | 3.32% |
| Environmental & facilities services | 8,924,801 | 2.73% | 8,954,807 | 3.08% |
| Food distributors | 8,922,946 | 2.73% | 11,994,788 | 4.13% |

| | September 30, 2009 | | | September 30, 2008 | | |
|---|---|---|---|---|---|---|
| Household products/ specialty chemicals | | 7,803,805 | 2.38% | | 11,853,805 | 4.08% |
| Entertainment — theaters | | 7,601,085 | 2.32% | | 11,780,851 | 4.05% |
| Leisure facilities | | 7,187,169 | 2.20% | | 7,482,805 | 2.58% |
| Building products | | 7,036,357 | 2.13% | | 6,973,122 | 2.39% |
| Lumber products | | — | 0.00% | | 10,344,129 | 3.56% |
| **Total** | **$** | **327,232,285** | **100.00%** | **$** | **290,584,985** | **100.00%** |
| **Fair Value:** | | | | | | |
| Healthcare technology | $ | 36,762,574 | 12.27% | $ | 9,864,480 | 3.60% |
| Healthcare services | | 33,722,889 | 11.26% | | 23,377,791 | 8.54% |
| Footwear and apparel | | 22,082,721 | 7.37% | | 17,934,513 | 6.55% |
| Healthcare facilities | | 17,853,369 | 5.96% | | 18,222,690 | 6.66% |
| Construction and engineering | | 17,852,292 | 5.96% | | 18,683,167 | 6.82% |
| Restaurants | | 17,811,015 | 5.94% | | 17,639,081 | 6.44% |
| Manufacturing — mechanical products | | 15,081,138 | 5.03% | | 15,494,737 | 5.66% |
| Data processing and outsourced services | | 13,289,816 | 4.44% | | 13,697,302 | 5.00% |
| Media — Advertising | | 13,099,203 | 4.37% | | 12,516,696 | 4.57% |
| Merchandise display | | 13,074,682 | 4.36% | | 12,799,999 | 4.68% |
| Emulsions manufacturing | | 12,130,945 | 4.05% | | 9,523,464 | 3.48% |
| Air freight and logistics | | 10,799,619 | 3.60% | | — | 0.00% |
| Home furnishing retail | | 10,336,401 | 3.45% | | 10,723,527 | 3.92% |
| Trailer leasing services | | 9,860,940 | 3.29% | | 16,985,473 | 6.20% |
| Capital goods | | 9,766,485 | 3.26% | | 9,775,696 | 3.57% |
| Food distributors | | 8,979,657 | 3.00% | | 11,994,788 | 4.38% |
| Entertainment — theaters | | 7,541,582 | 2.52% | | 11,777,270 | 4.30% |
| Leisure facilities | | 7,144,897 | 2.38% | | 7,494,930 | 2.74% |
| Building products | | 6,158,908 | 2.06% | | 6,975,311 | 2.55% |
| Environmental & facilities services | | 6,122,236 | 2.04% | | 8,859,477 | 3.24% |
| Housewares & specialties | | 5,691,107 | 1.90% | | 11,407,776 | 4.17% |
| Household products/ specialty chemicals | | 4,448,661 | 1.49% | | 3,626,497 | 1.33% |
| Lumber products | | — | 0.00% | | 4,384,489 | 1.60% |
| **Total** | **$** | **299,611,137** | **100.00%** | **$** | **273,759,154** | **100.00%** |

The Company's investments are generally in small and mid-sized companies in a variety of industries. At September 30, 2009 and September 30, 2008, the Company had no investments that were greater than 10% of the total investment portfolio at fair value. Income, consisting of interest, dividends, fees, other investment income, and realization of gains or losses on equity interests, can fluctuate upon repayment of an investment or sale of an equity interest and in any given year can be highly concentrated among several investments. For the years ended September 30, 2009 and September 30, 2008, no individual investment produced income that exceeded 10% of investment income.

**Note 4. Unearned Fee Income — Debt Origination Fees**

The Company capitalizes upfront debt origination fees received in connection with financings and the unearned income from such fees is accreted into fee income over the life of the financing. In accordance with ASC 820, the net balance is reflected as unearned income in the cost and fair value of the respective investments.

Accumulated unearned fee income activity for the years ended September 30, 2009 and 2008 was as follows:

| | Year Ended September 30, 2009 | Year Ended September 30, 2008 |
|---|---|---|
| Beginning accumulated unearned fee income balance | $ 5,236,265 | $ 1,566,293 |
| Net fees received | 3,895,559 | 5,478,011 |
| Unearned fee income recognized | (3,542,194) | (1,808,039) |
| **Ending unearned fee income balance** | **$ 5,589,630** | **$ 5,236,265** |

**Note 5. Share Data and Stockholders' Equity**

Effective January 2, 2008, the Partnership merged with and into the Company. At the time of the merger, all outstanding partnership interests in the Partnership were exchanged for 12,480,972 shares of common stock of the Company. An additional 26 fractional shares were payable to the stockholders in cash.

On June 17, 2008, the Company completed an initial public offering of 10,000,000 shares of its common stock at the offering price of $14.12 per share. The net proceeds totaled approximately $129.5 million net of investment banking commissions of approximately $9.9 million and offering costs of approximately $1.8 million.

On July 21, 2009, the Company completed a follow-on public offering of 9,487,500 shares of its common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $9.25. The net proceeds totaled approximately $82.7 million after deducting investment banking commissions of approximately $4.4 million and offering costs of $0.7 million.

On September 25, 2009, the Company completed a follow-on public offering of 5,520,000 shares of its common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $10.50. The net proceeds totaled approximately $54.9 million after deducting investment banking commissions of approximately $2.8 million and offering costs of approximately $0.3 million.

No dilutive instruments were outstanding and reflected in the Company's Consolidated Balance Sheet at September 30, 2009. The following table sets forth the weighted average shares outstanding for computing basic and diluted earnings per common share for the years ended September 30, 2009 and September 30, 2008.

| | Year Ended September 30, 2009 | Year Ended September 30, 2008 |
|---|---|---|
| Weighted average common shares outstanding, basic and diluted | 24,654,325 | 15,557,469 |

On December 13, 2007, the Company adopted a dividend reinvestment plan that provides for reinvestment of its distributions on behalf of its stockholders, unless a stockholder elects to receive cash. As a result, if the Board of Directors authorizes, and the Company declares, a cash distribution, then its stockholders who have not "opted out" of the dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of common stock, rather than receiving the cash distributions. On May 1, 2008, the Company declared a dividend of $0.30 per share to stockholders of record on May 19, 2008. On June 3, 2008, the Company paid a cash dividend of approximately $1.9 million and issued 133,317 common shares totaling approximately $1.9 million under the dividend reinvestment plan. On August 6, 2008, the Company declared a dividend of $0.31 per share to stockholders of record on September 10, 2008. On September 26, 2008, the Company paid a cash dividend of $5.1 million, and purchased and distributed a total of 196,786 shares ($1.9 million) of its common stock under the dividend reinvestment plan. On December 9, 2008, the Company declared a dividend of $0.32 per share to stockholders of record on December 19, 2008, and a $0.33 per share dividend to stockholders of record on December 30, 2008. On December 18, 2008, the Company declared a special dividend of $0.05 per share to stockholders of record on December 30, 2008. On December 29, 2008, the Company paid a cash dividend of approximately $6.4 million and issued 105,326 common shares totaling approximately $0.8 million under the dividend reinvestment plan. On January 29, 2009, the Company paid a cash dividend of approximately $7.6 million and issued 161,206 common shares totaling approximately $1.0 million under the dividend reinvestment plan. On April 14, 2009, the Company declared a dividend of $0.25 per share to stockholders of record as of May 26, 2009. On June 25, 2009, the Company paid a cash dividend of approximately $5.6 million and issued 11,776 common shares totaling approximately $0.1 million under the dividend reinvestment plan. On August 3, 2009, the Company declared a dividend of $0.25 per share to stockholders of record as of September 8, 2009. On September 25, 2009 the Company paid a cash dividend of approximately $7.5 million and issued 56,890 common shares totaling approximately $0.6 million under the dividend reinvestment plan.

In October 2008, the Company's Board of Directors authorized a stock repurchase program to acquire up to $8 million of the Company's outstanding common stock. Stock repurchases under this program may be made through the open market at times and in such amounts as Company management deems appropriate. The stock repurchase program expires December 2009 and may be limited or terminated by the Board of Directors. In October 2008, the Company repurchased 78,000 shares of common stock on the open market as part of its share repurchase program.

**Note 6. Line of Credit**

On November 16, 2009,Fifth Street Funding, LLC, a wholly-owned bankruptcy remote, special purpose subsidiary ("Funding") and the Company, entered into a Loan and Servicing Agreement ("Agreement"), with respect to a three-year credit facility ("Facility") with Wachovia Bank, National Association ("Wachovia"), Wells Fargo Securities, LLC, as administrative agent ("Wells Fargo"), each of the additional institutional and conduit lenders party thereto from time to time, and each of the lender agents party thereto from time to time, in the amount of $50 million with an accordion feature, which will allow for potential future expansion of the Facility up to $100 million. The Facility is secured by all of the assets of Funding, and all of the Company's equity interest in Funding. The Facility bears interest at LIBOR plus 4.00% per annum and has a maturity date of November 16, 2012. The Facility may be extended for up to two additional years upon the mutual consent of Wells Fargo and each of the lender parties thereto. The Company intends to use the net proceeds of the Facility to fund a portion of its loan origination activities and for general corporate purposes.

In connection with the Facility, the Company concurrently entered into (i) a Purchase and Sale Agreement with Funding, pursuant to which the Company will sell to Funding certain loan assets it has originated or acquired, or will originate or acquire and (ii) a Pledge Agreement with Wells Fargo Bank, National Association, pursuant to which the Company pledged all of its equity interests in Funding as security for the payment of Funding's obligations under the Agreement and other documents entered into in connection with the Facility.

The Agreement and related agreements governing the Facility required both Funding and the Company to, among other things (i) make representations and warranties regarding the collateral as well as each of their businesses, (ii) agree to certain indemnification obligations, and (iii) comply with various covenants, servicing procedures, limitations on acquiring and disposing of assets, reporting requirements and other customary requirements for similar credit facilities. The Facility documents also included usual and customary default provisions such as the failure to make timely payments under the Facility, a change in control of Funding, and the failure by Funding or the Company to materially perform under the Agreement and related agreements governing the Facility, which, if not complied with, could accelerate repayment under the Facility, thereby materially and adversely affecting the Company's liquidity, financial condition and results of operations.

Each loan origination under the Facility is subject to the satisfaction of certain conditions. The Company cannot assure you that Funding will be able to borrow funds under the Facility at any particular time or at all.

On January 15, 2008, the Company entered into a $50 million secured revolving credit facility with the Bank of Montreal, at a rate of LIBOR plus 1.5%, with a one year maturity date. The credit facility was secured by the Company's existing investments. On December 30, 2008, Bank of Montreal renewed the Company's $50 million credit facility. The terms included a 50 basis points commitment fee, an interest rate of LIBOR +3.25% and a term of 364 days. The Company gave notice of termination, effective September 16, 2009, to Bank of Montreal with respect to this revolving credit facility.

Prior to the merger of the Partnership with and into the Company, the Partnership entered into a $50 million unsecured, revolving line of credit with Wachovia Bank, N.A. ("Loan Agreement") which had a final maturity date of April 1, 2008. Borrowings under the Loan Agreement were at a variable interest rate of LIBOR plus 0.75% per annum. In connection with the Loan Agreement, the General Partner, a former member of the Board of Directors of Fifth Street Finance Corp. and an officer of Fifth Street Finance Corp. (collectively "guarantors"), entered into a guaranty agreement (the "Guaranty") with the Partnership. Under the terms of the Guaranty, the guarantors agreed to guarantee the Partnership's obligations under the Loan Agreement. In consideration for the guaranty, the Partnership was obligated to pay a former member of the Board of Directors of Fifth Street Finance Corp. a fee of $41,667 per month so long as the Loan Agreement was in effect. For the period from October 1, 2007 to November 27, 2007, the Partnership paid $83,333 under this Guaranty. In October 2007, the Partnership drew $28.25 million under the Loan Agreement. These loans were paid back in full with interest in November 2007. As of November 27, 2007, the Partnership terminated the Loan Agreement and the Guaranty.

Interest expense for the years ended September 30, 2009 and 2008 and the period ended September 30, 2007, was $636,901, $917,043 and $522,316, respectively.

**Note 7. Interest and Dividend Income**

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. In accordance with the Company's policy, accrued interest is evaluated periodically for collectibility. The Company stops accruing interest on investments when it is determined that interest is no longer collectible. Distributions from portfolio companies are recorded as dividend income when the distribution is received.

The Company holds debt in its portfolio that contains a payment-in-kind ("PIK") interest provision. The PIK interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. The Company generally ceases accruing PIK interest if there is insufficient value to support the accrual or if the Company does not expect the portfolio company to be able to pay all principal and interest due. The Company's decision to cease accruing PIK interest involves subjective judgments and determinations based on available information about a particular portfolio company, including whether the portfolio company is current with respect to its payment of principal and interest on its loans and debt securities; monthly and quarterly financial statements and financial projections for the portfolio company; the Company's assessment of the portfolio company's business development success, including product development, profitability and the portfolio company's overall adherence to its business plan; information obtained by the Company in connection with periodic formal update interviews with the portfolio company's management and, if appropriate, the private equity sponsor; and information about the general economic and market conditions in which the portfolio company operates. Based on this and other information, the Company determines whether to cease accruing PIK interest on a loan or debt security. The Company's determination to cease accruing PIK interest on a loan or debt security is generally made well before the Company's full write-down of such loan or debt security.

Accumulated PIK interest activity for the years ended September 30, 2009 and September 30, 2008 was as follows:

| | September 30, 2009 | September 30, 2008 |
|---|---|---|
| PIK balance at beginning of period | $ 5,367,032 | $ 588,795 |
| Gross PIK interest accrued | 8,853,636 | 4,897,398 |
| Accumulated deferred cash interest | 243,953 | — |
| PIK income reserves | (1,398,347) | — |
| Deferred cash interest income reserves | (243,953) | — |
| PIK interest received in cash | (428,140) | (114,412) |
| Loan exits and other PIK adjustments | (334,703) | (4,749) |
| **PIK balance at end of period** | **$ 12,059,478** | **$ 5,367,032** |

Two investments did not pay all of their scheduled monthly cash interest payments for the period ended September 30, 2009. As of September 30, 2009, the Company had stopped accruing PIK interest and original issue discount ("OID") on five investments, including the two investments that had not paid all of their scheduled monthly cash interest payments. At September 30, 2008, no loans or debt securities were on non-accrual status.

Income non-accrual amounts for the year ended September 30, 2009 were as follows:

| | |
|---|---|
| Cash interest income | $ 2,938,190 |
| PIK interest income | 1,398,347 |
| OID income | 402,522 |
| **Total** | **$ 4,739,059** |

**Note 8. Taxable/Tax Distributable Income and Dividend Distributions**

Taxable income differs from net increase (decrease) in net assets resulting from operations primarily due to: (1) unrealized appreciation (depreciation) on investments, as investment gains and losses are not included in taxable income until they are realized; (2) origination fees received in connection with investments in portfolio companies, which are amortized into interest income over the life of the investment for book purposes, are treated as taxable income upon receipt; (3) organizational and deferred offering costs; (4) recognition of interest income on certain loans; and (5) income or loss recognition on exited investments.

At September 30, 2009, the Company has a net loss carryforward of $1.6 million to offset net capital gains, to the extent provided by federal tax law. The capital loss carryforward will expire in the Company's tax year ending September 30, 2017.

Listed below is a reconciliation of “net increase in net assets resulting from operations” to taxable income for the year ended September 30, 2009.

| | |
|---|---|
| Net increase in net assets resulting from operations | $ 6,194,000 |
| Net change in unrealized depreciation from investments | 10,795,000 |
| Book/tax difference due to deferred loan origination fees, net | 353,000 |
| Book/tax difference due to organizational and offering costs | (87,000) |
| Book/tax difference due to interest income on certain loans | 3,394,000 |
| Book/tax difference due to capital loss carryforward | 1,645,000 |
| Other book-tax differences | (13,000) |
| **Taxable/Tax Distributable Income(1)** | **$ 22,281,000** |

(1) The Company’s taxable income for 2009 is an estimate and will not be finally determined until the Company files its tax return for the fiscal year ended September 30, 2009. Therefore, the final taxable income may be different than the estimate.

As of September 30, 2009, the components of accumulated undistributed income on a tax basis were as follows:

| | |
|---|---|
| Undistributed ordinary income, net (RIC status) | $ 862,000 |
| Unrealized losses, net | (27,621,000) |
| Accumulated partnership taxable income not subject to distribution | 6,236,000 |
| Other book-tax differences | (9,290,000) |

The Company uses the asset and liability method to account for its taxable subsidiaries’ income taxes. Using this method, the Company recognizes deferred tax assets and liabilities for the estimated future tax effects attributable to temporary differences between financial reporting and tax bases of assets and liabilities. In addition, the Company recognizes deferred tax benefits associated with net operating carry forwards that it may use to offset future tax obligations. The Company measures deferred tax assets and liabilities using the enacted tax rates expected to apply to taxable income in the years in which it expects to recover or settle those temporary differences. The Company has recorded a deferred tax asset for the difference in the book and tax basis of certain equity investments and tax net operating losses held by its taxable subsidiaries of $1.4 million. However, this amount has been fully offset by a valuation allowance of $1.4 million, since it is more likely than not that these deferred tax assets will not be realized.

Distributions to stockholders are recorded on the declaration date. The Company is required to distribute annually to its stockholders at least 90% of its net ordinary income and net realized short-term capital gains in excess of net realized long-term capital losses for each taxable year in order to be eligible for the tax benefits allowed to a RIC under Subchapter M of the Code. The Company anticipates paying out as a dividend all or substantially all of those amounts. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based on management’s estimate of the Company’s annual taxable income. Based on that, a dividend is declared and paid each quarter. The Company maintains an “opt out” dividend reimbursement plan for its stockholders.

To date, the Company's Board of Directors declared the following distributions:

| Dividend Type | Date Declared | Record Date | Payment Date | Amount |
|---|---|---|---|---|
| Quarterly | 5/1/2008 | 5/19/2008 | 6/3/2008 | $0.30 |
| Quarterly | 8/6/2008 | 9/10/2008 | 9/26/2008 | $0.31 |
| Quarterly | 12/9/2008 | 12/19/2008 | 12/29/2008 | $0.32 |
| Quarterly | 12/9/2008 | 12/30/2008 | 1/29/2009 | $0.33 |
| Special | 12/18/2008 | 12/30/2008 | 1/29/2009 | $0.05 |
| Quarterly | 4/14/2009 | 5/26/2009 | 6/25/2009 | $0.25 |
| Quarterly | 8/3/2009 | 9/8/2009 | 9/25/2009 | $0.25 |

For income tax purposes, the Company estimates that these distributions will be composed entirely of ordinary income, and will be reflected as such on the Form 1099-DIV for the calendar year 2009. To date, the Company's operations have resulted in no long-term capital gains or losses. The Company anticipates declaring further distributions to its stockholders to meet the RIC distribution requirements.

**Note 9. Realized Gains or Losses from Investments and Net Change in Unrealized Appreciation or Depreciation from Investments**

Realized gains or losses are measured by the difference between the net proceeds from the sale or redemption and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and includes investments written-off during the period, net of recoveries. Net change in unrealized appreciation or depreciation from investments reflects the net change in the valuation of the portfolio pursuant to the Company's valuation guidelines and the reclassification of any prior period unrealized appreciation or depreciation on exited investments.

During the year ended September 30, 2009 the Company exited its investment in American Hardwoods Industries, LLC and recorded a realized loss of $10.4 million, and recorded a $4.0 million realized loss on one of its portfolio company investments in connection with the determination that the investment was permanently impaired based on, among other things, analysis of changes in the portfolio company's business operations and prospects. During the year ended September 30, 2008 the Company sold its equity investment in Filet of Chicken and realized a gain of approximately $62,000.

**Note 10. Concentration of Credit Risks**

The Company places its cash in financial institutions, and at times, such balances may be in excess of the FDIC insured limit.

**Note 11. Related Party Transactions**

The Company has entered into an investment advisory agreement with the Investment Adviser. Under the investment advisory agreement, the Company pays the Investment Adviser a fee for its services under the investment advisory agreement consisting of two components-a base management fee and an incentive fee.

***Base management Fee***

The base management fee is calculated at an annual rate of 2% of the Company's gross assets, which includes any borrowings for investment purposes. The base management fee is payable quarterly in arrears, and will be calculated based on the value of the Company's gross assets at the end of each fiscal quarter, and appropriately adjusted on a pro rata basis for any equity capital raises or repurchases during such quarter. The base management fee for any partial month or quarter will be appropriately prorated.

In addition to the proration described above, for the quarter ended September 30, 2009, the Investment Advisor waived approximately $172,000 of the base management fee on a portion of the proceeds raised in connection with the equity offerings the Company completed in 2009 and which were held in cash or cash equivalents at September 30, 2009.

Prior to the merger of the Partnership with and into the Company, which occurred on January 2, 2008, the Partnership paid the Investment Adviser a management fee (the "Management Fee"), subject to the adjustments as described in the Partnership Agreement, for investment advice equal to an annual rate of 2% of the aggregate capital commitments of all limited partners (other than affiliated limited partners) for each fiscal year (or portion thereof) provided, however, that commencing on the earlier of (1) the first day of the fiscal quarter immediately following the expiration of the commitment period, or (2) if a temporary suspension period became permanent in accordance with the Partnership Agreement, on the first day of the fiscal quarter immediately following the date of such permanent suspension, the Management Fee for each subsequent twelve month period was equal to 1.75% of the NAV of the Partnership (exclusive of the portion thereof attributable to the General Partner and the affiliated limited partners, based upon respective capital percentages).

For the years ended September 30, 2009 and 2008 and the period ended September 30, 2007, base management fees were approximately $5.9 million, $4.3 million and $1.6 million, respectively.

***Incentive Fee***

The incentive fee portion of the investment advisory agreement has two parts. The first part is calculated and payable quarterly in arrears based on the Company's "Pre-Incentive Fee Net Investment Income" for the immediately preceding fiscal quarter. For this purpose, "Pre-Incentive Fee Net Investment Income" means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies) accrued during the fiscal quarter, minus the Company's operating expenses for the quarter (including the base management fee, expenses payable under the Company's administration agreement with FSC, Inc., and any interest expense and dividends paid on any issued and outstanding indebtedness or preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that the Company has not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of the Company's net assets at the end of the immediately preceding fiscal quarter, will be compared to a "hurdle rate" of 2% per quarter (8% annualized), subject to a "catch-up" provision measured as of the end of each fiscal quarter. The Company's net investment income used to calculate this part of the incentive fee is also included in the amount of its gross assets used to calculate the 2% base management fee. The operation of the incentive fee with respect to the Company's Pre-Incentive Fee Net Investment Income for each quarter is as follows:

- no incentive fee is payable to the Investment Adviser in any fiscal quarter in which the Company's Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 2% (the "preferred return" or "hurdle").
- 100% of the Company's Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than or equal to 2.5% in any fiscal quarter (10% annualized) is payable to the Investment Adviser. The Company refers to this portion of its Pre-Incentive Fee Net Investment Income (which exceeds the hurdle rate but is less than or equal to 2.5%) as the "catch-up." The "catch-up" provision is intended to provide the Investment Adviser with an incentive fee of 20% on all of the Company's Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when the Company's Pre-Incentive Fee Net Investment Income exceeds 2.5% in any fiscal quarter.

- 20% of the amount of the Company's Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.5% in any fiscal quarter (10% annualized) is payable to the Investment Adviser once the hurdle is reached and the catch-up is achieved (20% of all Pre-Incentive Fee Net Investment Income thereafter is allocated to the Investment Adviser).

The second part of the incentive fee will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the investment advisory agreement, as of the termination date), commencing on September 30, 2008, and will equal 20% of the Company's realized capital gains, if any, on a cumulative basis from inception through the end of each fiscal year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees, provided that, the incentive fee determined as of September 30, 2008 will be calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation from inception.

For the years ended September 30, 2009 and 2008, incentive fees were approximately $7.8 million and $4.1 million, respectively. There were no incentive fees paid for the period ended September 30, 2007.

***Transaction fees***

Prior to the merger of the Partnership with and into the Company, which occurred on January 2, 2008, the Investment Adviser received 20% of transaction origination fees. For the year ended September 30, 2008 and the period ended September 30, 2007, payments for the transaction fees paid to the Investment Adviser amounted to approximately $0.2 million and $0.4 million, respectively, and were expensed as incurred.

***Indemnification***

The investment advisory agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of their respective duties or by reason of the reckless disregard of their respective duties and obligations, the Company's Investment Adviser and its officers, managers, agents, employees, controlling persons, members (or their owners) and any other person or entity affiliated with it, are entitled to indemnification from the Company for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of the Investment Adviser's services under the investment advisory agreement or otherwise as the Company's Investment Adviser.

***Administration Agreement***

The Company has also entered into an administration agreement with FSC, Inc. under which FSC, Inc. provides administrative services for the Company, including office facilities and equipment, and clerical, bookkeeping and recordkeeping services at such facilities. Under the administration agreement, FSC, Inc. also performs or oversees the performance of the Company's required administrative services, which includes being responsible for the financial records which the Company is required to maintain and preparing reports to the Company's stockholders and reports filed with the SEC. In addition, FSC, Inc. assists the Company in determining and publishing the Company's net asset value, overseeing the preparation and filing of the Company's tax returns and the printing and dissemination of reports to the Company's stockholders, and generally overseeing the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. For providing these services, facilities and personnel, the Company reimburses FSC, Inc. the allocable portion of overhead and other expenses incurred by FSC, Inc. in performing its obligations under the administration agreement, including rent and the Company's allocable portion of the costs of compensation and related expenses of the Company's chief financial officer and his staff, and the staff of our chief compliance officer. FSC, Inc. may also provide, on the Company's behalf, managerial assistance to the Company's portfolio companies. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For the year ended September 30, 2009, the Company incurred administrative expenses of approximately $1.3 million. At September 30, 2009, approximately $704,000 was included in Due to FSC, Inc. in the Consolidated Balance Sheets.

**Note 12. Financial Highlights**

| Per Share Data(4): | Year Ended September 30, 2009(1) | Year Ended September 30, 2008(1)(2) | For the Period February 15, 2007 (Inception) through September 30, 2007(1)(3) |
|---|---|---|---|
| Net asset value at beginning of period | $ 13.02 | $ 8.56 | NA |
| Capital contributions from partners | — | 2.94 | NA |
| Capital withdrawals by partners | — | (0.12) | NA |
| Dividends declared and paid | (1.20) | (0.61) | NA |
| Issuance of common stock | (1.21) | 2.11 | NA |
| Repurchases of common stock | (0.02) | — | NA |
| Net investment income | 1.27 | 0.89 | NA |
| Unrealized depreciation on investments | (0.44) | (0.75) | NA |
| Realized loss on investments | (0.58) | — | NA |
| **Net asset value at end of period** | **$ 10.84** | **$ 13.02** | **NA** |
| Stockholders’ equity at beginning of period | $ 294,335,839 | $ 106,815,695 | — |
| Stockholders’ equity at end of period | $ 410,556,071 | $ 294,335,839 | $ 106,815,695 |
| Average stockholders’ equity(5) | $ 291,401,218 | $ 205,932,850 | $ 30,065,414 |
| Ratio of total expenses, excluding interest and line of credit guarantee expenses, to average stockholders’ equity(6) | 6.12% | 5.86% | 8.53% |
| Ratio of total expenses to average stockholders’ equity(6) | 6.34% | 6.35% | 11.10% |
| Ratio of net increase in net assets resulting from operations to ending stockholders’ equity(6) | 1.51% | 1.11% | 1.01% |
| Ratio of unrealized depreciation on investments to ending stockholders’ equity(6) | (2.63)% | (5.76)% | 0.12% |
| Total return to stockholders based on average stockholders’ equity(6) | 2.13% | 1.58% | 3.60% |
| Weighted average outstanding debt(7) | $ 5,019,178 | $ 11,887,427 | $ 12,155,296 |

(1) The amounts reflected in the financial highlights above represent net assets, income and expense ratios for all stockholders.

(2) Per share data for the year ended September 30, 2008 presumes the issuance of the 12,480,972 common shares at October 1, 2007 which were actually issued on January 2, 2008 in connection with the merger described above.

(3) Per share data for the period February 15, 2007 (inception) through September 30, 2007 reflects the fact that there was no established public trading market for the Company’s common stock prior to October 1, 2007.

(4) Based on actual shares outstanding at the end of the corresponding period or weighted average shares outstanding for the period, as appropriate.

(5) Calculated based upon the daily weighted average stockholders’ equity for the period.

(6) Interim periods are not annualized.

(7) Calculated based upon the daily weighted average of loans payable for the period.

**Note 13. Preferred Stock**

The Company’s restated certificate of incorporation had not authorized any shares of preferred stock. However, on April 4, 2008, the Company’s Board of Directors approved a certificate of amendment to its restated certificate of incorporation reclassifying 200,000 shares of its common stock as shares of non-convertible, non-participating preferred stock, with a par value of $0.01 and a liquidation preference of $500 per share (“Series A Preferred Stock”) and authorizing the issuance of up to 200,000 shares of Series A Preferred Stock. The Company’s certificate of amendment was also approved by the holders of a majority of the shares of its outstanding common stock through a written consent first solicited on April 7, 2008. On April 24, 2008, the Company filed its certificate of amendment and on April 25, 2008, it sold 30,000 shares of Series A Preferred Stock to a company controlled by Bruce E. Toll, one of the Company’s directors at that time. For the three months ended June 30, 2008, the Company paid dividends of approximately $234,000 on the 30,000 shares of Series A Preferred Stock. The dividend payment is considered and included in interest expense for accounting purposes since the preferred stock has a mandatory redemption feature. On June 30, 2008, the Company redeemed 30,000 shares of Series A Preferred Stock at the mandatory redemption price of 101% of the liquidation preference or $15,150,000. The $150,000 is considered and included in interest expense for accounting purposes due to the stock’s mandatory redemption feature. No preferred stock is currently outstanding.

**Note 14. Subsequent Events**

On October 2, 2009, Storyteller Theaters Corporation drew $250,000 on its line of credit. Prior to the draw, the Company’s unfunded commitment was $1.75 million.

On October 8, 2009, the Company funded $153,972 of its previously unfunded limited partnership interest in Riverside Fund IV, LP upon receipt of the first closing notice of the fund.

On October 16, 2009, Elephant & Castle, Inc. repaid $3.9 million of principal outstanding under its term loan. The balance of the loan was assumed by Repechage Investments Limited (“RIL”), the equity sponsor’s holding company. The Company received a first lien on the assets of RIL and a guaranty on the balance of its debt.

On October 21, 2009, the Company invested an additional $6.0 million of second lien debt in Western Emulsions, Inc., an existing portfolio company, to support its growth initiatives.

On October 26, 2009, the Company executed a non-binding term sheet for $41.25 million for its portion of an investment in a post-secondary education company. The proposed terms of this investment include a $10 million revolver at Libor+950 with a Libor floor of 3% and a $31.25 million first lien term loan at Libor+950 with a Libor floor of 3%. This is a senior secured first lien facility with a scheduled maturity of five years. This proposed investment is subject to the completion of the Company’s due diligence, approval process and documentation, and may not result in a completed investment. The Company may syndicate a portion of this investment.

On November 6, 2009, the Company executed a non-binding term sheet for $34.0 million for an investment in a specialty chemical distributor. The proposed terms of this investment include a $10 million revolver at 10%, a $10 million Term Loan A at 10%, and a $14 million Term Loan B at 12%. This is a first lien facility with a scheduled maturity of five years. This proposed investment is subject to the completion of the Company’s due diligence, approval process and documentation, and may not result in a completed investment. The Company may syndicate a portion of this investment.

On November 12, 2009, the Company declared a $0.27 per share dividend to common stockholders of record as of December 10, 2009. The dividend is payable December 29, 2009.

On November 12, 2009, the Company executed a letter agreement for the potential sale of its second lien term loan to CPAC, Inc. and/or its 2,297 shares of common stock of CPAC, Inc. The Company received a non-refundable deposit of $150,000 in connection with the letter agreement.

On November 16, 2009, the Company entered into a three-year credit facility with Wachovia in the amount of $50 million with an accordion feature, which will allow for potential future expansion of the facility up to $100 million, and will bear interest at a rate of LIBOR plus 4% per annum. See “Note 6. Line of Credit” for a more detailed discussion of the credit facility.

On November 23, 2009, the Company received a cash payment in the amount of $0.1 million, representing payment in full of all amounts due in connection with the cancellation of the Company's loan agreement with American Hardwoods Industries Holdings, LLC on August 3, 2009.

On December 1, 2009, the Company executed a non-binding term sheet for $28.75 million for an investment in a specialty food company. The proposed terms of this investment include a $2.0 million revolver at 10%, a $10 million Term Loan A at 10%, and a $16.75 million Term Loan B at 12% cash and 3% PIK. This is a first lien facility with a scheduled maturity of five years. This proposed investment is subject to the completion of the Company's due diligence, approval process and documentation, and may not result in a completed investment. The Company may syndicate a portion of this investment.

On December 3, 2009, the Company executed a non-binding term sheet for $57.3 million for an investment in a contract manufacturer for medical device original equipment manufacturers. The proposed terms of this investment include a $4.0 million revolver at Libor+700 with a 3% Libor floor, a $33 million Term Loan A at Libor+700 with a 3% Libor floor, and a $20.3 million Term Loan B at 12% cash interest and 2% PIK. This is a first lien loan facility with a scheduled maturity of five years. This proposed investment is subject to the completion of the Company's due diligence, approval process and documentation, and may not result in a completed investment. The Company may syndicate a portion of this investment.

On December 4, 2009, the Company executed a non-binding term sheet for $34.0 million for an investment in a franchisor of consumer services. The proposed terms of this investment include a $2.0 million revolver at Libor+650 with a 3% Libor floor, a $10 million first lien Term Loan A at Libor+675 with a 3% Libor floor, and a $22.0 million Term Loan B at 12% cash and 2% PIK. This is a first lien loan facility with a scheduled maturity of five years. This proposed investment is subject to the completion of the Company's due diligence, approval process and documentation, and may not result in a completed investment. The Company may syndicate a portion of this investment.

## Fifth Street Finance Corp.

### Schedule of Investments in and Advances to Affiliates

| Portfolio Company/Type of Investment(1) | Amount of Interest, Fees or Dividends Credited in Income(2) | Fair Value at October 1, 2008 | Gross Additions(3) | Gross Reductions(4) | Fair Value at September 30, 2009 |
|---|---|---|---|---|---|
| **Control Investments** | | | | | |
| **Lighting by Gregory, LLC** | | | | | |
| First Lien Term Loan A, 9.75% due 2/28/2013 | $ — | $ — | $ 3,044,732 | $ (625,105) | $ 2,419,627 |
| First Lien Term Loan B, 14.5% due 2/28/2013 | — | — | 4,138,390 | (866,910) | 3,271,480 |
| 97.38% membership interest | — | — | 300,000 | (300,000) | — |
| **Total Control Investments** | **$ —** | **$ —** | **$ 7,483,122** | **$ (1,792,015)** | **$ 5,691,107** |
| **Affiliate Investments** | | | | | |
| **O'Currance, Inc.** | | | | | |
| First Lien Term Loan A, 16.875% due 3/21/2012 | 1,856,153 | 9,888,488 | 511,758 | (213,745) | 10,186,501 |
| First Lien Term Loan B, 16.875% due 3/21/2012 | 573,147 | 3,581,245 | 367,826 | (1,030,000) | 2,919,071 |
| 1.75% Preferred Membership Interest in O'Currance Holding Co., LLC | — | 130,413 | — | — | 130,413 |
| 3.3% Membership Interest in O'Currance Holding Co., LLC | — | 97,156 | — | (43,325) | 53,831 |
| **CPAC, Inc.** | | | | | |
| Second Lien Term Loan, 17.5% due 4/13/2012 | 1,318,008 | 3,626,497 | 4,932,164 | (4,110,000) | 4,448,661 |
| 2,297 shares of Common Stock | — | — | — | — | — |
| **Elephant & Castle, Inc.** | | | | | |
| Second Lien Term Loan, 15.5% due 4/20/2012 | 1,472,389 | 7,145,198 | 449,845 | (283,439) | 7,311,604 |
| 7,500 shares of Series A Preferred Stock | — | 196,386 | 296,083 | — | 492,469 |
| **MK Network, LLC** | | | | | |
| First Lien Term Loan A, 13.5% due 6/1/2012 | 1,462,272 | 9,115,152 | 161,959 | (243,285) | 9,033,826 |
| First Lien Term Loan B, 17.5% due 6/1/2012 | 872,070 | — | 5,581,544 | (418,000) | 5,163,544 |
| First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010 | 17,111 | (11,113) | 17,113 | (6,000) | — |
| 11,030 Membership Units | — | 760,441 | 186,780 | (947,221) | — |
| **Rose Tarlow, Inc.** | | | | | |
| First Lien Term Loan, 12% due 1/25/2014 | 1,128,302 | 9,796,648 | 177,084 | (9,973,732) | — |
| First Lien Revolver, LIBOR+4% (9% floor) due 1/25/2014 | 123,460 | 323,333 | 1,214,827 | (1,538,160) | — |
| 6.9% membership interest in RTMH Acquisition Company | — | 591,939 | — | (591,939) | — |
| 0.1% membership interest in RTMH Acquisition Company | — | 11,607 | — | (11,607) | — |
| **Martini Park, LLC** | | | | | |
| First Lien Term Loan, 14% due 2/20/2013 | 475,732 | 2,719,236 | 220,000 | (870,933) | 2,068,303 |
| 5% membership interest | — | — | — | — | — |
| **Caregiver Services, Inc.** | | | | | |
| Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013 | 1,263,662 | 9,381,973 | 288,785 | (1,445,358) | 8,225,400 |
| Second Lien Term Loan B, 16.5% due 2/25/2013 | 2,806,310 | 12,811,951 | 1,101,389 | (405,002) | 13,508,338 |
| 1,080,399 shares of Series A Preferred Stock | — | 1,183,867 | 22,732 | — | 1,206,599 |
| **Total Affiliate Investments** | **$ 13,368,616** | **$ 71,350,417** | **$ 15,529,889** | **$ (22,131,746)** | **$ 64,748,560** |
| **Total Control & Affiliate Investments** | **$ 13,368,616** | **$ 71,350,417** | **$ 23,013,011** | **$ (23,923,761)** | **$ 70,439,667** |

This schedule should be read in connection with the Company’s Consolidated Financial Statements, including the Schedules of Investments and Notes to the Consolidated Financial Statements.

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(1) The principal amount and ownership detail as shown in the Consolidated Schedules of Investments.

(2) Represents the total amount of interest, fees and dividends credited to income for the portion of the year an investment was included in the Control or Non-Control/Non-Affiliate categories, respectively.

(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, follow-on Investments and accrued PIK interest, and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation as well as the movement of an existing portfolio company into this category or out of a different category.

(4) Gross reductions include decreases in the cost basis of investment resulting from principal payments or sales and exchanges of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation as well as the movement of an existing portfolio company out of this category and into a different category.

**$500,000,000**

# Fifth Street Finance Corp.

**Common Stock**

**PROSPECTUS**

**[FORM OF PROSPECTUS SUPPLEMENT TO BE USED IN CONJUNCTION WITH FUTURE SECURITIES OFFERINGS]**

The information in this preliminary prospectus supplement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This preliminary prospectus supplement and the accompanying preliminary prospectus are not an offer to sell and are not soliciting offers to buy these securities in any jurisdiction where such offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED , 2010**

**PRELIMINARY PROSPECTUS SUPPLEMENT**
**(to Prospectus dated June , 2010)**

## Shares

# Fifth Street Finance Corp.

## Common Stock

We are offering shares of our common stock, $0.01 par value per share. We are a specialty finance company that lends to and invests in small and mid-sized companies in connection with investments by private equity sponsors. Our investment objective is to maximize our portfolio's total return by generating current income from our debt investments and capital appreciation from our equity investments.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. We are managed by Fifth Street Management LLC, whose six principals collectively have over 50 years, and individually have between four years and 14 years, of experience lending to and investing in small and mid-sized companies, and 2 years of experience managing a business development company.

Our common stock is listed on the New York Stock Exchange under the symbol "FSC." On , 2010, and March 31, 2010, the last reported sale price of our common stock on the New York Stock Exchange was $ and $11.61, respectively. We are required to determine the net asset value per share of our common stock on a quarterly basis. Our net asset value per share of our common stock as of March 31, 2010 was $10.70.

**Investing in our common stock involves a high degree of risk and should be considered highly speculative. See "Risk Factors" beginning on page 14 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in our common stock.**

This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus supplement and the accompanying prospectus before investing and keep them for future reference. We file periodic reports, current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 10 Bank Street, Suite 1210, White Plains, New York 10606 or by telephone at (914) 286-6800 or on our website at *www.fifthstreetfinance.com*. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, 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 *www.sec.gov* that contains information about us.

| | Per Share | Total |
|---|---|---|
| Public offering price | $ | $ |
| Sales load (underwriting discount) | $ | $ |
| Proceeds, before expenses, to us (1) | $ | $ |

(1) We estimate that we will incur approximately $ (or $ per share of the shares sold in this offering) of expenses relating to this offering, resulting in net proceeds, after sales load (underwriting discount) and expenses, to us of approximately $ (or $ per share of the shares sold in this offering).

The underwriters expect to deliver the shares on or about , 2010.

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

We have granted the underwriters an option, exercisable at any time until 30 days after the date of this prospectus supplement, to purchase up to additional shares of our common stock to cover over-allotments of shares.

The date of this prospectus supplement is , 2010.

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### PROSPECTUS SUPPLEMENT



### PROSPECTUS

## ABOUT THIS PROSPECTUS SUPPLEMENT

**You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. Neither this prospectus supplement nor the accompanying prospectus constitutes an offer to sell, or a solicitation of an offer to buy, any shares of our common stock by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information contained in this prospectus supplement and the accompanying prospectus is complete and accurate only as of their respective dates, regardless of the time of their delivery or sale of our common stock. Our financial condition, results of operations and prospects may have changed since those dates. To the extent required by law, we will amend or supplement the information contained in this prospectus supplement and the accompanying prospectus to reflect any material changes to such information subsequent to the date of this prospectus supplement and the accompanying prospectus and prior to the completion of any offering pursuant to this prospectus supplement and the accompanying prospectus.**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from or is additional to the information contained in the accompanying prospectus, you should rely only on the information contained in this prospectus supplement. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading “Available Information” before investing in our common stock.

### Forward-Looking Statements

Information contained in this prospectus supplement and the accompanying prospectus may contain forward-looking statements. In addition, forward-looking statements can generally be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “anticipate,” “estimate,” or “continue” or the negative thereof or other variations thereon or comparable terminology. The matters described in “Risk Factors” in the accompanying prospectus and certain other factors noted throughout this prospectus supplement and the accompanying prospectus constitute cautionary statements identifying important factors with respect to any such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The forward-looking statements contained in this prospectus supplement and the 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. For a list of factors that could affect these forward-looking statements, see “Special Notice Regarding Forward-Looking Statements” in the accompanying prospectus.

## PROSPECTUS SUPPLEMENT SUMMARY

*This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that is important to you. To understand the terms of the common stock offered pursuant to this prospectus supplement and the accompanying prospectus, you should read the entire prospectus supplement and the accompanying prospectus carefully. Together, these documents describe the specific terms of the shares we are offering. You should carefully read the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Consolidated Financial Statements" in the accompanying prospectus. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters' over-allotment option.*

*We commenced operations on February 15, 2007 as Fifth Street Mezzanine Partners III, L.P., a Delaware limited partnership. Effective as of January 2, 2008, Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp., a Delaware corporation. Unless otherwise noted, the terms "we," "us," "our" and "Fifth Street" refer to Fifth Street Mezzanine Partners III, L.P. prior to the merger date and Fifth Street Finance Corp. on and after the merger date. In addition, the terms "Fifth Street Management" and "investment adviser" refer to Fifth Street Management LLC, our external investment adviser.*

**Fifth Street Finance Corp.**

We are a specialty finance company that lends to and invests in small and mid-sized companies in connection with investments by private equity sponsors. We define small and mid-sized companies as those with annual revenues between $25 million and $250 million. Our investment objective is to maximize our portfolio's total return by generating current income from our debt investments and capital appreciation from our equity investments. We are externally managed and advised by Fifth Street Management, whose six principals collectively have over 50 years, and individually have between four years and 14 years, of experience lending to and investing in small and mid-sized companies, and 2 years of experience managing a business development company. Fifth Street Management is an affiliate of Fifth Street Capital LLC, a private investment firm founded and managed by our chief executive officer, and Fifth Street Management's managing partner, Leonard M. Tannenbaum, who has led the investment of over $800 million in small and mid-sized companies, including the investments made by Fifth Street, since 1998.

As of March 31, 2010, we had originated $520.8 million of funded debt and equity investments and our portfolio totaled $460.9 million at fair value and was comprised of 34 investments, 31 of which were in operating companies and three of which were in private equity funds. The three investments in private equity funds represented less than 1% of the fair value of our assets at March 31, 2010. The 31 debt investments in our portfolio as of March 31, 2010 had a weighted average debt to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiple of 3.3x calculated at the time of origination of the investment. The weighted average annual yield of our debt investments as of March 31, 2010 was approximately 15.0%, of which 12.7% represented cash payments and 2.3% represented payment-in-kind, or PIK, interest. PIK interest represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term and recorded as interest income on an accrual basis to the extent such amounts are expected to be collected. For additional information regarding PIK interest and related risks, see "Risk Factors— Risks Relating to Our Business and Structure — We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive" on page 23 of the accompanying prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Revenue Recognition — Payment-in-Kind (PIK) Interest" beginning on page 37 of the accompanying prospectus.

Our investments generally range in size from $5 million to $60 million and are principally in the form of first and second lien debt investments, which may also include an equity component. We are currently focusing our origination efforts on first lien loans. We believe that the risk-adjusted returns from these loans are superior to second lien investments and offer superior credit quality. However, we may choose to originate additional second lien and unsecured loans in the future. As of March 31, 2010, all of our debt investments were secured by first or second priority liens on the assets of our portfolio companies. Moreover, we held equity investments consisting of common stock, preferred stock, or other equity interests in 21 out of 34 portfolio companies as of March 31, 2010.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. As a business development company, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a business development company, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing. See “Regulation — Business Development Company Regulations,” beginning on page 99 of the accompanying prospectus.

We have also elected to be treated for federal income tax purposes as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code, or the Code. See “Material U.S. Federal Income Tax Considerations,” beginning on page 93 of the accompanying prospectus. As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we maintain a wholly-owned subsidiary that is licensed as a small business investment company, or SBIC, and regulated by the Small Business Administration, or the SBA. See “Regulation — Small Business Investment Company Regulations,” beginning on page 102 of the accompanying prospectus. The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. We applied for exemptive relief from the Securities and Exchange Commission, or SEC, to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the 200% asset coverage ratio we are required to maintain under the 1940 Act. Pursuant to the 200% asset coverage ratio limitation, we are permitted to borrow one dollar for every dollar we have in assets less all liabilities and indebtedness not represented by debt securities issued by us or loans obtained by us. For example, as of March 31, 2010, we had approximately $484.4 million in assets less all liabilities and indebtedness not represented by debt securities issued by us or loans obtained by us, which would permit us to borrow up to approximately $484.4 million, notwithstanding other limitations on our borrowings pursuant to our credit facilities.

If we receive an exemption from the SEC for our SBA debt, we will have increased capacity to fund up to $150 million (the maximum amount of SBA-guaranteed debentures an SBIC may currently have outstanding once certain conditions have been met) of investments with SBA-guaranteed debentures in addition to being able to fund investments with borrowings up to the maximum amount of debt that the 200% asset coverage ratio limitation would allow us to incur. As a result, we would, in effect, be permitted to have a lower asset coverage ratio than the 200% asset coverage ratio limitation under the 1940 Act and, therefore, we could have more debt outstanding than assets to cover such debt. For example, we would be able to borrow up to $150 million more than the approximately $484.4 million permitted under the asset coverage ratio limit as of March 31, 2010. For additional information on SBA regulations that affect our access to SBA-guaranteed debentures, see “Risk Factors— Risks Relating to Our Business and Structure — Our SBIC subsidiary’s investment adviser has no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our SBIC subsidiary’s investment adviser’s lack of experience or otherwise, could have an adverse effect on our operations” on page 21 of the accompanying prospectus.

**Our Corporate Information**

Our principal executive offices are located at 10 Bank Street, Suite 1210, White Plains, New York 10606 and our telephone number is (914) 286-6800. We maintain a website on the Internet at *www.fifthstreetfinance.com*. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

**About the Offering**

| | |
|---|---|
| Common stock offered by us | shares |
| Common stock outstanding prior to this offering | shares |
| Common stock to be outstanding after this offering (assuming no exercise of the underwriters' over-allotment option) | shares |
| Over-allotment option | shares |
| Use of proceeds | We intend to use substantially all of the net proceeds from this offering to make investments in small and mid-sized companies in accordance with our investment objectives and strategies described in this prospectus supplement and the accompanying prospectus and for general corporate purposes, including working capital requirements. We may also use a portion of the net proceeds from this offering to repay our outstanding borrowings under our three-year $100 million secured credit facility, or the Wells Fargo facility, with Wells Fargo Bank, National Association. Pending these uses, we will invest the net proceeds primarily in high quality, short-term debt securities, consistent with our business development company election and our election to be taxed as a RIC, at yields significantly below those we expect to earn on investments in small and mid-sized companies. |
| New York Stock Exchange symbol | FSC |
| Investment advisory fees | Fifth Street Management LLC serves as our investment adviser. We pay Fifth Street Management 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 2% of our gross assets, which includes any borrowings for investment purposes. From and after January 1, 2010, our investment adviser permanently waived the portion of the base management fee attributable to cash and cash equivalents (as defined in the notes to our Consolidated Financial Statements in the accompanying prospectus). The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our "Pre-Incentive Fee Net Investment Income" for the immediately preceding quarter, subject to a 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 (or upon termination of the investment advisory agreement) and equals 20% of our "Incentive Fee Capital Gains," which equals our realized capital gains on a cumulative basis from inception through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee. |
| Administration agreement | FSC, Inc. serves as our administrator. We reimburse FSC, Inc. the allocable portion of overhead and other expenses incurred by it in performing its obligations under the administration agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief financial officer and his staff, and the staff of our chief compliance officer. |

| | |
|---|---|
| Distributions | We intend to 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. |
| Taxation | We elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. Accordingly, we generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that we currently distribute to our stockholders. To maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to timely filing the final tax return related to the year which generated such taxable income. See “Material U.S. Federal Income Tax Considerations” in the accompanying prospectus. |
| Risk factors | Your investment in our common stock involves a high degree of risk and should be considered highly speculative. See “Risk Factors” beginning on page 14 of the accompanying prospectus for a discussion of factors you should carefully consider, including the risk of leverage, before investing in our common stock. |
| Conflicts of interest | In the ordinary course of business, the underwriters or their affiliates have engaged and may in the future engage in various financing, commercial banking and investment banking services with, and provide financial advisory services to, us and our affiliates, for which they have received or may in the future receive customary fees and expenses, including acting as underwriters for our equity offerings. |

## 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. 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" or "Fifth Street," or that "we" will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in us.

| | |
|---|---|
| ***Stockholder Transaction Expenses:*** | |
| Sales load (as a percentage of offering price) | % (1) |
| Offering expenses (as a percentage of offering price) | % (2) |
| Dividend reinvestment plan fees | —% (3) |
| Total stockholder transaction expenses (as a percentage of offering price) | % |
| ***Annual Expenses (as a percentage of net assets attributable to common stock):*** | |
| Management fees | 4.84% (4) |
| Interest payments on borrowed funds | 0.49% (5) |
| Other expenses | 1.27% (6) |
| Total annual expenses | 6.60% (7) |

(1) Represents the underwriting discount with respect to the shares of our common stock sold by us in this offering.

(2) The expenses of this offering are estimated to be approximately $ . The offering expenses as a percentage of the offering price of shares to be sold in this offering is based on $ , the last reported sales price of our common stock on the New York Stock Exchange on , 2010. If the underwriters exercise their over-allotment option in full, the offering expenses borne by our common stockholders (as a percentage of the offering price) will be approximately %.

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

(4) Our "management fees" are made up of our base management fee and the incentive fees payable under our investment advisory agreement. The base management fee portion of our "management fees" reflected in the table above is 2.26%, which is calculated based on our net assets (rather than our gross assets). Our base management fee under the investment advisory agreement is based on our gross assets, which includes borrowings for investment purposes. Our investment adviser permanently waived the portion of the base management fee attributable to cash and cash equivalents as of the end of each quarter beginning March 31, 2010. As a result, our base management fee payable from and after such fiscal quarter will be calculated at an annual rate of 2% of our gross assets, including any investments made with borrowings, but excluding any cash and cash equivalents as of the end of each quarter. See "Investment Advisory Agreement — Overview of Our Investment Adviser — Management Fee" in the accompanying prospectus.

The incentive fee portion of our "management fees" is 2.58%. This calculation assumes that annual incentive fees earned by our investment adviser remain consistent with the incentive fees earned by our investment adviser during the quarter ended March 31, 2010. The incentive fee consists of two parts. The first part, which is payable quarterly in arrears, will equal 20% of the excess, if any, of our "Pre-Incentive Fee Net Investment Income" that exceeds a 2% quarterly (8% annualized) hurdle rate, subject to a "catch up" provision measured at the end of each fiscal quarter. The first part of the incentive fee will be computed and paid on income that may include interest that is accrued but not yet received in cash. The operation of the first part of the incentive fee for each quarter is as follows:

- no incentive fee is payable to the investment adviser in any fiscal quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 2% (the "preferred return" or "hurdle").
- 100% 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 or equal to 2.5% in any fiscal quarter (10% annualized) is payable to the investment adviser. We refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle rate but is less than or equal to 2.5%) as the "catch-up." The "catch-up" provision is intended to provide our investment adviser with an incentive fee of

20% on all of our Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when our Pre-Incentive Fee Net Investment Income exceeds 2.5% in any fiscal quarter; and

- 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.5% in any fiscal quarter (10% annualized) is payable to the investment adviser (once the hurdle is reached and the catch-up is achieved, 20% of all Pre-Incentive Fee Net Investment Income thereafter is allocated to the investment adviser).

The second part of the incentive fee equals 20% of our "Incentive Fee Capital Gains," which equals our realized capital gains on a cumulative basis from inception through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The second part of the incentive fee is payable, in arrears, at the end of each fiscal year (or upon termination of the investment advisory agreement, as of the termination date).

(5) "Interest payments on borrowed funds" represent our estimated annual interest payments on borrowed funds for the fiscal year ending September 30, 2010 and assumes weighted average annual debt outstanding of $50 million and an interest rate of 4.3% per annum payable thereon. These estimates relate to borrowings under the Wells Fargo facility, the ING facility and our SBA-guaranteed debentures.

(6) "Other Expenses" are based on estimated amounts for the current fiscal year.

(7) "Total annual expenses" are presented as a percentage of net assets attributable to common stockholders because our common stockholders bear all of our fees and expenses.

***Example***

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage and that our annual operating expenses would remain at the levels set forth in the table above, and that you would pay a sales load of % (the underwriting discount to be paid by us with respect to common stock sold by us in this offering).

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment, assuming a 5% annual return | $ | $ | $ | $ |

**The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown.** While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. In addition, while the example assumes reinvestment of all distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the cash distribution payable to a participant by either (i) the market price per share of our common stock at the close of trading on the payment date fixed by our Board of Directors in the event that we use newly issued shares to satisfy the share requirements of the divided reinvestment plan or (ii) the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased by the administrator of the dividend reinvestment plan in the event that shares are purchased in the open market to satisfy the share requirements of the dividend reinvestment plan, which may be at, above or below net asset value. See "Dividend Reinvestment Plan" in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

**USE OF PROCEEDS**

The net proceeds from our sale of the shares of common stock in this offering are estimated to be approximately $ , or $ if the underwriters' over-allotment option is exercised in full, assuming a public offering price of $ per share (based on the last reported sales price of our common stock on the New York Stock Exchange on , 2010), and after deducting the underwriting discount and estimated offering expenses payable by us. A $0.50 increase (decrease) in the assumed offering price per share would increase (decrease) net proceeds to us from this offering by $ million, assuming the number of shares offered by us as set forth on the cover page of this prospectus supplement remains the same. Any additional proceeds to us resulting from an increase in the public offering price or the number of shares offered pursuant to this prospectus supplement will be used by us as described below.

We intend to use substantially all of the net proceeds from this offering to make investments in small and mid-sized companies in accordance with our investment objectives and strategies described in this prospectus supplement and the accompanying prospectus and for general corporate purposes, including working capital requirements. We may also use the net proceeds from this offering to repay our outstanding borrowings under the Wells Fargo facility. As of , 2010, we had $ million outstanding under the Wells Fargo facility, which was used to make investments. The facility bears interest at a rate of LIBOR plus 3.5% per annum and has a maturity date of May 26, 2013. Pending these uses, we will invest the net proceeds primarily in high quality, short-term debt securities, consistent with our business development company election and our election to be taxed as a RIC, at yields significantly below those we expect to earn on investments in small and mid-sized companies. The management fee payable by us to our investment adviser will not be reduced while our assets are invested in these securities unless such securities constitute cash and cash equivalents (as defined in the notes to our Consolidated Financial Statements). 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 this offering, pending full investment, are held in lower-yielding interest-bearing deposits or other short-term instruments.

## CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2010:

- on an actual basis; and
- on an as adjusted basis to reflect (i) the sale of shares of common stock in this offering, assuming a public offering price of $ per share (based on the last reported sales price of our common stock on the New York Stock Exchange on , 2010), after deducting the underwriting discount and estimated offering expenses payable by us and (ii) the $0.32 dividend we declared on May 3, 2010.

| | As of March 31, 2010 | |
|---|---|---|
| | Actual | As adjusted(1) |
| | (unaudited) | |
| **Cash and cash equivalents** | **$ 23,468,594** | **$** |
| **Long-term debt, including current maturities:** | | |
| Borrowings under credit facilities | — | |
| **Total long-term debt** | **—** | **—** |
| **Stockholders' equity:** | | |
| Common stock, $0.01 par value (150,000,000 shares authorized; shares outstanding actual, shares outstanding as adjusted) | 452,826 | |
| Additional paid-in-capital | 518,621,766 | |
| Net unrealized depreciation on investments | (25,445,142) | |
| Net realized loss on investments | (17,112,797) | |
| Accumulated undistributed net investment income | 7,880,352 | |
| **Total stockholders' equity** | **484,397,005** | |
| **Total capitalization** | **$ 490,844,218** | **$** |

(1) We may change the size of this offering based on demand and market conditions. A $0.50 increase (decrease) in the assumed offering price per share would increase (decrease) net proceeds to us from this offering by $ million, assuming the number of shares offered by us as set forth on the cover page of this prospectus supplement remains the same, after deducting the underwriting discount and estimated expenses payable by us. Any additional proceeds to us resulting from an increase in the public offering price or the number of shares offered pursuant to this prospectus supplement will increase our cash and cash equivalents on an as adjusted basis and will be used as described in “Use of Proceeds.”

## UNDERWRITING

and are acting as joint book-running managers of the offering and as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated , 2010, each underwriter named below severally agrees to purchase the number of shares indicated in the following table:

| Underwriters | Number of Shares |
|---|---|
| | |
| | |
| | |
| Total | |

The underwriters are committed to take and pay for all of the shares being offered, if any are purchased, other than the shares covered by the option described below.

**Over-allotment Option**

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional shares from us. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

**Commissions and Discounts**

The following table shows the per share and total underwriting discounts and commissions to be paid by us to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

| Paid by Fifth Street | No Exercise | Full Exercise |
|---|---|---|
| Per Share | $ | $ |
| Total | $ | $ |

Shares sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus supplement. If all the shares are not sold at the public offering price, the representatives may change the offering price and the other selling terms. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

We estimate that our share of the total expenses of the offering, excluding underwriting discounts, will be approximately $ .

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

**Lock-up Agreements**

We and our officers and directors have agreed with the underwriters, subject to certain exceptions, not to issue, sell, dispose of or hedge any of our common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus supplement continuing through the date days after the date of this prospectus supplement, except with the prior written consent of the representatives.

The -day restricted period described in the preceding paragraph will be automatically extended if: (1) during the last 17 days of the -day restricted period we issue an earnings release or announce material news or a material event; or (2) prior to the expiration of the -day restricted period, we announce that we will release earnings results during the 15-day period following the last day of the -day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release of the announcement of the material news or material event.

**Price Stabilizations and Short Positions**

In connection with the offering, , on behalf of the underwriters, may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of our stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of our common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

**Potential Conflicts of Interest**

In the ordinary course of business, the underwriters or their affiliates have engaged and may in the future engage in various financing, commercial banking and investment banking services with, and provide financial advisory services to, us and our affiliates, for which they have received or may in the future receive customary fees and expenses, including acting as underwriters for our equity offerings.

**Electronic Delivery**

The underwriters may make prospectuses available in electronic format. A prospectus in electronic format may be made available on the website maintained by any of the underwriters, and underwriters may distribute such prospectuses electronically. The underwriters may agree with us to allocate a limited number of shares for sale to their online brokerage customers. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

The addresses of the underwriters are: .

## LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus supplement and certain other legal matters will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington D.C. Certain legal matters related to the offering will be passed upon for the underwriters by .

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our shares of common stock offered by this prospectus supplement. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus supplement.

We file with or furnish to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC's website at *www.sec.gov*. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

## PART C

## Other Information

**Item 25.** ***Financial Statements And Exhibits***

(1) *Financial Statements*

The following financial statements of Fifth Street Finance Corp. (the "Registrant" or the "Company") are included in Part A of this Registration Statement:



(2) *Exhibits*

| | |
|---|---|
| (a)(1) | Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 filed with Fifth Street Finance Corp.'s Form 8-A (File No. 001-33901) filed on January 2, 2008). |
| (a)(2) | Certificate of Amendment to the Registrant's Restated Certificate of Incorporation (Incorporated by reference to Exhibit(a)(2) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008). |
| (a)(3) | Certificate of Correction to the Certificate of Amendment to the Registrant's Restated Certificate of Incorporation (Incorporated by reference to Exhibit(a)(3) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008). |
| (a)(4) | Certificate of Amendment to Registrant's Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 filed with Fifth Street Finance Corp.'s Quarterly Report on Form 10-Q (File No. 814-0075) filed on May 5, 2010). |
| (b) | Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 filed with Fifth Street Finance Corp.'s Form 8-A (File No. 001-33901) filed on January 2, 2008). |

| | |
|---|---|
| (d) | Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 filed with Fifth Street Finance Corp.’s Form 8-A (File No. 001-33901) filed on January 2, 2008). |
| (e) | Amended and Restated Dividend Reinvestment Plan (Incorporated by reference to Exhibit(e) filed with Fifth Street Finance Corp.’s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008). |
| (g) | Form of Amended and Restated Investment Advisory Agreement by and between Registrant and Fifth Street Management LLC (Incorporated by reference to Exhibit(g) filed with Fifth Street Finance Corp.’s Registration Statement on Form N-2 (File No. 333-146743) filed on May 8, 2008). |
| (h) | Form of Underwriting Agreement** |
| (j) | Custodial Agreement (Incorporated by reference to Exhibit(j) filed with Fifth Street Finance Corp.’s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008). |
| (k)(1) | Form of Administration Agreement by and between Registrant and FSC, Inc. (Incorporated by reference to Exhibit(k)(1) filed with Fifth Street Finance Corp.’s Registration Statement on Form N-2 (File No. 333-146743) filed on May 8, 2008). |
| (k)(2) | Form of License Agreement by and between Registrant and Fifth Street Capital LLC (Incorporated by reference to Exhibit(k)(2) filed with Fifth Street Finance Corp.’s Registration Statement on Form N-2 (File No. 333-146743) filed on May 8, 2008). |
| (k)(3) | Loan and Servicing Agreement among Registrant, Fifth Street Funding, LLC, Wells Fargo Securities, LLC, Wachovia Bank, National Association, and Wells Fargo Bank, National Association, dated as of November 16, 2009 (Incorporated by reference to Exhibit 10.6 filed with Fifth Street Finance Corp.’s Annual Report on Form 10-K (File No. 814-00755) filed on December 9, 2009). |
| (k)(4) | Purchase and Sale Agreement by and between Registrant and Fifth Street Funding, LLC, dated as of November 16, 2009 (Incorporated by reference to Exhibit 10.7 filed with Fifth Street Finance Corp.’s Annual Report on Form 10-K (File No. 814-00755) filed on December 9, 2009). |
| (k)(5) | Pledge Agreement by and between Registrant and Wells Fargo Bank, National Association, dated as of November 16, 2009 (Incorporated by reference to Exhibit 10.8 filed with Fifth Street Finance Corp.’s Annual Report on Form 10-K (File No. 814-00755) filed on December 9, 2009). |
| (k)(6) | Omnibus Amendment No. 1 to Loan and Servicing Agreement among Registrant, Fifth Street Funding, LLC, Wells Fargo Securities, LLC, Wachovia Bank, National Association, and Wells Fargo Bank, National Association and to Pledge Agreement by and between Registrant and Wells Fargo Bank, National Association, dated as of May 26, 2010* |
| (k)(7) | Senior Secured Revolving Credit Agreement among Registrant, ING Capital LLC, Royal Bank of Canada, UBS Loan Finance LLC and Morgan Stanley Bank, N.A., dated as of May 27, 2010* |
| (k)(8) | Guarantee, Pledge and Security Agreement among Registrant, FSFC Holdings, Inc., FSF/MP Holdings, Inc. and ING Capital LLC, dated as of May 27, 2010* |
| (l)(1) | Opinion of Sutherland Asbill & Brennan LLP* |
| (n)(1) | Consent of Grant Thornton LLP* |
| (r)(1) | Code of Ethics of the Registrant (Incorporated by reference to Exhibit(r) filed with Fifth Street Finance Corp.’s Registration Statement on Form N-2 (File No. 333-146743) filed on May 8, 2008). |
| (r)(2) | Code of Ethics of Fifth Street Management LLC (Incorporated by reference to Exhibit(r)(2) filed with Fifth Street Finance Corp.’s Registration Statement on Form N-2 (File No. 333-159720) filed on June 4, 2009). |

* Filed herewith.

** To be filed by post-effective amendment, if applicable.

**Item 26.** ***Marketing Arrangements***

The information contained under the heading “Plan of Distribution” on this Registration Statement is incorporated herein by reference and any information concerning any underwriters will be contained in the accompanying prospectus supplement, if any.

**Item 27.** ***Other Expenses Of Issuance And Distribution***

| | | |
|---|---|---|
| SEC registration fee | $ | 16,220 |
| New York Stock Exchange listing fee | $ | 192,710 |
| FINRA filing fee | $ | 23,248 |
| Accounting fees and expenses | $ | 75,000 |
| Legal fees and expenses | $ | 200,000 |
| Printing and engraving | $ | 150,000 |
| Total | $ | 661,182 |

The amounts set forth above, except for the SEC, FINRA, and New York Stock Exchange fees, are in each case estimated. All of the expenses set forth above shall be borne by the Registrant.

**Item 28.** ***Persons Controlled By Or Under Common Control***

The following list sets forth each of the Registrant's subsidiaries, the state or country under whose laws the subsidiary is organized, and the percentage of voting securities or membership interests owned by the Registrant in such subsidiary:

- FSFC Holdings, Inc. — a Delaware corporation (100%)
- FSF/MP Holdings, Inc. — a Delaware corporation (100%)
- Fifth Street Funding, LLC — a Delaware limited liability company (100%)
- Fifth Street Mezzanine Partners IV, L.P. — a Delaware limited partnership (100%)
- FSMP IV GP, LLC — a Delaware limited liability company (100%)

Each of our subsidiaries is consolidated for financial reporting purposes.

In addition, the Registrant may be deemed to control Lighting by Gregory, LLC, one of the Registrant's portfolio companies.

**Item 29.** ***Number Of Holders Of Securities***

The following table sets forth the number of record holders of the Registrant's capital stock at May 15, 2010.

| Title of Class | Number of Record Holders |
|---|---|
| Common stock, $0.01 par value | 14 |

**Item 30.** ***Indemnification***

Section 145 of the Delaware General Corporation Law empowers a Delaware corporation to indemnify its officers and directors and specific other persons to the extent and under the circumstances set forth therein.

Section 102(b)(7) of the Delaware General Corporation Law allows a Delaware corporation to eliminate the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liabilities arising (a) from any breach of the director's duty of loyalty to the corporation or its stockholders; (b) from acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (c) under Section 174 of the Delaware General Corporation Law; or (d) from any transaction from which the director derived an improper personal benefit.

Subject to the Investment Company Act of 1940, as amended (the "1940 Act") or any valid rule, regulation or order of the SEC thereunder, our Restated Certificate of Incorporation provides that we will indemnify any person who was or is a party or is threatened to be made a party to any threatened action, suit or proceeding whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or officer of the Registrant, or is or was serving at the request of the Registrant as a director or officer of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, in accordance with provisions corresponding to

Section 145 of the Delaware General Corporation Law. The 1940 Act provides that a company may not indemnify any director or officer against liability to it or its security holders to which he or she might otherwise be subject by reason of his or her willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office unless a determination is made by final decision of a court, by vote of a majority of a quorum of directors who are disinterested, non-party directors or by independent legal counsel that the liability for which indemnification is sought did not arise out of the foregoing conduct. In addition, our Restated Certificate of Incorporation provides that the indemnification described therein is not exclusive and shall not exclude any other rights to which the person seeking to be indemnified may be entitled under statute, any bylaw, agreement, vote of stockholders or directors who are not interested persons, or otherwise, both as to action in his official capacity and to his action in another capacity while holding such office.

The above discussion of Section 145 of the Delaware General Corporation Law and the Registrant's Restated Certificate of Incorporation is not intended to be exhaustive and is respectively qualified in its entirety by such statute and the Registrant's Restated Certificate of Incorporation.

The Registrant has obtained primary and excess insurance policies insuring our directors and officers against some liabilities they may incur in their capacity as directors and officers. Under such policies, the insurer, on the Registrant's behalf, may also pay amounts for which the Registrant has granted indemnification to the directors or officers.

The Registrant may agree to indemnify any underwriters in connection with an offering pursuant to this Registration Statement against specific liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act").

**Item 31.** ***Business And Other Connections Of Investment Adviser***

A description of any other business, profession, vocation, or employment of a substantial nature in which our investment adviser, and each executive officer of our investment adviser, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the sections entitled "Business — The Investment Adviser," "Management — Board of Directors and Executive Officers — Directors," "— Executive Officers" and "Investment Advisory Agreement." Additional information regarding our investment adviser and its officers is set forth in its Form ADV, as filed with the Securities and Exchange Commission (SEC File No. 801-68676), and is incorporated herein by reference.

**Item 32.** ***Location Of Accounts And Records***

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, and the rules thereunder are maintained at the offices of:

(1) the Registrant, Fifth Street Finance Corp., 10 Bank Street, Suite 1210, White Plains, NY 10606;

(2) the Transfer Agent, American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York, 10038;

(3) the Custodian, Bank of America, National Association, Bank of America Corporate Center, 100 N Tryon Street, Charlotte, NC 28255-0001;

(4) the investment adviser, Fifth Street Management LLC, 10 Bank Street, Suite 1210, White Plains, NY 10606; and

(5) the administrator, FSC, Inc., 10 Bank Street, Suite 1210, White Plains, NY 10606.

**Item 33.** ***Management Services***

Not Applicable.

**Item 34.** ***Undertakings***

1. We hereby undertake to suspend any offering of shares until the prospectus is amended if (1) subsequent to the effective date of this Registration Statement, our net asset value declines more than ten percent from our net asset value as of the effective date of this Registration Statement or (2) our net asset value increases to an amount greater than our net proceeds (if applicable) as stated in the prospectus.

2. We hereby undertake:

a. to file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(1) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(2) to reflect in the prospectus or prospectus supplement any facts or events after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement; and

(3) to include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement.

b. for the purpose of determining any liability under the Securities Act, that each such post-effective amendment to this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of those securities at that time shall be deemed to be the initial bona fide offering thereof.

c. to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

d. for the purpose of determining liability under the Securities Act to any purchaser, that if we are subject to Rule 430C under the Securities Act, each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of this Registration Statement relating to an offering shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness, provided, however, that no statement made in a registration statement or prospectus or prospectus supplement that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supercede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

e. for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of securities, that if the securities are offered or sold to such purchaser by means of any of the following communications, we will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

(1) any preliminary prospectus or prospectus or prospectus supplement of us relating to the offering required to be filed pursuant to Rule 497 under the Securities Act;

(2) the portion of any advertisement pursuant to Rule 482 under the Securities Act relating to the offering containing material information about us or our securities provided by or on behalf of us; and

(3) any other communication that is an offer in the offering made by us to the purchaser.

f. to file a post-effective amendment to the registration statement, and to suspend any offers or sales pursuant to the registration statement until such post-effective amendment has been declared effective under the 1933 Act, in the event our shares of common stock are trading below our net asset value per share and either (i) we receive, or have been advised by our independent registered accounting firm that we will receive, an audit report reflecting substantial doubt regarding our ability to continue as a going concern or (ii) we have concluded that a fundamental change has occurred in our financial position or results of operations.

g. Insofar as indemnification for liability arising under the Securities Act may be permitted to our directors, officers and controlling persons, that we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person of us in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we undertake, unless in the opinion of our counsel the matter has been settled by controlling precedent, to submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and we will be governed by the final adjudication of such issue.

3. We hereby undertake that:

a. For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by us pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

b. For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 1 to the Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of White Plains, State of New York, on June 4, 2010.

**FIFTH STREET FINANCE CORP.**

**By:** /s/ LEONARD M. TANNENBAUM
Name: Leonard M. Tannenbaum
Title: Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the Registration Statement on Form N-2 has been signed below by the following persons in the capacities and on the dates indicated:

| Signature | Title | Date |
|---|---|---|
| /s/ LEONARD M. TANNENBAUM<br>Leonard M. Tannenbaum | Chief Executive Officer and Director (Principal Executive Officer) | June 4, 2010 |
| /s/ WILLIAM H. CRAIG<br>William H. Craig | Chief Financial Officer<br>(Principal Financial and Accounting Officer) | June 4, 2010 |
| /s/ BERNARD D. BERMAN<br>Bernard D. Berman | President, Chief Compliance Officer, Secretary and Director | June 4, 2010 |
| *<br>Brian S. Dunn | Director | June 4, 2010 |
| *<br>Richard P. Dutkiewicz | Director | June 4, 2010 |
| *<br>Byron J. Haney | Director | June 4, 2010 |
| *<br>Frank C. Meyer | Director | June 4, 2010 |
| *<br>Douglas F. Ray | Director | June 4, 2010 |

* Signed by Bernard D. Berman pursuant to a power of attorney signed by each individual on April 12, 2010.

# OMNIBUS AMENDMENT NO. 1

**THIS OMNIBUS AMENDMENT NO. 1**, dated as of May 26, 2010, (this "Amendment") is entered into by and among Fifth Street Funding, LLC as the borrower (in such capacity, the "Borrower") and as the purchaser (in such capacity, the "Purchaser"); Fifth Street Finance Corp. as the servicer (in such capacity, the "Servicer"), as the seller (in such capacity, the "Seller") and as the transferor (in such capacity, the "Transferor"); Wells Fargo Securities, LLC as the administrative agent (in such capacity, the "Administrative Agent"); Wells Fargo Bank, N.A. (as successor by merger to Wachovia Bank, National Association) as lender (in such capacity, the "Lender"), and as lender agent (in such capacity, the "Lender Agent"); Wells Fargo Bank, National Association as the collateral agent (in such capacity, the "Collateral Agent"), account bank (in such capacity, the "Account Bank") and collateral custodian (in such capacity, the "Collateral Custodian"). Capitalized terms used but not defined herein have the meanings provided in the Agreements (as defined below).

## R E C I T A L S

**WHEREAS**, reference is made to (i) the Loan and Servicing Agreement, dated as of November 16, 2009 (as amended, modified, waived, supplemented or restated from time to time, the "Loan and Servicing Agreement"), by and among the Borrower, the Servicer, the Transferor, the Administrative Agent, the Lender, the Lender Agent, the Collateral Agent, the Account Bank and Collateral Custodian and (ii) the Purchase and Sale Agreement, dated as of November 16, 2009 (as amended, modified, waived, supplemented or restated from time to time, the "Purchase and Sale Agreement" and together with the Loan and Servicing Agreement, the "Agreements"), by and between the Purchaser and the Seller; and

**WHEREAS**, the parties hereto desire to make certain amendments to certain provisions of the Agreements as specified herein, pursuant to and in accordance with Section 11.01 of the Loan and Servicing Agreement and Section 10.3 of the Purchase and Sale Agreement.

**NOW, THEREFORE**, based upon the above Recitals, the mutual premises and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

**SECTION 1. AMENDMENT.**

(a) The cover page of the Loan and Servicing Agreement is hereby amended by replacing the figure "$100,000,000" with the figure "$150,000,000".

(b) The Loan and Servicing Agreement is hereby amended by deleting the words "("Wells Fargo")" appearing after the words "WELLS FARGO BANK, NATIONAL ASSOCIATION" in clause (7) of the first sentence of the Loan and Servicing Agreement.

(c) The Loan and Servicing Agreement is hereby amended by replacing the word "Wachovia" wherever appearing with the words "Wells Fargo", except where appearing in the phrase "One Wachovia Center" in the addresses set forth on the signature pages thereto.

(d) Section 1.01(b) of the Loan and Servicing Agreement is hereby amended as follows:

(1) by amending the definition of "Adjusted Borrowing Value" by replacing the figure "$15,000,000" appearing after the words "shall not exceed" in the seventh line thereof with the figure "$20,000,000";

(2) by amending the definition of "Applicable Spread" by (x) replacing the percentage "4.00%" in the first line thereof with the percentage "3.50%" and (y) by replacing the percentage "5.50%" in the proviso thereof with the percentage "5.00%";

(3) by amending the definition of "Commitment Increase Amount" by inserting the following phrase immediately prior to the period at the end of the definition:

; *provided* that, for the avoidance of doubt, the Commitment Increase Amount on the First Amendment Date shall equal $50,000,000

(4) by amending the definition of "Commitment Increase Closing Date" by inserting the following phrase immediately prior to the period at the end of the definition:

; *provided*, that, for the avoidance of doubt, the First Amendment Date shall be deemed a "Commitment Increase Closing Date"

(5) by adding the following defined term in the appropriate alphabetical order:

"First Amendment Date" means May 26, 2010.

(6) by amending the definition of "Make-Whole Premium" by replacing the words "Closing Date" in each instance where such words appear throughout with the words "First Amendment Date";

(7) by amending the definition of "Maximum Facility Amount" by replacing the figure "$100,000,000" appearing after the words "shall not exceed" in the second line thereof with the figure "$150,000,000";

(8) by amending the definition of "Reinvestment Period" by replacing the date "November 16, 2011" appearing in subclause (i) thereof with the date "May 26, 2012";

(9) by amending the definition of "Stated Maturity Date" by replacing the date "November 16, 2012" with the date "May 26, 2013";

(10) by deleting in its entirety the definition of "Wachovia"; and

(11) by amending and restating in its entirety the definition of “Wells Fargo” as follows:

“Wells Fargo” shall mean Wells Fargo Bank, N.A., and its successors and assigns.

(e) Section 2.09(a) of the Loan and Servicing Agreement is hereby amended (i) by inserting the words “(unless otherwise set forth in clause (b) below)” immediately after the word “thereafter” at the beginning of subclause (ii) in the ninth line thereof and (ii) by replacing the percentage “20%” appearing in subclauses (ii)(x) and (ii)(y) in the tenth and eleventh lines thereof with the percentage “40%”.

(f) Section 2.09(b) of the Loan and Servicing Agreement is hereby amended by replacing the percentage “20%” appearing in the fourth, ninth and tenth lines thereof with the percentage “40%”.

(g) Section 2.18(b) of the Loan and Servicing Agreement is hereby amended by deleting the proviso appearing at the end thereof in its entirety.

(h) Section 2.22(a) of the Loan and Servicing Agreement is hereby amended by replacing the figure “$100,000,000” appearing at the end of the first sentence thereof with the figure “$150,000,000”.

(i) Section 5.02(i) of the Loan and Servicing Agreement is hereby amended (i) by replacing the word “or” appearing in the third line with a comma and (ii) by inserting the phrase “or (z) to distribute such proceeds to the Transferor (so long as such distribution is permitted pursuant to Section 5.02(n))” prior to the period at the end of the section.

(j) Section 5.03(m) of the Loan and Servicing Agreement is hereby amended by inserting the following phrase immediately prior to the period at the end of the section:

; *provided*, that, for the avoidance of doubt, the Servicer shall not be required to expend any of its own funds to cause the Borrower to be in compliance with subsection 5.02(a)(v) or subsection 5.01(b)(xvii) (it being understood that this proviso shall in no way affect the obligation of Servicer to manage the activities and liabilities of the Borrower such that the Borrower maintains compliance with either of the foregoing subsections)

(k) Section 6.02(a)(xi) of the Loan and Servicing Agreement is hereby amended by replacing the word “assistance” appearing in the first line thereof with the word “advice”.

(l) Annex A of the Loan and Servicing Agreement is hereby amended by replacing the words “Wachovia Bank, National Association” appearing under the words “Institutional Lender” with the words “Wells Fargo Bank, N.A.” and by replacing the figure “$50,000,000” appearing under the word “Commitment” with the figure “$100,000,000”.

(m) Section 4.1(x) of the Purchase and Sale Agreement is hereby amended by inserting the following phrase immediately prior to the period at the end of the section:

; *provided*, that, for the avoidance of doubt, the Seller shall not be required to expend any of its own funds to cause the Purchaser to be in compliance with subsection 5.02(a)(v) of the Loan and Servicing Agreement or subsection 5.01(b)(xvii) of the Loan and Servicing Agreement (it being understood that this proviso shall in no way affect the obligation of Seller to manage the activities and liabilities of the Purchaser such that the Purchaser maintains compliance with either of the foregoing subsections)

(n) Section 5.2(c) of the Purchase and Sale Agreement is hereby amended by inserting the phrase "(other than with respect to funding obligations to Obligors in connection with Revolving Loan Assets and Delayed Draw Loan Assets, as applicable)" immediately prior to the period at the end of the section.

(o) Section 5.2(e)(i) of the Purchase and Sale Agreement is hereby amended by inserting the following phrase immediately prior to the period at the end of the section:

; *provided*, that, for the avoidance of doubt, the Seller shall not be required to expend any of its own funds to cause the Purchaser to be in compliance with subsection 5.02(a)(v) of the Loan and Servicing Agreement or subsection 5.01(b)(xvii) of the Loan and Servicing Agreement (it being understood that this proviso shall in no way affect the obligation of Seller to manage the activities and liabilities of the Purchaser such that the Purchaser maintains compliance with either of the foregoing subsections)

**SECTION 2. AGREEMENT IN FULL FORCE AND EFFECT AS AMENDED.**

Except as specifically amended hereby, all provisions of the Agreements shall remain in full force and effect. After this Amendment becomes effective, all references to the Agreements and corresponding references thereto or therein such as "hereof", "herein", or words of similar effect referring to the Agreements shall be deemed to mean the Agreements as amended hereby. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreements other than as expressly set forth herein.

**SECTION 3. REPRESENTATIONS.**

Each of the Borrower, the Purchaser, the Servicer, the Seller and the Transferor, severally for itself only, represents and warrants as of the date of this Amendment as follows:

(i) it is duly incorporated or organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization;

(ii) the execution, delivery and performance by it of this Amendment and the Agreements as amended hereby are within its powers, have been duly authorized, and do not contravene (A) its charter, by-laws, or other organizational documents, or (B) any Applicable Law;

(iii) no consent, license, permit, approval or authorization of, or registration, filing or declaration with any governmental authority, is required in connection with the execution, delivery, performance, validity or enforceability of this Amendment and the Agreements as amended hereby by or against it;

(iv) this Amendment has been duly executed and delivered by it;

(v) each of this Amendment and each of the Agreements as amended hereby constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally or by general principles of equity; and

(vi) there is no Unmatured Event of Default, Event of Default, or Servicer Termination Event.

**SECTION 4. LEGAL FEES.**

The Borrower and Servicer each covenants and agrees to pay in full immediately upon of receipt of an invoice, all legal fees of Dechert LLP, counsel to the Lender and Administrative Agent, in connection with the execution of this Amendment.

**SECTION 5. CONDITIONS TO EFFECTIVENESS.**

(a) The effectiveness of this Amendment is conditioned upon delivery of duly executed signature pages by all parties hereto to the Administrative Agent.

(b) The effectiveness of this Amendment is conditioned upon delivery, by the Borrower to the Lender, of a fully executed Amended and Restated Variable Funding Note with a face amount of $100,000,000.

**SECTION 6. MISCELLANEOUS.**

(a) The Administrative Agent, the Collateral Agent, the Lender and the Lender Agent each waive the notice required from the Purchaser prior to any amendment under Section 10.3 of the Purchase and Sale Agreement.

(b) This Amendment may be executed in any number of counterparts (including by facsimile), and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument but all of which together shall constitute one and the same agreement.

(c) The descriptive headings of the various sections of this Amendment are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

(d) This Amendment may not be amended or otherwise modified except as provided in the Agreements.

(e) The failure or unenforceability of any provision hereof shall not affect the other provisions of this Amendment.

(f) Whenever the context and construction so require, all words used in the singular number herein shall be deemed to have been used in the plural number, and vice versa, and the masculine gender shall include the feminine and neuter and the neuter shall include the masculine and feminine.

(g) This Amendment and the Agreements represent the final agreement among the parties with respect to the matters set forth therein and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements among the parties. There are no unwritten oral agreements among the parties with respect to such matters.

(h) **THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE CHOICE OF LAW PROVISIONS SET FORTH IN THE LOAN AND SERVICING AGREEMENT AND SHALL BE SUBJECT TO THE WAIVER OF JURY TRIAL AND NOTICE PROVISIONS OF THE LOAN AND SERVICING AGREEMENT.**

[Remainder of Page Intentionally Left Blank]

**IN WITNESS WHEREOF**, the parties have caused this Omnibus Amendment No. 1 to be executed by their respective officers thereunto duly authorized, as of the date first above written.

**FIFTH STREET FUNDING, LLC,**
as the Borrower and Purchaser

By: ______________________________
Name:
Title:

[SIGNATURES CONTINUE ON THE FOLLOWING PAGE]

**FIFTH STREET FINANCE CORP.,**
as the Servicer, Seller and Transferor

By: ______________________________
Name:
Title:

[SIGNATURES CONTINUE ON THE FOLLOWING PAGE]

**WELLS FARGO SECURITIES, LLC,**
as the Administrative Agent

By: ______________________________
Name:
Title:

[SIGNATURES CONTINUE ON THE FOLLOWING PAGE]

**WELLS FARGO BANK, N.A. (as successor by merger to Wachovia Bank, National Association),**
as the Lender and Lender Agent

By: ______________________________
Name:
Title:

[SIGNATURES CONTINUE ON THE FOLLOWING PAGE]

**WELLS FARGO BANK, NATIONAL ASSOCIATION,**
as the Collateral Agent, Account Bank and
Collateral Custodian

By: ______________________________
Name:
Title:

**Exhibit (k)(7)**

SENIOR SECURED
REVOLVING CREDIT AGREEMENT

dated as of

May 27, 2010

among

FIFTH STREET FINANCE CORP.
as Borrower

The LENDERS Party Hereto

and

ING CAPITAL LLC
as Administrative Agent

ROYAL BANK OF CANADA
as Documentation Agent

ING CAPITAL LLC
as Arranger and Bookrunner

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SENIOR SECURED REVOLVING CREDIT AGREEMENT dated as of May 27, 2010 (this "Agreement"), among FIFTH STREET FINANCE CORP., a Delaware corporation (the "Borrower"), the LENDERS party hereto, ING CAPITAL LLC, as Administrative Agent, and Royal Bank of Canada, as documentation agent (in such capacity, the "Documentation Agent").

The Borrower has requested that the Lenders (as defined herein) extend credit to the Borrower from time to time pursuant to the commitments as set forth herein. The Lenders have agreed to extend such credit upon the terms and conditions hereof, and, accordingly, the parties hereto agree as follows:

## ARTICLE I

## DEFINITIONS

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below and the terms defined in Section 5.13 have the meanings assigned thereto in such section:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans constituting such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Adjusted Borrowing Base" means the Borrowing Base minus the aggregate amount of Cash and Cash Equivalents included in the Borrowing Base.

"Adjusted Covered Debt Balance" means, on any date, the aggregate Covered Debt Amount on such date minus the aggregate amount of Cash and Cash Equivalents included in the Borrowing Base (excluding any cash held by the Administrative Agent pursuant to Section 2.04(k)).

"Adjusted LIBO Rate" means, for the Interest Period for any Eurocurrency Borrowing, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate for such Interest Period.

"Administrative Agent" means ING, in its capacity as administrative agent for the Lenders hereunder.

"Administrative Agent's Account" means an account designated by the Administrative Agent in a notice to the Borrower and the Lenders.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Advance Rate" has the meaning assigned to such term in Section 5.13.

“Affiliate” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. Anything herein to the contrary notwithstanding, the term “Affiliate” as used with respect to the Borrower shall not include any Person that constitutes an Investment held by the Borrower in the ordinary course of business.

“Affiliate Agreements” means, collectively, (a) the Amended and Restated Investment Advisory Agreement, dated as of April 30, 2008, between the Borrower and Fifth Street Management LLC, (b) the Administration Agreement, dated as of December 14, 2007, between the Borrower and FSC, Inc., (c) the Trademark License Agreement, dated as of December 14, 2007, between the Borrower and Fifth Street Capital LLC, (d) the Structured Facility Agreements and (e) the SBIC Agreements.

“Alternate Base Rate” means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate for such day plus 1/2 of 1% and (c) the LIBO Rate for deposits in U.S. dollars for a period of three (3) months plus 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Federal Funds Effective Rate or such LIBO Rate shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Effective Rate, or such LIBO Rate, as the case may be.

“Applicable Commitment Fee Rate” means:

(A) in the case of any Existing Commitment, with respect to any calendar quarter (or such shorter period for which a commitment fee is payable pursuant to the second sentence of Section 2.10(a)) (an “Applicable Period”), a rate per annum equal to (a) during the first six months following the Effective Date, 0.50% and (b) thereafter, (i) 0.50%, with respect any Unused Portion of the Existing Commitment of any Lender during such Applicable Period that is less than or equal to an amount equal to thirty percent (30%) of the average daily amount of the Existing Commitment of such Lender during such Applicable Period and (ii) 2.50%, with respect to any Unused Portion of the Existing Commitment of any Lender during such Applicable Period in excess of an amount equal to thirty percent (30%) of the average daily amount of the Existing Commitment of such Lender during such Applicable Period; and

(B) in the case of any New Commitment, with respect to any Applicable Period, a rate per annum equal to 0.50%.

For purposes of determining the Applicable Commitment Fee Rate, the Commitments shall be deemed to be used to the extent of the outstanding Loans and LC Exposure of all Lenders.

“Applicable Margin” means: (a) with respect to any ABR Loan, 2.50% per annum; and (b) with respect to any Eurocurrency Loan, 3.50% per annum.

“Applicable Percentage” means, with respect to any Lender, the percentage of the total Commitments represented by such Lender’s Commitments. If the Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments.

“Approved Dealer” means (a) in the case of any Eligible Portfolio Investment that is not a U.S. Government Security, a bank or a broker-dealer registered under the Securities Exchange Act of 1934 of nationally recognized standing or an Affiliate thereof and (b) in the case of a U.S. Government Security, any primary dealer in U.S. Government Securities, in the case of each of clauses (a) and (b) above, as set forth on Schedule 1.01(a) or any other bank or broker-dealer acceptable to the Administrative Agent in its reasonable determination.

“Approved Pricing Service” means a pricing or quotation service as set forth in Schedule 1.01(a) or any other pricing or quotation service approved by the Board of Directors of the Borrower and designated in writing to the Administrative Agent (which designation shall be accompanied by a copy of a resolution of the Board of Directors of the Borrower that such pricing or quotation service has been approved by the Borrower).

“Approved Third-Party Appraiser” means any Independent nationally recognized third-party appraisal firm designated by the Borrower in writing to the Administrative Agent (which designation shall be accompanied by a copy of a resolution of the Board of Directors of the Borrower that such firm has been approved by the Borrower for purposes of assisting the Board of Directors of the Borrower in making valuations of portfolio assets to determine the Borrower’s compliance with the applicable provisions of the Investment Company Act). It is understood and agreed that, so long as the same are Independent third-party appraisal firms approved by the Board of Directors of the Borrower, Houlihan Lokey Howard & Zukin Capital, Inc., Duff & Phelps LLC, Murray, Devine and Company and Lincoln Advisors shall be deemed to be Approved Third-Party Appraisers.

“Asset Sale” means a sale, lease or sub lease (as lessor or sublessor), sale and leaseback, assignment, conveyance, transfer or other disposition to, or any exchange of property with, any Person, in one transaction or a series of transactions, of all or any part of any Obligor’s assets or properties of any kind, whether real, personal, or mixed and whether tangible or intangible, whether now owned or hereafter acquired; provided, however, the term “Asset Sale” as used in this Agreement shall not include the disposition of Loan Assets (as defined in the Structured Loan Agreement) originated by the Borrower and immediately transferred to the Structured Subsidiary pursuant to the terms of the Structured Purchase Agreement as in effect on the date hereof.

“Asset Coverage Ratio” means, on a consolidated basis for Borrower and its Subsidiaries, the ratio which the value of total assets, less all liabilities and indebtedness not represented by Senior Securities, bears to the aggregate amount of Senior Securities representing indebtedness of the Borrower and its Subsidiaries (all as determined pursuant to the Investment Company Act and any orders of the SEC issued to the Borrower thereunder). For clarity, the calculation of the Asset Coverage Ratio shall not include (i) the assets or liabilities of any SBIC Subsidiary that are not required to be included in the determination of “asset coverage” under Section 18 of the Investment Company Act (as affected by any orders of the SEC issued to the Borrower thereunder), or (ii) any obligations under any SBIC Guarantee unless such obligations have become due and owing pursuant to the terms of such SBIC Guarantee.

“Assignment and Assumption” means an Assignment and Assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by

Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Assuming Lender" has the meaning assigned to such term in Section 2.07(f).

"Availability Period" means the period from and including the Effective Date to but excluding the earlier of the Commitment Termination Date and the date of termination of the Commitments.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Borrower" has the meaning assigned to such term in the preamble to this Agreement.

"Borrowing" means (a) all ABR Loans made, converted or continued on the same date or (b) all Eurocurrency Loans that have the same Interest Period.

"Borrowing Base" has the meaning assigned to such term in Section 5.13.

"Borrowing Base Certificate" means a certificate of a Financial Officer of the Borrower, substantially in the form of Exhibit B and appropriately completed.

"Borrowing Base Deficiency" means, at any date on which the same is determined, the amount, if any, that (a) the aggregate Covered Debt Amount as of such date exceeds (b) the Borrowing Base as of such date.

"Borrowing Request" means a request by the Borrower for a Borrowing in accordance with Section 2.03.

"Business Day" means any day (a) that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed and (b) if such day relates to a borrowing of, a payment or prepayment of principal of or interest on, a continuation or conversion of or into, or the Interest Period for, a Eurocurrency Borrowing, or to a notice by the Borrower with respect to any such borrowing, payment, prepayment, continuation, conversion, or Interest Period, that is also a day on which dealings in deposits denominated in Dollars are carried out in the London interbank market.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Cash" means any immediately available funds in Dollars or in any currency other than Dollars (measured in terms of the Dollar Equivalent thereof) which is a freely convertible currency.

"Cash Equivalents" means investments (other than Cash) that are one or more of the following obligations:

(a) Short-Term U.S. Government Securities (as defined in Section 5.13);

(b) investments in commercial paper maturing within 180 days from the date of acquisition thereof and having, at such date of acquisition, a credit rating of at least A-1 from S&P and at least P-1 from Moody's;

(c) investments in certificates of deposit, banker's acceptances and time deposits maturing within 180 days from the date of acquisition thereof (i) issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof, provided that such certificates of deposit, banker's acceptances and time deposits are held in a securities account (as defined in the Uniform Commercial Code) through which the Collateral Agent can perfect a security interest therein and (ii) having, at such date of acquisition, a credit rating of at least A-1 from S&P and at least P-1 from Moody's;

(d) fully collateralized repurchase agreements with a term of not more than 30 days from the date of acquisition thereof for U.S. Government Securities and entered into with (i) a financial institution satisfying the criteria described in clause (c) of this definition or (ii) an Approved Dealer having (or being a member of a consolidated group having) at such date of acquisition, a credit rating of at least A-1 from S&P and at least P-1 from Moody's;

(e) certificates of deposit or bankers' acceptances with a maturity of ninety (90) days or less of any financial institution that is a member of the Federal Reserve System having combined capital and surplus and undivided profits of not less than $1,000,000,000; and

(f) investments in money market funds and mutual funds which invest substantially all of their assets in Cash or assets of the types described in clauses (a) through (e) above;

provided, that (i) in no event shall Cash Equivalents include any obligation that provides for the payment of interest alone (for example, interest-only securities or "IOs"); (ii) if any of Moody's or S&P changes its rating system, then any ratings included in this definition shall be deemed to be an equivalent rating in a successor rating category of Moody's or S&P, as the case may be; (iii) Cash Equivalents (other than U.S. Government Securities, certificates of deposit or repurchase agreements) shall not include any such investment representing more than 25% of total assets of the Obligors in any single issuer; and (iv) in no event shall Cash Equivalents include any obligation that is not denominated in Dollars.

"Change in Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the SEC thereunder as in effect on the date hereof), of shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by the requisite members of the board of directors of the Borrower nor (ii) appointed by a majority of the directors so nominated; or (c) the acquisition of direct or indirect Control of the Borrower by any Person or group other than Fifth Street Management LLC or one of its Affiliates or another investment advisor reasonably satisfactory to the Administrative Agent and the Required Lenders in their reasonable discretion.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.13(b), by any lending office of such Lender or by such Lender's or the Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" has the meaning assigned to such term in the Guarantee and Security Agreement.

"Collateral Agent" means ING Capital LLC in its capacity as Collateral Agent under the Guarantee and Security Agreement, and includes any successor Collateral Agent thereunder.

"Commitment" means, with respect to each Lender, the commitment of such Lender to make Loans, and to acquire participations in Letters of Credit, expressed as an amount representing the maximum aggregate amount of such Lender's Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.07 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Commitment is set forth on Schedule 1.01(b), or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Commitment, as applicable. The initial aggregate amount of the Lenders' Commitments is $90,000,000. For clarity, the term "Commitment" shall include both Existing Commitments and New Commitments.

"Commitment Increase" has the meaning assigned to such term in Section 2.07(f).

"Commitment Increase Date" has the meaning assigned to such term in Section 2.07(f).

"Commitment Termination Date" means the date that is the two year anniversary of the Effective Date, unless extended with the consent of each Lender in its sole and absolute discretion.

"Consolidated Adjusted Interest Expense" means, for any period with respect to the Borrower and its Subsidiaries on a consolidated basis, cash interest paid in respect of the stated rate of interest (including any default rate of interest, if applicable) applicable to any Indebtedness.

“Consolidated EBIT” means, for any period with respect to the Borrower and its Subsidiaries on a consolidated basis, income after deduction of all expenses and other proper charges other than Taxes, Consolidated Interest Expense and non-cash employee stock options expense and excluding (a) net realized gains or losses, (b) net change in unrealized appreciation or depreciation, (c) gains on re-purchases of Indebtedness, (d) the amount of interest paid-in-kind (“PIK”) to the extent such amount exceeds the sum of (i) PIK interest collected in cash (including any amortization payments on such applicable debt instrument up to the amount of PIK interest previously capitalized thereon) and (ii) realized gains collected in cash (net of realized losses), provided that the amount determined pursuant to this clause (d)(ii) shall not be less than zero, all as determined in accordance with GAAP, and (e) other non-cash charges and gains to the extent included to calculate income.

“Consolidated Interest Coverage Ratio” means the ratio of as of the last day of any fiscal quarter of (a) Consolidated EBIT for the four fiscal quarter period then ending, taken as a single accounting period, to (b) Consolidated Adjusted Interest Expense for such four fiscal quarter period.

“Consolidated Interest Expense” means, with respect to a Person and for any period, the total consolidated interest expense (including capitalized interest expense and interest expense attributable to Capital Lease Obligations) of such Person and in any event shall include all interest expense with respect to any Indebtedness in respect of which such Person is wholly or partially liable.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Covenant-Lite Loan” has the meaning assigned to such term in the Investment Policies.

“Covered Debt Amount” means, on any date, the sum of (x) all of the Revolving Credit Exposures of all Lenders on such date plus (y) the aggregate amount of Other Covered Indebtedness on such date minus (z) the LC Exposures fully cash collateralized on such date pursuant to Section 2.04(k).

“Covered Taxes” means Taxes other than Excluded Taxes and Other Taxes.

“Custodian” means Bank of America, N.A., as custodian holding Portfolio Investments on behalf of the Obligors and, pursuant to the Custodian Agreement, the Collateral Agent, any successor in such capacity, or any other financial institution mutually agreeable to the Administrative Agent and the Borrower. The term “Custodian” includes any agent or sub-custodian acting on behalf of the Custodian.

“Custodian Account” means an account subject to a Custodian Agreement.

"Custodian Agreement" means, collectively, (i) a Pledged Collateral Account Control Agreement, in form and substance satisfactory to the Administrative Agent, among the Borrower, the Collateral Agent and the Custodian, and (ii) a Pledged Collateral Account Control Agreement, in form and substance satisfactory to the Administrative Agent, among FSFC Holdings, Inc., the Collateral Agent and the Custodian.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Defaulting Lender" means any Lender that has (a) failed to fund any portion of its Loans or participations in Letters of Credit within three Business Days of the date required to be funded by it hereunder, unless, in the case of any Loans, such Lender's failure is based on such Lender's reasonable determination that the conditions precedent to funding such Loan under this Agreement have not been met, such conditions have not otherwise been waived in accordance with the terms of this Agreement and such Lender has advised the Administrative Agent in writing (with reasonable detail of those conditions that have not been satisfied) prior to the time at which such funding was to have been made, (b) notified the Borrower, the Administrative Agent, the Issuing Bank or any Lender in writing that it does not intend to comply with any of its funding obligations under this Agreement or has made a public statement that it does not intend to comply with its funding obligations under this Agreement, (c) failed, within three Business Days after request by the Administrative Agent (based on the reasonable belief that it may not fulfill its funding obligations), to confirm that it will comply with the terms of this Agreement relating to its obligations to fund prospective Loans and participations in then outstanding Letters of Credit, (d) otherwise failed to pay over to the Administrative Agent or any other Lender any other amount (other than a *de minimis* amount) required to be paid by it hereunder within three Business Days of the date when due, unless the subject of a good faith dispute, or (e) (i) has been adjudicated as, or determined by any Governmental Authority having regulatory authority over such Person or its assets to be, insolvent or has a parent company that has been adjudicated as, or determined by any Governmental Authority having regulatory authority over such Person or its assets to be, insolvent or (ii) become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian, appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment (unless in the case of any Lender referred to in this clause (e) the Borrower, the Administrative Agent, the Issuing Bank and the Swingline Lender shall be satisfied that such Lender intends, and has all approvals required to enable it, to continue to perform its obligations as a Lender hereunder); provided that a Lender shall not qualify as a Defaulting Lender solely as a result of the acquisition or maintenance of an ownership interest in such Lender or its parent company, or of the exercise of control over such Lender or any Person controlling such Lender, by a Governmental Authority or instrumentality thereof.

“Documentation Agent” has the meaning assigned to such term in the recitals to this Agreement.

“Dollar Equivalent” means, on any date of determination, with respect to an amount denominated in any currency other than Dollars, the amount of Dollars that would be required to purchase such amount of such currency on the date two Business Days prior to such date, based upon the spot selling rate at which the Administrative Agent offers to sell such currency for Dollars in the London foreign exchange market at approximately 11:00 a.m., London time, for delivery two Business Days later.

“Dollars” or “$” refers to lawful money of the United States of America.

“Effective Date” means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

“Eligible Portfolio Investment” means any Portfolio Investment held by any Obligor (and solely for purposes of determining the Borrowing Base, Cash and Cash Equivalents held by any Obligor); provided that no Portfolio Investment shall constitute an Eligible Portfolio Investment or be included in the Borrowing Base if (i) the issuer of such Portfolio Investment is not organized under the laws of the United States or any state thereof; (ii) (x) such Portfolio Investment is secured primarily by a mortgage, deed of trust or similar lien on real estate, (y) such Portfolio Investment is issued by a Person whose primary asset is real estate or (z) the value of such Portfolio Investment is otherwise primarily derived from real estate; (iii) such Portfolio Investment represents a consumer obligation (including, without limitation, a mortgage loan, auto loan, credit card loan or personal loan); (iv) such Portfolio Investment represents any financing of a debtor-in-possession in any case, action or proceeding seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect (unless the Administrative Agent otherwise consents in its sole and absolute discretion); (v) such Portfolio Investment represents a Covenant-Lite Loan; or (vi) such Portfolio Investment is rated 4 or 5 by the Borrower using the Proprietary Rating System; provided, further, that no Portfolio Investment, Cash or Cash Equivalent shall constitute an Eligible Portfolio Investment or be included in the Borrowing Base if the Collateral Agent does not at all times maintain a first priority, perfected Lien on such Portfolio Investment, Cash or Cash Equivalent or if such Portfolio Investment, Cash or Cash Equivalent has not been or does not at all times continue to be Delivered (as defined in the Guarantee and Security Agreement). Without limiting the generality of the foregoing, it is understood and agreed that any Portfolio Investments that have been contributed or sold, purported to be contributed or sold or otherwise transferred to any Financing Subsidiary, or held by any Financing Subsidiary, or which secure obligations of any Financing Subsidiary, shall not be treated as Eligible Portfolio Investments. Notwithstanding the foregoing, nothing herein shall limit the provisions of Section 5.12(b)(i), which provide that, for purposes of this Agreement, all determinations of whether an Investment is to be included as an Eligible Portfolio Investment shall be determined on a settlement-date basis (meaning that any Investment that has been purchased will not be treated as an Eligible Portfolio Investment until such purchase has settled, and any Eligible Portfolio Investment which has been sold will not be excluded as an Eligible Portfolio Investment until such sale has settled), provided that no such Investment shall be included as an Eligible Portfolio Investment to the extent it has not been paid for in full.

"Equity Interests" means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code, or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) with respect to any Plan, the failure to satisfy the minimum funding standard (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 302(c) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; (g) the occurrence of any nonexempt prohibited transaction within the meaning of Section 4975 of the Code or Section 406 of ERISA which could result in liability to an Lender; (h) the failure to make any required contribution to a Multiemployer Plan or failure to make by its due date any required contribution to any Plan; (i) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA; or (j) the incurrence with respect to any "employee benefit plan" as defined in Section 3(3) of ERISA that is sponsored or maintained by any Lender of any material liability for post-retirement health or welfare benefits, except as may be required by 4980B of the Code or similar laws.

"Eurocurrency", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans constituting such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate. For clarity, a Loan or Borrowing bearing interest by reference to clause (c) of the definition of the Alternate Base Rate shall not be a Eurocurrency Loan or Eurocurrency Borrowing.

"Event of Default" has the meaning assigned to such term in Article VII.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located, and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.18(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure or inability (other than as a result of a Change in Law) to comply with Section 2.15(e), except to the extent, other than in a case of failure to comply with Section 2.15(e), that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.15(a).

"Existing Commitment" means (i) a Commitment that was in effect on the Effective Date; or (ii) a Commitment Increase during any period that is more than 180 days after the Commitment Increase Date on which such Commitment Increase was incurred.

"Extraordinary Receipts" means any cash received by or paid to or for the account of any Obligor not in the ordinary course of business, including any foreign, United States, state or local tax refunds, pension plan reversions, judgments, proceeds of settlements or other consideration of any kind in connection with any cause of action, condemnation awards (and payments in lieu thereof), indemnity payments and any purchase price adjustment received in connection with any purchase agreement and proceeds of insurance (excluding, however, proceeds of any issuance of Equity Interests by the Borrower).

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Officer" means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

"Financing Subsidiary" means the Structured Subsidiary or any SBIC Subsidiary.

"Foreign Lender" means any Lender that is not (a) a citizen or resident of the United States, (b) a corporation, partnership or other entity created or organized in or under the laws of the United States (or any jurisdiction thereof) or (c) any estate or trust that is subject to U.S. federal income taxation regardless of the source of its income.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governmental Authority" means the government of the United States of America, or of any other nation, or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantee and Security Agreement" means the Guarantee, Pledge and Security Agreement, dated as of the date hereof, between the Borrower, the Administrative Agent, each holder (or a representative or trustee therefor) from time to time of any Secured Longer-Term Indebtedness, and the Collateral Agent, as the same shall be modified and supplemented and in effect from time to time.

"Guarantee Assumption Agreement" means a Guarantee Assumption Agreement substantially in the form of Exhibit B to the Guarantee and Security Agreement between the Collateral Agent and an entity that pursuant to Section 5.08 is required to become a "Subsidiary Guarantor" under the Guarantee and Security Agreement (with such changes as the Administrative Agent shall request consistent with the requirements of Section 5.08).

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange protection agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Increasing Lender" has the meaning assigned to such term in Section 2.07(f).

"Indebtedness" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits, loans or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar debt instruments, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (d) all obligations of such Person in respect of the deferred purchase price of property or services, (e) all Indebtedness of others secured by any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (f) all Guarantees by such Person of

Indebtedness of others; provided the amount of any Guarantee at any time shall be deemed to be an amount equal to the maximum stated or determinable amount of the primary obligation in respect of which such Guarantee is incurred, unless the terms of such Guarantee expressly provide that the maximum amount for which such Person may be liable thereunder is a lesser amount (in which case the amount of such Guarantee shall be deemed to be an amount equal to such lesser amount), (g) all Capital Lease Obligations of such Person, (h) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (i) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

"Independent" when used with respect to any specified Person means that such Person (a) does not have any direct financial interest or any material indirect financial interest in the Borrower or any of its Subsidiaries or Affiliates (including its investment advisor or any Affiliate thereof) other than ownership of publicly traded stock of the Borrower with a market value not to exceed $1,000,000 and (b) is not an officer, employee, promoter, underwriter, trustee, partner, director or a Person performing similar functions of the Borrower or of its Subsidiaries or Affiliates (including its investment advisor or any Affiliate thereof).

"Industry Classification Group" means (a) any of the classification groups that are currently in effect by Moody's or may be subsequently established by Moody's and provided by the Borrower to the Lenders, and (b) up to three additional industry group classifications established by the Borrower pursuant to Section 5.12.

"ING" means ING Capital LLC.

"Interest Election Request" means a request by the Borrower to convert or continue a Borrowing in accordance with Section 2.06.

"Interest Payment Date" means (a) with respect to any ABR Loan, each Quarterly Date and (b) with respect to any Eurocurrency Loan, the last day of each Interest Period therefor and, in the case of any Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at three-month intervals after the first day of such Interest Period.

"Interest Period" means, for any Eurocurrency Loan or Borrowing, the period commencing on the date of such Loan or Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter; provided, that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last

Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Loan initially shall be the date on which such Loan is made and thereafter shall be the effective date of the most recent conversion or continuation of such Loan, and the date of a Borrowing comprising Loans that have been converted or continued shall be the effective date of the most recent conversion or continuation of such Loans.

"Investment" means, for any Person: (a) Equity Interests, bonds, notes, debentures or other securities of any other Person or any agreement to acquire any Equity Interests, bonds, notes, debentures or other securities of any other Person (including any "short sale" or any sale of any securities at a time when such securities are not owned by the Person entering into such sale); (b) deposits, advances, loans or other extensions of credit made to any other Person (including purchases of property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such property to such Person); or (c) Hedging Agreements.

"Investment Advisor Departure Event" means Fifth Street Management, LLC or one of its Affiliates shall cease to be the investment advisor of the Borrower without having been immediately replaced with an investment advisor reasonably satisfactory to the Administrative Agent and the Required Lenders in their reasonable discretion. For clarity, in the event the Borrower elects to be self-managed in accordance with applicable law, no Investment Advisor Departure Event shall be deemed to have occurred, so long as no Key Person Departure Event has occurred.

"Investment Policies" means a written statement, in form and substance reasonably satisfactory to the Administrative Agent, of the Borrower's investment objectives, policies, restrictions and limitations, as the same may be amended from time to time by a Permitted Policy Amendment.

"Investment Company Act" means the Investment Company Act of 1940, as amended from time to time.

"Issuing Bank" means ING, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.04(j).

"Key Person Departure Event" means (i) Leonard Tannenbaum or (ii) any two of Marc Goodman, Bernard Berman or Ivelin Dimitrov, in each case, cease to be actively involved in the operations of the Borrower and such individual or individuals have not within 120 days thereafter been replaced with officers reasonably satisfactory to the Administrative Agent and the Required Lenders in their reasonable discretion.

"Largest Industry Classification Group" means, as of any date of determination, the single Industry Classification Group to which a greater portion of the Borrowing Base has been assigned pursuant to Section 5.12(a) than any other single Industry Classification Group.

"LC Disbursement" means a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC

Disbursements in respect of such Letters of Credit that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

"Lenders" means the Persons listed on Schedule 1.01(b) as having Commitments and any other Person that shall have become a party hereto pursuant to an Assignment and Assumption that provides for it to assume a Commitment or to acquire Revolving Credit Exposure, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement.

"Letter of Credit Collateral Account" has the meaning assigned to such term in Section 2.04(k).

"Letter of Credit Documents" means, with respect to any Letter of Credit, collectively, any application therefor and any other agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (a) the rights and obligations of the parties concerned or at risk with respect to such Letter of Credit or (b) any collateral security for any of such obligations, each as the same may be modified and supplemented and in effect from time to time.

"LIBO Rate" means, for any Interest Period, the British Bankers' Association Interest Settlement Rate per annum for deposits in U.S. dollars for a period equal to the Interest Period appearing on the display designated as Reuters Screen LIBOR01 Page (or such other page on that service or such other service designated by the British Bankers' Association for the display of such Association's Interest Settlement Rates for Dollar deposits) as of 11:00 a.m., London time on the day that is two Business Days prior to the first day of the Interest Period (or if such Reuters Screen LIBOR01 Page is unavailable for any reason at such time, the rate which appears on the Reuters Screen ISDA Page as of such date and such time); provided, that if the Administrative Agent determines that the relevant foregoing sources are unavailable for the relevant Interest Period, LIBO Rate shall mean the rate of interest determined by the Administrative Agent to be the average (rounded upward, if necessary, to the nearest 1/100th of 1%) of the rates per annum at which deposits in U.S. dollars are offered to the Administrative Agent two (2) business days preceding the first day of such Interest Period by leading banks in the London interbank market as of 11:00 a.m. for delivery on the first day of such Interest Period, for the number of days comprised therein and in an amount comparable to the amount of the Administrative Agent's portion of the relevant Eurocurrency Borrowing.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities, except in favor of the issuer thereof.

"Loan Documents" means, collectively, this Agreement, the Letter of Credit Documents and the Security Documents.

"Loans" means the loans made by the Lenders to the Borrower pursuant to this Agreement.

"Margin Stock" means "margin stock" within the meaning of Regulations T, U and X.

"Material Adverse Effect" means a material adverse effect on (a) the business, Portfolio Investments of the Obligors (taken as a whole) and other assets, liabilities (actual or contingent), operations or condition (financial or otherwise) of the Borrower and its Subsidiaries (other than the Financing Subsidiaries), taken as a whole, or (b) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Administrative Agent and the Lenders thereunder.

"Material Indebtedness" means (a) Indebtedness (other than the Loans, Letters of Credit and Hedging Agreements), of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding $5,000,000 and (b) obligations in respect of one or more Hedging Agreements under which the maximum aggregate amount (giving effect to any netting agreements) that the Borrower and the Subsidiaries would be required to pay if such Hedging Agreement(s) were terminated at such time would exceed $5,000,000.

"Maturity Date" means the date that is the one year anniversary of the Commitment Termination Date.

"Moody's" means Moody's Investors Service, Inc. or any successor thereto.

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Asset Sale Proceeds" means, with respect to any Asset Sale, an amount equal to (i) the sum of Cash payments and Cash Equivalents received by the Obligors from such Asset Sale (including any Cash or Cash Equivalents received by way of deferred payment pursuant to, or by monetization of, a note receivable or otherwise, but only as and when so received), minus (ii) any bona fide costs incurred by the Obligors directly incidental to such Asset Sale.

"New Commitment" means a Commitment Increase during the period that is less than 180 days after the Commitment Increase Date on which such Commitment Increase was incurred.

"Obligors" means, collectively, the Borrower and the Subsidiary Guarantors.

"Other Covered Indebtedness" means, collectively, Secured Longer-Term Indebtedness and Unsecured Shorter-Term Indebtedness.

"Other Permitted Indebtedness" means (a) accrued expenses and current trade accounts payable incurred in the ordinary course of the Borrower's business which are not overdue for a period of more than 90 days or which are being contested in good faith by appropriate proceedings, (b) Indebtedness (other than Indebtedness for borrowed money) arising in connection with transactions in the ordinary course of the Borrower's business in connection with its purchasing of securities, derivatives transactions, reverse repurchase agreements or dollar rolls to the extent such transactions are permitted under the Investment Company Act and the Borrower' s Investment Policies, provided that such Indebtedness does not arise in connection with the purchase of Eligible Portfolio Investments other than Cash Equivalents and U.S. Government Securities, (c) Indebtedness in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as such judgments or awards do not constitute an Event of Default under clause (k) of Article VII, (d) Indebtedness incurred in the ordinary course of business to finance equipment and fixtures; provided that such Indebtedness does not exceed $2,000,000 in the aggregate at any time outstanding; and (e) other Indebtedness not to exceed $1,000,000 in the aggregate.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Permitted Liens" means (a) Liens imposed by any Governmental Authority for taxes, assessments or charges not yet due or that are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of the Borrower in accordance with GAAP; (b) Liens of clearing agencies, broker-dealers and similar Liens incurred in the ordinary course of business, provided that such Liens (i) attach only to the securities (or proceeds) being purchased or sold and (ii) secure only obligations incurred in connection with such purchase or sale, and not any obligation in connection with margin financing; (c) Liens imposed by law, such as materialmen's, mechanics', carriers', workmens', storage and repairmen's Liens and other similar Liens arising in the ordinary course of business and securing obligations (other than Indebtedness for borrowed money) not yet due or that are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of the Borrower in accordance with GAAP; (d) Liens incurred or pledges or deposits made to secure obligations incurred in the ordinary course of business under workers' compensation laws, unemployment insurance or other similar social security legislation (other than in respect of employee benefit plans subject to ERISA) or to secure public or statutory obligations; (e) Liens securing the performance of, or payment in respect of, bids, insurance premiums, deductibles or co-insured amounts, tenders, government or utility contracts (other than for the repayment of borrowed money), surety, stay, customs and appeal bonds and other obligations of a similar nature incurred in the ordinary course of business; (f) Liens arising out of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as such judgments or awards do not constitute an Event of Default; (g) customary rights of setoff and liens upon (i) deposits of cash in favor of banks or other depository institutions in which such cash is maintained in the ordinary course of business, (ii) cash and financial assets held in securities accounts in favor of banks and other financial institutions with which such accounts are maintained in the ordinary course of business and (iii) assets held by a custodian in favor of such custodian in the ordinary course of business securing payment of fees, indemnities and other similar obligations; (h) Liens arising solely from precautionary filings of financing statements under the Uniform Commercial Code of the applicable jurisdictions in respect of operating leases entered into by the Borrower or any of its Subsidiaries in the ordinary course of business; (i) zoning restrictions, easements, licenses, or other restrictions on the use of any real estate (including leasehold title), in each case which do not interfere with or affect in any material respect the ordinary course conduct of the business of the Borrower and its Subsidiaries; and (j) purchase money Liens on specific equipment and fixtures provided that (i) such Liens only attach to such equipment and fixtures, (ii) the Indebtedness secured thereby is incurred pursuant to clause (d) of the definition of "Other Permitted Indebtedness" and (iii) the Indebtedness secured thereby does not exceed the lesser of the cost and the fair market value of such equipment and fixtures at the time of the acquisition thereof.

"Permitted Policy Amendment" is an amendment, modification, termination or restatement of either the Investment Policies or the Proprietary Rating System, that is either (i) approved in writing by the Administrative Agent (with the consent of the Required Lenders) or (ii) required by applicable law or Governmental Authority.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Portfolio Company" means the issuer or obligor under any Portfolio Investment held by any Obligor.

"Portfolio Investment" means any Investment held by the Borrower and its Subsidiaries in their asset portfolio.

"Prime Rate" means the rate of interest quoted in *The Wall Street Journal*, Money Rates Section, as the Prime Rate (currently defined as the base rate on corporate loans posted by at least seventy-five percent (75%) of the nation's thirty (30) largest banks), as in effect from time to time. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. The Administrative Agent or any Lender may make commercial loans or other loans at rates of interest at, above, or below the Prime Rate.

"Proprietary Rating System" means the five-level numeric rating system used by the Borrower to rate the credit profile and expected level of returns on Portfolio Investments as described in the Borrower's Form 10-Q filed with the SEC on May 5, 2010, as may be amended pursuant to a Permitted Policy Amendment.

“Quarterly Dates” means the last Business Day of March, June, September and December in each year, commencing on June 30, 2010.

“Register” has the meaning set forth in Section 9.04.

“Regulations D, T, U and X” means, respectively, Regulations D, T, U and X of the Board of Governors of the Federal Reserve System (or any successor), as the same may be modified and supplemented and in effect from time to time.

“Related Parties” means, with respect to any specified Person, such Person’s Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person’s Affiliates.

“Required Lenders” means, at any time, subject to Section 2.17(b), Lenders having Revolving Credit Exposures and unused Commitments representing more than 50% of the sum of the total Revolving Credit Exposures and unused Commitments at such time; provided, that, (i) if there are only three (3) Lenders at such time, “Required Lenders” shall mean Lenders having Revolving Credit Exposures and unused Commitments representing more than 66.6% of the sum of the total Revolving Credit Exposures and unused Commitments at such time and (ii) if there are only two (2) Lenders at such time, “Required Lenders” shall mean all Lenders.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any shares of any class of capital stock of the Borrower or any of its Subsidiaries, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of capital stock of the Borrower or any option, warrant or other right to acquire any such shares of capital stock of the Borrower.

“Revolving Credit Exposure” means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender’s Loans and LC Exposure at such time.

“Revolving Percentage” means, as of any date of determination, the result, expressed as a percentage, of the aggregate Revolving Credit Exposure on such date divided by the aggregate outstanding Covered Debt Amount on such date.

“Return of Capital” means any return of capital received by the Obligors in respect of any Portfolio Investment, including, without limitation, any amount received in respect of principal (whether at stated maturity, by acceleration or otherwise) and any proceeds of the sale of any property or assets pledged as collateral in respect of such Portfolio Investment to the extent such proceeds are less than or equal to the outstanding principal balance of such Portfolio Investment.

“RIC” means a person qualifying for treatment as a “regulated investment company” under the Code.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc., a New York corporation, or any successor thereto.

“SBA” means the United States Small Business Administration or any Governmental Authority succeeding to any or all of the functions thereof.

“SBIC Agreements” means each of (i) the SBIC Guarantee, (ii) the Investment Advisory Agreement dated as of August 13, 2009 by and among the Borrower, Fifth Street Mezzanine Partners IV, L.P., and FSMP IV GP, LLC, and (iii) the Administration Agreement dated August as of August 13, 2009 by and among the Borrower, Fifth Street Mezzanine Partners IV, L.P., and FSMP IV GP, LLC.

“SBIC Guarantee” means the Transferor’s Liability Contract dated June 22, 2009 executed by the Borrower in favor of the SBA.

“SBIC Subsidiary” means each of (i) Fifth Street Mezzanine Partners IV, L.P., (ii) FSMP IV GP, LLC and (iii) any other Subsidiary of the Borrower (or such Subsidiary’s general partner or manager entity) that is (x) a “small business investment company” licensed by the SBA (or that has applied for such a license and is actively pursuing the granting thereof by appropriate proceedings promptly instituted and diligently conducted) under the Small Business Investment Act of 1958, as amended, and (y) designated by the Borrower (as provided below) as an SBIC Subsidiary, in the case of each of clauses (i), (ii) and (iii), so long as:

(a) other than pursuant to the SBIC Guarantee with respect to the existing SBIC Subsidiaries as of the date hereof or any substantially identical agreement with respect to any future SBIC Subsidiary, no portion of the Indebtedness or any other obligations (contingent or otherwise) of such Person (i) is Guaranteed by the Borrower or any of its Subsidiaries (other than any SBIC Subsidiary), (ii) is recourse to or obligates the Borrower or any of its Subsidiaries (other than any SBIC Subsidiary) in any way, or (iii) subjects any property of the Borrower or any of its Subsidiaries (other than any SBIC Subsidiary) to the satisfaction thereof, other than Equity Interests in any SBIC Subsidiary pledged to secure such Indebtedness;

(b) other than pursuant to the SBIC Agreements with respect to the existing SBIC Subsidiaries as of the date hereof or any substantially identical agreement with respect to any future SBIC Subsidiary, neither the Borrower nor any of its Subsidiaries has any material contract, agreement, arrangement or understanding with such Person other than on terms no less favorable to the Borrower or such Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Borrower or such Subsidiary;

(c) neither the Borrower nor any of its Subsidiaries (other than any SBIC Subsidiary) has any obligation to such Person to maintain or preserve its financial condition or cause it to achieve certain levels of operating results; and

(d) such Person has not Guaranteed or become a co-borrower under, and has not granted a security interest in any of its properties to secure, and the Equity Interests it has issued are not pledged to secure, in each case, any indebtedness, liabilities or obligations of any one or more of the Obligors.

Any designation by the Borrower under clause (iii) above shall be effected pursuant to a certificate of a Financial Officer delivered to the Administrative Agent, which certificate shall include a statement to the effect that, to the best of such officer's knowledge, such designation complied with the foregoing conditions.

"SEC" means the United States Securities and Exchange Commission or any Governmental Authority succeeding to any or all of the functions thereof.

"Secured Longer-Term Indebtedness" means, as at any date, Indebtedness (other than Indebtedness hereunder) of the Borrower (which may be Guaranteed by Subsidiary Guarantors) that (a) has no amortization prior to, and a final maturity date not earlier than, six months after the Maturity Date, (b) is incurred pursuant to documentation containing other terms (including interest, amortization, covenants and events of default) that are no more restrictive upon the Borrower and its Subsidiaries than those set forth in this Agreement and (c) ranks pari passu with the Loans and is not secured by any assets of any Obligor other than pursuant to the Security Documents and the holders of which have agreed, in a manner satisfactory to the Administrative Agent and the Collateral Agent, to be bound by the provisions of the Security Documents.

"Security Documents" means, collectively, the Guarantee and Security Agreement, the Custodian Agreement, all Uniform Commercial Code financing statements filed with respect to the security interests in personal property created pursuant to the Guarantee and Security Agreement and all other assignments, pledge agreements, security agreements, control agreements and other instruments executed and delivered at any time by any of the Obligors pursuant to the Guarantee and Security Agreement or otherwise providing or relating to any collateral security for any of the Secured Obligations under and as defined in the Guarantee and Security Agreement.

"Senior Securities" means senior securities (as such term is defined and determined pursuant to the Investment Company Act and any orders of the SEC issued to the Borrower thereunder).

"Shareholders' Equity" means, at any date, the amount determined on a consolidated basis, without duplication, in accordance with GAAP, of shareholders' equity for the Borrower and its Subsidiaries at such date.

"Solvent" means, with respect to any Obligor, that as of the date of determination, both (i) (a) the sum of such Obligor's debt and liabilities (including contingent liabilities) does not exceed the present fair saleable value of such Person's present assets, (b) such Obligor's capital is not unreasonably small in relation to its business as contemplated on the Effective Date and reflected in any projections delivered to the Lenders or with respect to any transaction contemplated or undertaken after the Effective Date, and (c) such Obligor has not incurred and does not intend to incur, or believe (nor should it reasonably believe) that it will incur, debts beyond its ability to pay such debts as they become due (whether at maturity or otherwise); and (ii) such Obligor is "solvent" within the meaning given to such term and similar terms under applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability (irrespective of whether such contingent liabilities meet the criteria for accrual under Statement of Financial Accounting Standard No. 5).

"Statutory Reserve Rate" means, for the Interest Period for any Eurocurrency Borrowing, a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the arithmetic mean, taken over each day in such Interest Period, of the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject for eurocurrency funding (currently referred to as "Eurocurrency liabilities" in Regulation D). Such reserve percentages shall include those imposed pursuant to Regulation D. Eurocurrency Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Structured Facility" means the credit facility established on November 16, 2009 between, among others, the Structured Subsidiary and Wells Fargo Securities, LLC, pursuant to the Structured Facility Agreements.

"Structured Facility Agreements" means, collectively, (a) Structured Loan Agreement, (b) the Structured Purchase Agreement, (c) the Structured Pledge Agreement, (d) the Collection Account Agreement (as defined in the Structured Loan Agreement) and (e) the Unfunded Exposure Account Agreement (as defined in the Structured Loan Agreement).

"Structured Loan Agreement" means the Loan and Servicing Agreement, dated as of November 16, 2009 (as amended by the Structured Loan Amendment), among the Structured Subsidiary, the Borrower, each of the conduit lenders and institutional lenders from time to time party thereto, Wells Fargo Securities, LLC, as administrative agent, and the other parties thereto.

"Structured Loan Amendment" means that certain Omnibus Amendment No. 1 to the Structured Loan Agreement, dated as of May 26, 2010, between the Structured Subsidiary, as Borrower, the Borrower, Wells Fargo Securities, LLC, as administrative agent, and the other parties thereto.

"Structured Pledge Agreement" means the Pledge Agreement, dated as of November 16, 2009, between the Borrower, as pledgor, and Wells Fargo Securities, LLC, as secured party.

"Structured Purchase Agreement" means the Purchase and Sale Agreement, dated as of November 16, 2009, between the Borrower, as seller, and the Structured Subsidiary, as purchaser.

"Structured Subsidiary" means Fifth Street Funding, LLC, a Delaware limited liability company and a wholly-owned Subsidiary of the Borrower, so long as

(a) such Person engages in no material activities other than in connection with the purchase of Portfolio Investments from the Borrower and the financing thereof using the Structured Facility or any other Indebtedness permitted to be incurred by such Person pursuant to Section 6.01(d);

(b) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is Guaranteed by the Borrower or any of its Subsidiaries, (ii) is recourse to or obligates the Borrower or any of its Subsidiaries (other than such Person) in any way other than pursuant to the obligations of the Borrower pursuant to and in accordance with the Structured Facility Agreements as in effect on the date hereof and the repurchase and limited recourse obligations of the Borrower, in its capacity as seller, under the Structured Purchase Agreement as in effect on the date hereof, or (iii) subjects any property of the Borrower or any of its Subsidiaries (other than such Person) to the satisfaction thereof, other than the Equity Interests in such Person pledged by the Borrower pursuant to the Structured Pledge Agreement as in effect on the date hereof;

(c) other than the Structured Facility Agreements as in effect on the date hereof, neither the Borrower nor any of its Subsidiaries has any material contract, agreement, arrangement or understanding with such Person other than on terms no less favorable to the Borrower or such Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Borrower or such Subsidiary;

(d) neither the Borrower nor any of its Subsidiaries has any obligation to such Person to maintain or preserve its financial condition or cause such Person to achieve certain levels of operating results;

(e) such Person has not Guaranteed or become a co-borrower under, and has not granted a security interest in any of its properties to secure, and the Equity Interests it has issued are not pledged to secure, in each case, any indebtedness, liabilities or obligations of any one or more of the Obligors; and

(f) the Structured Facility or any other Indebtedness permitted to be incurred by such Person pursuant to Section 6.01(d) remains outstanding.

"Subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent. Anything herein to the contrary notwithstanding, the term "Subsidiary" shall not include any Person that constitutes an Investment held by the Borrower in the ordinary course of business and that is not, under GAAP, consolidated on the financial statements of the Borrower and its Subsidiaries. Unless otherwise specified, “Subsidiary” means a Subsidiary of the Borrower.

“Subsidiary Guarantor” means any Subsidiary that is or is required to be a Guarantor under the Guarantee and Security Agreement. It is understood and agreed that, subject to Section 5.08(a), no Financing Subsidiary shall be required to be Subsidiary Guarantors as long as it remains a Financing Subsidiary as defined and described herein.

“Taxes” means any and all present or future taxes levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“Termination Date” means the date on which the Commitments have expired or been terminated and the principal of and accrued interest on each Loan and all fees and other amounts payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated (or cash collateralized with cash deposited in the Letter of Credit Collateral Account in an amount equal to 102% of the aggregate undrawn face amount thereof or otherwise subject to a back-to-back letter of credit reasonably satisfactory to the Administrative Agent and the Required Lenders) and all LC Disbursements then outstanding shall have been reimbursed.

“Transactions” means the execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

“Type”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans constituting such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

“Uniform Commercial Code” means the Uniform Commercial Code as in effect from time to time in the State of New York.

“Unsecured Longer-Term Indebtedness” means any Indebtedness of the Borrower that (a) has no amortization prior to, and a final maturity date not earlier than, six months after the Maturity Date, (b) is incurred pursuant to documentation containing other terms (including interest, amortization, covenants and events of default) that are no more restrictive upon the Borrower and its Subsidiaries than those set forth in this Agreement and (c) is not secured by any assets of any Obligor.

“Unsecured Shorter-Term Indebtedness” means, collectively, (a) any Indebtedness of the Borrower or any Subsidiary that is not secured by any assets of any Obligor and that does not constitute Unsecured Longer-Term Indebtedness and (b) any Indebtedness that is designated as “Unsecured Shorter-Term Indebtedness” pursuant to Section 6.11(a).

“Unused Portion” means, with respect to any Lender during any period of determination, the average daily unused amount of the aggregate Commitments of such Lender during such period.

“U.S. Government Securities” means securities that are direct obligations of, and obligations the timely payment of principal and interest on which is fully guaranteed by, the

United States or any agency or instrumentality of the United States the obligations of which are backed by the full faith and credit of the United States and in the form of conventional bills, bonds, and notes.

"Value" has the meaning assigned to such term in Section 5.13.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Type (e.g., an "ABR Loan"). Borrowings also may be classified and referred to by Type (e.g., an "ABR Borrowing").

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof' and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), then Borrower, Administrative Agent and the Lenders agree to enter into negotiations in order to amend such provisions of the Agreement so as to equitably reflect such change to comply with GAAP with the desired result that the criteria for evaluating the Borrower's financial condition shall be the same after such change to comply with GAAP as if such change had not been made; provided, however, until such amendments to equitably reflect such changes are effective and agreed to by Borrower, Administrative Agent and the Required Lenders, the Borrower's compliance with such financial covenants shall be determined on the basis of GAAP as in effect and applied immediately before such change in GAAP becomes effective. Notwithstanding the foregoing or anything herein to the contrary, the Borrower covenants and agrees with the Lenders that whether or not the Borrower may at any time adopt Financial Accounting Standard No. 159, all determinations of compliance with the terms and conditions of this Agreement shall be made on the basis that the Borrower has not adopted Financial Accounting Standard No. 159.

## ARTICLE II

## THE CREDITS

SECTION 2.01. The Commitments. Subject to the terms and conditions set forth herein, each Lender agrees to make Loans to the Borrower from time to time during the Availability Period in an aggregate principal amount that will not result in (i) such Lender's Revolving Credit Exposure exceeding such Lender's Commitment, (ii) the aggregate Revolving Credit Exposure of all of the Lenders exceeding the aggregate Commitments or (iii) the total Covered Debt Amount exceeding the Borrowing Base then in effect. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Loans.

SECTION 2.02. Loans and Borrowings.

(a) Obligations of Lenders. Each Loan shall be made as part of a Borrowing consisting of Loans of the same Type made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Type of Loans. Subject to Section 2.12, each Borrowing shall be constituted entirely of ABR Loans or of Eurocurrency Loans as the Borrower may request in accordance herewith. Each Loan shall be denominated in Dollars. Each Lender at its option may make any Eurocurrency Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) Minimum Amounts. Each Eurocurrency Borrowing shall be in an aggregate amount of $1,000,000 or a larger multiple of $100,000, and each ABR Borrowing shall be in an aggregate amount of $1,000,000 or a larger multiple of $100,000; provided that an ABR Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.04(f). Borrowings of more than one Type may be outstanding at the same time.

(d) Limitations on Interest Periods. Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request (or to elect to convert to or continue as a Eurocurrency Borrowing) any Borrowing if the Interest Period requested therefor would end after the Maturity Date.

SECTION 2.03. Requests for Borrowings .

(a) Notice by the Borrower. To request a Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (i) in the case of a Eurocurrency Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing or (ii) in the case of an ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower.

(b) Content of Borrowing Requests. Each telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of the requested Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be an ABR Borrowing or a Eurocurrency Borrowing;

(iv) in the case of a Eurocurrency Borrowing, the Interest Period therefor, which shall be a period contemplated by the definition of the term "Interest Period" and permitted under Section 2.02(d); and

(v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.05.

(c) Notice by the Administrative Agent to the Lenders. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each applicable Lender of the details thereof and of the amounts of such Lender's Loan to be made as part of the requested Borrowing.

(d) Failure to Elect. If no election as to the Type of a Borrowing is specified, then the requested Borrowing shall be a Eurocurrency Borrowing having an Interest Period of one month. If a Eurocurrency Borrowing is requested but no Interest Period is specified, the Borrower shall be deemed to have selected an Interest Period of one month's duration.

SECTION 2.04. Letters of Credit .

(a) General. Subject to the terms and conditions set forth herein, in addition to the Loans provided for in Section 2.01, the Borrower may request the Issuing Bank to issue, at any time and from time to time during the Availability Period, Letters of Credit denominated in Dollars for the purposes set forth in Section 5.09 in such form as is acceptable to the Issuing

Bank in its reasonable determination. Letters of Credit issued hereunder shall constitute utilization of the Commitments up to the aggregate amount available to be drawn thereunder.

(b) Notice of Issuance, Amendment, Renewal or Extension. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (d) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(c) Limitations on Amounts. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the aggregate LC Exposure of the Issuing Bank (determined for these purposes without giving effect to the participations therein of the Lenders pursuant to paragraph (e) of this Section) shall not exceed $10,000,000, (ii) the total Revolving Credit Exposures shall not exceed the aggregate Commitments and (iii) the total Covered Debt Amount shall not exceed the Borrowing Base then in effect.

(d) Expiration Date. Subject to Section 2.08(a), each Letter of Credit shall expire at or prior to the close of business on the date twelve months after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, twelve months after the then-current expiration date of such Letter of Credit, so long as such renewal or extension occurs within three months of such then-current expiration date); provided that any Letter of Credit with a one-year term may provide for the renewal thereof for additional one-year periods; provided, further, that in no event shall any Letter of Credit have an expiration date that is later than the Maturity Date unless the Borrower shall have deposited Cash into the Letter of Credit Collateral Account at the time of issuance thereof in an amount equal to 102% of the face amount thereof.

(e) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) by the Issuing Bank, and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, provided that no Lender shall be required to purchase a participation in a Letter of Credit pursuant to this Section 2.04(e) if (1)(x) the conditions set forth in Section 4.02 would not be satisfied in respect of a Borrowing at the time such Letter of Credit was issued and (y) the Required Lenders shall have so notified the Issuing Bank in writing and shall not have subsequently determined that the circumstances giving rise to such conditions not being satisfied no longer exist, or (2) such Letter of Credit has an expiration date that is later than the Maturity Date.

In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank in respect of Letters of Credit (other than Letters of Credit with an expiration date that is later than the Maturity Date) promptly upon the request of the Issuing Bank at any time from the time of such LC Disbursement until such LC Disbursement is reimbursed by the Borrower or at any time after any reimbursement payment is required to be refunded to the Borrower for any reason. Such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each such payment shall be made in the same manner as provided in Section 2.05 with respect to Loans made by such Lender (and Section 2.05 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to the next following paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that the Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse the Issuing Bank in respect of such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 11:00 a.m., New York City time, on (i) the Business Day that the Borrower receives notice of such LC Disbursement, if such notice is received prior to 10:00 a.m., New York City time, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time, provided that, if such LC Disbursement is not less than $1,000,000, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be financed with an ABR Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Borrowing.

If the Borrower fails to make such payment when due, the Administrative Agent shall notify each applicable Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof.

(g) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (f) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply strictly with the terms of such Letter of Credit, and (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit by the Issuing Bank or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's gross negligence or willful misconduct when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that:

(i) the Issuing Bank may accept documents that appear on their face to be in substantial compliance with the terms of a Letter of Credit without responsibility for further investigation, regardless of any notice or information to the contrary, and may make payment upon presentation of documents that appear on their face to be in substantial compliance with the terms of such Letter of Credit;

(ii) the Issuing Bank shall have the right, in its sole discretion, to decline to accept such documents and to make such payment if such documents are not in strict compliance with the terms of such Letter of Credit; and

(iii) this sentence shall establish the standard of care to be exercised by the Issuing Bank when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof (and the parties hereto hereby waive, to the extent permitted by applicable law, any standard of care inconsistent with the foregoing).

(h) Disbursement Procedures. The Issuing Bank shall, within a reasonable time following its receipt thereof examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly after such examination notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such LC Disbursement.

(i) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Loans; provided that, if the Borrower fails to reimburse such LC Disbursement within two Business Days following the date when due pursuant to paragraph (f) of this Section, then the provisions of Section 2.11(c) shall apply. Interest accrued pursuant to this paragraph shall be for account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for account of such Lender to the extent of such payment.

(j) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. In addition to the foregoing, if a Lender becomes, and during the period in which it remains, a Defaulting Lender, and any Default has arisen from a failure of the Borrower to comply with Section 2.17(c), then the Issuing Bank may, upon prior written notice to the Borrower and the Administrative Agent, resign as Issuing Bank, effective at the close of business New York City time on a date specified in such notice (which date may not be less than five (5) Business Days after the date of such notice). On or after the effective date of any such resignation, the Borrower and the Administrative Agent may, by written agreement, appoint a successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement under any of the foregoing circumstances shall become effective, the Borrower shall pay all unpaid fees accrued for account of the replaced Issuing Bank pursuant to Section 2.10(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the replaced Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term “Issuing Bank” shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of the Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(k) Cash Collateralization. If the Borrower shall be required or shall elect, as the case may be, to provide cover for LC Exposure pursuant to the definition of “Termination Date” in Section 1.01, Section 2.04(d), Section 2.08(a), Section 2.09(b), 2.17(c)(ii) or the last paragraph of Article VII, the Borrower shall immediately deposit into a segregated collateral account or accounts (herein, collectively, the “Letter of Credit Collateral Account”) in the name and under the dominion and control of the Administrative Agent Cash denominated in Dollars in an amount equal to the amount required under the definition of "Termination Date" in Section 1.01, Section 2.04(d), Section 2.08(a), Section 2.09(b), 2.17(c)(ii) or the last paragraph of Article VII, as applicable. Such deposit shall be held by the Administrative Agent as collateral in the first instance for the LC Exposure under this Agreement and thereafter for the payment of the "Secured Obligations" under and as defined in the Guarantee and Security Agreement, and for these purposes the Borrower hereby grants a security interest to the Administrative Agent for the benefit of the Lenders in the Letter of Credit Collateral Account and in any financial assets (as defined in the Uniform Commercial Code) or other property held therein.

SECTION 2.05. Funding of Borrowings.

(a) Funding by Lenders. Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 1:00 p.m., New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower designated by the Borrower in the applicable Borrowing Request; provided that ABR Borrowings made to finance the reimbursement of an LC Disbursement as provided in Section 2.04(f) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Presumption by the Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the Federal Funds Effective Rate and (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.06. Interest Elections.

(a) Elections by the Borrower for Borrowings. Subject to Section 2.03(d), the Loans constituting each Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurocurrency Borrowing, shall have the Interest Period specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a Borrowing of a different Type or to continue such Borrowing as a Borrowing of the same Type and, in the case of a Eurocurrency Borrowing, may elect the Interest Period therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders, and the Loans constituting each such portion shall be considered a separate Borrowing.

(b) Notice of Elections. To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly (but no later than the close of business on the date of such request) by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Content of Interest Election Requests. Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) of this paragraph shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurocurrency Borrowing; and

(iv) if the resulting Borrowing is a Eurocurrency Borrowing, the Interest Period therefor after giving effect to such election, which shall be a period contemplated by the definition of the term “Interest Period” and permitted under Section 2.02(d).

(d) Notice by the Administrative Agent to the Lenders. Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each applicable Lender of the details thereof and of such Lender’s portion of each resulting Borrowing.

(e) Failure to Elect; Events of Default. If the Borrower fails to deliver a timely and complete Interest Election Request with respect to a Eurocurrency Borrowing prior to the end of the Interest Period therefor, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to a Eurocurrency Borrowing having an Interest Period of one month. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, any Eurocurrency Borrowing shall, at the end of the applicable Interest Period for such Eurocurrency Borrowing, be automatically converted to an ABR Borrowing.

SECTION 2.07. Termination, Reduction or Increase of the Commitments.

(a) Scheduled Termination. Unless previously terminated in accordance with the terms of this Agreement, on the Commitment Termination Date the Commitments shall automatically be reduced to an amount equal to the aggregate principal amount of the Loans and LC Exposure of all Lenders outstanding on the Commitment Termination Date.

(b) Voluntary Termination or Reduction. The Borrower may at any time terminate, or from time to time reduce, the Commitments; provided that (i) each reduction of the Commitments shall be in an amount that is $1,000,000 or a larger multiple of $1,000,000 in excess thereof and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.09, the total Revolving Credit Exposures would exceed the total Commitments.

(c) Notice of Voluntary Termination or Reduction. The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the applicable Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied.

(d) Effect of Termination or Reduction. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

(e) Call Protection. If the Commitments are voluntarily terminated or reduced by the Borrower pursuant to Section 2.07(b) at any time on or prior to the date that is the one-year anniversary of the Effective Date, the Borrower shall on the date of any such termination or reduction pay to the Administrative Agent, for the ratable benefit of the Lenders, an amount equal to two percent (2%) of the aggregate principal amount of such termination or reduction.

(f) Increase of the Commitments.

(i) Requests for Increase by Borrower. The Borrower may, at any time, propose that the Commitments hereunder be increased (each such proposed increase being a "Commitment Increase") by notice to the Administrative Agent specifying each existing Lender (each an "Increasing Lender") and/or each additional lender (each an "Assuming Lender") that shall have agreed to an additional Commitment and the date on which such increase is to be effective (the "Commitment Increase Date"), which shall be a Business Day at least three Business Days after delivery of such notice and 30 days prior to the Commitment Termination Date; provided that each Lender may determine in its sole discretion whether or not it chooses to participate in a Commitment Increase; provided, further that:

(A) the minimum amount of the Commitment of any Assuming Lender, and the minimum amount of the increase of the Commitment of any Increasing Lender, as part of such commitment Increase shall be $5,000,000 or a larger multiple of $1,000,000 in excess thereof,

(B) immediately after giving effect to such Commitment Increase, the total Commitments of all of the Lenders hereunder shall not exceed $150,000,000;

(C) each Assuming Lender shall be consented to by the Administrative Agent and the Issuing Bank;

(D) no Default shall have occurred and be continuing on such Commitment Increase Date or shall result from the proposed Commitment Increase; and

(E) the representations and warranties contained in this Agreement shall be true and correct on and as of the Commitment Increase Date as if made on and as of such date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date).

(ii) Effectiveness of Commitment Increase by Borrower. The Assuming Lender, if any, shall become a Lender hereunder as of such Commitment Increase Date and the Commitment of any Increasing Lender and such Assuming Lender shall be increased as of such Commitment Increase Date; provided that:

(x) the Administrative Agent shall have received on or prior to 11:00 a.m., New York City time, on such Commitment Increase Date (or on or prior to a time on an earlier date specified by the Administrative Agent) a certificate of a duly authorized officer of the Borrower stating that each of the applicable conditions to such Commitment Increase set forth in the foregoing paragraph (i) has been satisfied; and

(y) each Assuming Lender or Increasing Lender shall have delivered to the Administrative Agent, on or prior to 11:00 a.m., New York City time on such Commitment Increase Date (or on or prior to a time on an earlier date specified by the Administrative Agent), an agreement, in form and substance satisfactory to the Borrower and the Administrative Agent, pursuant to which such Lender shall, effective as of such Commitment Increase Date, undertake a Commitment or an increase of Commitment, duly executed by such Assuming Lender and the Borrower and acknowledged by the Administrative Agent.

Promptly following satisfaction of such conditions, the Administrative Agent shall notify the Lenders (including any Assuming Lenders) thereof and of the occurrence of the Commitment Increase Date by facsimile transmission or electronic messaging system.

(iii) Recordation into Register. Upon its receipt of an agreement referred to in clause (ii)(y) above executed by an Assuming Lender or any Increasing Lender, together with the certificate referred to in clause (ii)(x) above, the Administrative Agent shall, if such agreement has been completed, (x) accept such agreement, (y) record the information contained therein in the Register and (z) give prompt notice thereof to the Borrower.

(iv) Adjustments of Borrowings upon Effectiveness of Increase. On the Commitment Increase Date, the Borrower shall (A) prepay the outstanding Loans (if any) in full, (B) simultaneously borrow new Loans hereunder in an amount equal to such prepayment; provided that with respect to subclauses (A) and (B), (x) the prepayment to, and borrowing from, any existing Lender shall be effected by book entry to the extent that any portion of the amount prepaid to such Lender will be subsequently borrowed from such Lender and (y) the existing Lenders, the Increasing Lenders and the Assuming Lenders shall make and receive payments among themselves, in a manner acceptable to the Administrative Agent, so that, after giving effect thereto, the Loans are held ratably by the Lenders in accordance with the respective Commitments of such Lenders (after giving effect to such Commitment Increase) and (C) pay to the Lenders the amounts, if any, payable under Section 2.14 as a result of any such prepayment. Notwithstanding the foregoing, unless otherwise consented in writing by the Borrower, no Commitment Increase Date shall occur on any day other than the last day of an Interest Period. Concurrently therewith, the Lenders shall be deemed to have adjusted their participation interests in any outstanding Letters of Credit so that such interests are held ratably in accordance with their commitments as so increased.

SECTION 2.08. Repayment of Loans; Evidence of Debt.

(a) Repayment. Subject to, and in accordance with, the terms of this Agreement, the Borrower hereby unconditionally promises to pay to the Administrative Agent for account of the Lenders the outstanding principal amount of the Loans on the Maturity Date.

In addition, on the date that is thirty (30) days prior to the Maturity Date, the Borrower shall deposit into the Letter of Credit Collateral Account Cash in an amount equal to 102% of the undrawn face amount of all Letters of Credit outstanding on the close of business on such date, such deposit to be held by the Administrative Agent as collateral security for the LC Exposure under this Agreement in respect of the undrawn portion of such Letters of Credit.

(b) Manner of Payment. Prior to any repayment or prepayment of any Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be paid and shall notify the Administrative Agent by telephone (confirmed by telecopy) of such selection not later than the time set forth in Section 2.09(d) prior to the scheduled date of such repayment; provided that each repayment of Borrowings shall be applied to repay any outstanding ABR Borrowings before any other Borrowings. If the Borrower fails to make a timely selection of the Borrowing or Borrowings to be repaid or prepaid, such payment shall be applied, first, to pay any outstanding ABR Borrowings and, second, to other Borrowings in the order of the remaining duration of their respective Interest Periods (the Borrowing with the shortest remaining Interest Period to be repaid first). Each payment of a Borrowing shall be applied ratably to the Loans included in such Borrowing.

(c) Maintenance of Records by Lenders. Each Lender shall maintain in accordance with its usual practice records evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(d) Maintenance of Records by the Administrative Agent. The Administrative Agent shall maintain records in which it shall record (i) the amount of each Loan made hereunder, the Type thereof and each Interest Period therefor, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for account of the Lenders and each Lender's share thereof.

(e) Effect of Entries. The entries made in the records maintained pursuant to paragraph (c) or (d) of this Section shall be prima facie evidence, absent manifest error, of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such records or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(f) Promissory Notes. Any Lender may request that Loans made by it be evidenced by a promissory note; in such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to such Lender (or, if requested by such Lender, to such Lender and its permitted registered assigns) and in a form attached hereto as Exhibit C. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the payee named therein (or, if such promissory note is a registered note, to such payee and its permitted registered assigns).

SECTION 2.09. Prepayment of Loans.

(a) Optional Prepayments. The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, without premium or fee (but subject to Section 2.14), subject to the requirements of this Section.

(b) Mandatory Prepayments due to Borrowing Base Deficiency. In the event that at any time any Borrowing Base Deficiency shall exist, the Borrower shall prepay the Loans (or provide cover for Letters of Credit as contemplated by Section 2.04(k)) or reduce Other Covered Indebtedness in such amounts as shall be necessary so that such Borrowing Base Deficiency is immediately cured, provided that the aggregate amount of such prepayment of Loans (and cover for Letters of Credit) shall be at least equal to the Revolving Percentage times the aggregate prepayment of the Covered Debt Amount.

(c) Mandatory Prepayments due to Certain Events Following Availability Period.

(i) Asset Sales. In the event that any Obligor shall receive any Net Asset Sale Proceeds at any time after the Availability Period, the Borrower shall, no later than the third Business Day following the receipt of such Net Asset Sale Proceeds, prepay the Loans in an amount equal to such Net Asset Sale Proceeds (and the Commitments shall be permanently reduced by such amount); provided, that if the Loans to be prepaid are Eurocurrency Loans, the Borrower may defer such prepayment (and permanent Commitment reduction) until the last day of the Interest Period applicable to such Loans, so long as the Borrower deposits an amount equal to such Net Asset Sale Proceeds, no later than the third Business Day following the receipt of such Net Asset Sale Proceeds, into a segregated collateral account in the name and under the dominion and control of the Administrative Agent pending application of such amount to the prepayment of the Loans (and permanent reduction of the Commitments) on the last day of such Interest Period.

(ii) Extraordinary Receipts. In the event that any Obligor shall receive any Extraordinary Receipts at any time after the Availability Period, the Borrower shall, no later than the third Business Day following the receipt of such Extraordinary Receipts, prepay the Loans in an amount equal to such Extraordinary Receipts (and the Commitments shall be permanently reduced by such amount).

(iii) Returns of Capital. In the event that any Obligor shall receive any Return of Capital at any time after the Availability Period, the Borrower shall, no later than the third Business Day following the receipt of such Return of Capital, prepay the Loans in an amount equal to such Return of Capital (and the Commitments shall be permanently reduced by such amount).

(iv) Equity Issuances. In the event that the Borrower shall receive any Cash proceeds from the issuance of Equity Interests of the Borrower at any time after the Availability Period, the Borrower shall, no later than the third Business Day following the receipt of such Cash proceeds, prepay the Loans in an amount equal to fifty percent (50%) of such Cash proceeds, net of underwriting discounts and commissions and other reasonable costs and expenses associated therewith, including reasonable legal fees and expenses (and the Commitments shall be permanently reduced by such amount).

(v) Indebtedness. In the event that any Obligor shall receive any Cash proceeds from the issuance of Indebtedness at any time after the Availability Period, such Obligor shall, no later than the third Business Day following the receipt of such Cash proceeds, prepay the Loans in an amount equal to fifty percent (50%) of such Cash proceeds, net of reasonable costs and expenses associated therewith, including reasonable legal fees and expenses (and the Commitments shall be permanently reduced by such amount).

(d) Notices, Etc. The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurocurrency Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment or (ii) in the case of prepayment of an ABR Borrowing, not later than 11:00 a.m., New York City, one Business Days before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid and, in the case of a mandatory prepayment, a reasonably detailed calculation of the amount of such prepayment; provided, that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.07, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.07. Promptly following receipt of any such notice relating to a Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of a Borrowing of the same Type as provided in Section 2.02, except as necessary to apply fully the required amount of a mandatory prepayment. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.11 and shall be made in the manner specified in Section 2.08(b).

SECTION 2.10. Fees.

(a) Commitment Fee. The Borrower agrees to pay to the Administrative Agent for account of each Lender a commitment fee, which shall accrue at the Applicable Commitment Fee Rate on (x) the average daily unused amount of the Existing Commitment of such Lender, if any, and (y) the average daily unused amount of the New Commitments of such Lender, if any, in each case, during the period from and including the date hereof to but excluding the earlier of the date the Commitments terminate and the Commitment Termination Date. Accrued commitment fees shall be payable within one Business Day after each Quarterly Date and on the earlier of the date the Commitments terminate and the Commitment Termination Date, commencing on the first such date to occur after the date hereof. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of computing commitment fees, the Commitments shall be deemed to be used to the extent of the outstanding Loans and LC Exposure of all Lenders.

(b) Letter of Credit Fees. The Borrower agrees to pay (i) to the Administrative Agent for account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at a rate per annum equal to the Applicable Margin applicable to interest on Eurocurrency Loans on the average daily amount of such Lender’s LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender’s Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of one half of one percent (0.5%) per annum on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure, as well as the Issuing Bank’s standard fees with respect to the issuance, amendment renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including each Quarterly Date shall be payable on the third Business Day following such Quarterly Date, commencing on the first such date to occur after the Effective Date; provided that all such fees with respect to the Letters of Credit shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which such commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) Administrative Agent Fees. The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) Payment of Fees. All fees payable hereunder shall be paid on the dates due, in Dollars and immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of facility fees and participation fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances absent manifest error.

SECTION 2.11. Interest.

(a) ABR Loans. The Loans constituting each ABR Borrowing shall bear interest at a rate per annum equal to the Alternate Base Rate plus the Applicable Margin.

(b) Eurocurrency Loans. The Loans constituting each Eurocurrency Borrowing shall bear interest at a rate per annum equal to the Adjusted LIBO Rate for the related Interest Period for such Borrowing plus the Applicable Margin.

(c) Default Interest. Notwithstanding the foregoing, if any Event of Default has occurred and is continuing, the interest rates applicable to Loans and any fee or other amount payable by the Borrower hereunder shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided above, (ii) in the case of any Letter of Credit, 2% plus the fee otherwise applicable to such Letter of Credit as provided in Section 2.10(b)(i), or (iii) in the case of any fee or other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

(d) Payment of Interest. Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan in Dollars and upon termination of the Commitments; provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Loan prior to the Maturity Date), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurocurrency Borrowing prior to the end of the Interest Period therefor, accrued interest on such Borrowing shall be payable on the effective date of such conversion.

(e) Computation. All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate

Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent and such determination shall be conclusive absent manifest error.

SECTION 2.12. Alternate Rate of Interest. If prior to the commencement of the Interest Period for any Eurocurrency Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their respective Loans included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or the continuation of any Borrowing as, a Eurocurrency Borrowing and such Borrowing (unless prepaid) shall be continued as, or converted to, an ABR Borrowing and (ii) if any Borrowing Request requests a Eurocurrency Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.13. Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank; or

(ii) impose on any Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurocurrency Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lenders of making or maintaining any Eurocurrency Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, in Dollars, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), by an amount deemed to be material by such Lender or Issuing Bank, then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, in Dollars, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) Certificates from Lenders. A certificate of a Lender or the Issuing Bank setting forth the amount or amounts, in Dollars, necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be promptly delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation.

SECTION 2.14. Break Funding Payments. In the event of (a) the payment of any principal of any Eurocurrency Loan other than on the last day of an Interest Period therefor (including as a result of an Event of Default), (b) the conversion of any Eurocurrency Loan other than on the last day of an Interest Period therefor, (c) the failure to borrow, convert, continue or prepay any Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice is permitted to be revocable under Section 2.09(d) and is revoked in accordance herewith), or (d) the assignment as a result of a request by the Borrower pursuant to Section 2.18(b) of any Eurocurrency Loan other than on the last day of an Interest Period therefor, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurocurrency Loan, the loss to any Lender attributable to any such event shall be deemed to include an amount determined by such Lender to be equal to the excess, if any, of

(i) the amount of interest that such Lender would pay for a deposit equal to the principal amount of such Loan denominated in Dollars for the period from the date of such payment, conversion, failure or assignment to the last day of the then current Interest Period for such Loan (or, in the case of a failure to borrow, convert or continue, the duration of the Interest Period that would have resulted from such borrowing, conversion or continuation) if the interest rate payable on such deposit were equal to the Adjusted LIBO Rate for Dollars for such Interest Period, over

(ii) the amount of interest that such Lender would earn on such principal amount for such period if such Lender were to invest such principal amount for such period at the interest rate that would be bid by such Lender (or an affiliate of such

Lender) for deposits denominated in Dollars from other banks in the Eurocurrency market at the commencement of such period.

Payments under this Section shall be made upon request of a Lender delivered not later than five Business Days following the payment, conversion, or failure to borrow, convert, continue or prepay that gives rise to a claim under this Section accompanied by a certificate of such Lender setting forth the amount or amounts that such Lender is entitled to receive pursuant to this Section, which certificate shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.15. Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Covered Taxes; provided that if the Borrower shall be required to deduct any Covered Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.15) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower. In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank for and, within 10 Business Days after written demand therefor, pay the full amount of any Covered Taxes (including Covered Taxes imposed or asserted on or attributable to amounts payable under this Section 2.15(c)) paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Covered Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Covered Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Foreign Lenders. Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this

Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.

In addition, any Foreign Lender, if requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Foreign Lender is subject to backup withholding or information reporting requirements.

Without limiting the generality of the foregoing, if the Borrower is resident for tax purposes in the United States, any Foreign Lender shall deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(i) duly completed copies of Internal Revenue Service Form W-8BEN or any successor form claiming eligibility for benefits of an income tax treaty to which the United States is a party,

(ii) duly completed copies of Internal Revenue Service Form W-8ECI or any successor form certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States,

(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, (A) a certificate, signed under penalties of perjury, to the effect that such Foreign Lender is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Code, (2) a "10 percent shareholder" of the Borrower within the meaning of Section 881(c)(3)(B) of the Code, or (3) a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Code and (B) duly completed copies of Internal Revenue Service Form W-8BEN (or any successor form) certifying that the Foreign Lender is not a United States Person, or

(iv) any other form including Internal Revenue Service Form W-8IMY as applicable prescribed by applicable law as a basis for claiming exemption from or a reduction in United States Federal withholding tax duly completed together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower to determine the withholding or deduction required to be made.

In addition, each Foreign Lender shall deliver such forms promptly upon the expiration or invalidity of any form previously delivered by such Foreign Lender, provided it is legally able to do so at the time. Each Foreign Lender shall promptly notify the Borrower and the Administrative Agent at any time the chief Tax officer of such Foreign Lender becomes aware that it no longer satisfies the legal requirements to provide any previously delivered form or certificate to the Borrower (or any other form of certification adopted by the U.S. or other taxing authorities for such purpose).

(f) Treatment of Certain Refunds. If the Administrative Agent, any Lender or an Issuing Bank determines, in its sole discretion, that it has received a refund or credit (in lieu of such refund) of any Covered Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section with respect to the Covered Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses of the Administrative Agent, any Lender or an Issuing Bank, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Administrative Agent, any Lender or an Issuing Bank, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent, any Lender or an Issuing Bank in the event the Administrative Agent, any Lender or an Issuing Bank is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Administrative Agent, any Lender or an Issuing Bank to make available its tax returns or its books or records (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

SECTION 2.16. Payments Generally; Pro Rata Treatment: Sharing of Set-offs.

(a) Payments by the Borrower. The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or under Section 2.13, 2.14 or 2.15, or otherwise) or under any other Loan Document (except to the extent otherwise provided therein) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at the Administrative Agent's Account, except as otherwise expressly provided in the relevant Loan Document and except payments to be made directly to the Issuing Bank as expressly provided herein and payments pursuant to Sections 2.13, 2.14, 2.15 and 9.03, which shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension.

All amounts owing under this Agreement (including commitment fees, payments required under Sections 2.13 and 2.14 or under any other Loan Document (except to the extent otherwise provided therein) are payable in Dollars.

(b) Application of Insufficient Payments. If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, to pay interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, to pay principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) Pro Rata Treatment. Except to the extent otherwise provided herein: (i) each Borrowing shall be made from the Lenders, each payment of commitment fee under Section 2.10 shall be made for account of the Lenders, and each termination or reduction of the amount of the Commitments under Section 2.07, Section 2.09 or otherwise shall be applied to the respective Commitments of the Lenders, pro rata according to the amounts of their respective Commitments; (ii) each Borrowing shall be allocated pro rata among the Lenders according to the amounts of their respective Commitments (in the case of the making of Loans) or their respective Loans that are to be included in such Borrowing (in the case of conversions and continuations of Loans); (iii) each payment or prepayment of principal of Loans by the Borrower shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amounts of the Loans held by them; and (iv) each payment of interest on Loans by the Borrower shall be made for account of the Lenders pro rata in accordance with the amounts of interest on such Loans then due and payable to the respective Lenders.

(d) Sharing of Payments by Lenders. If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans, or participations in LC Disbursements, resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans, and participations in LC Disbursements, and accrued interest thereon then due than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans, and participations in LC Disbursements, of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans, and participations in LC Disbursements; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(e) Presumptions of Payment. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or the Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent at the Federal Funds Effective Rate.

(f) Certain Deductions by the Administrative Agent. If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(e), 2.05(a) or (b) or 2.16(e), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.17. Defaulting Lenders.

Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(a) commitment fees pursuant to Section 2.10(a) shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender;

(b) the Commitment and Revolving Credit Exposure of such Defaulting Lender shall not be included in determining whether all Lenders or the Required Lenders have taken or may take any action hereunder or under any other Loan Document (including any consent to any amendment or waiver pursuant to Section 9.02), provided that any waiver, amendment or modification requiring the consent of all Lenders or each affected Lender which affects such Defaulting Lender differently than other affected Lenders shall require the consent of such Defaulting Lender;

(c) if any LC Exposure exists at the time a Lender becomes a Defaulting Lender then:

(i) all or any part of such LC Exposure shall be reallocated among the non-Defaulting Lenders in accordance with their respective Applicable Percentages but only to the extent (x) the sum of all non-Defaulting Lenders' Revolving Credit Exposures plus such Defaulting Lender's LC Exposure does not exceed the total of all non-Defaulting Lenders' Commitments, (y) no non-Defaulting Lender's Revolving Credit Exposure will exceed such Lender's Commitment, and (z) the conditions set forth in Section 4.02 are satisfied at such time;

(ii) if the reallocation described in clause (i) above cannot, or can only partially, be effected, the Borrower shall, without prejudice to any right or remedy available to it hereunder or under law, within three Business Days following notice by the Administrative Agent, cash collateralize such Defaulting Lender's LC Exposure (after giving effect to any partial reallocation pursuant to clause (i) above) in accordance with the procedures set forth in Section 2.04(k) for so long as such LC Exposure is outstanding;

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's LC Exposure pursuant to clause (ii) above, the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.10(b) with respect to such Defaulting Lender's LC Exposure during the period such Defaulting Lender's LC Exposure is cash collateralized;

(iv) if the LC Exposure of the non-Defaulting Lenders is reallocated pursuant to clause (i) above, then the fees payable to the Lenders pursuant to Section 2.10(a) and Section 2.10(b) shall be adjusted in accordance with such non-Defaulting Lenders' Applicable Percentages; and

(v) if any Defaulting Lender's LC Exposure is neither cash collateralized nor reallocated pursuant to this Section 2.17(c), then, without prejudice to any rights or remedies of the Issuing Bank or any Lender hereunder, all facility fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such LC Exposure) and letter of credit fees payable under Section 2.10(b) with respect to such Defaulting Lender's LC Exposure shall be payable to the Issuing Bank until such LC Exposure is cash collateralized and/or reallocated; and

(d) so long as any Lender is a Defaulting Lender, the Issuing Bank shall not be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.17(c), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among non-Defaulting Lenders in a manner consistent with Section 2.17(c)(i) (and Defaulting Lenders shall not participate therein).

In the event that the Administrative Agent, the Borrower and the Issuing Bank each agrees that a Defaulting Lender has adequately remedied all matters that caused such Lender to be a Defaulting Lender, then the LC Exposure of the Lenders shall be readjusted to reflect the inclusion of such Lender's Commitment and on such date such Lender shall purchase at par such of the Loans of the other Lenders as the Administrative shall determine may be necessary in order for such Lender to hold such Loans in accordance with its Applicable Percentage.

SECTION 2.18. <u>Mitigation Obligations; Replacement of Lenders</u>.

(a) <u>Designation of a Different Lending Office</u>. If any Lender requests compensation under Section 2.13, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for account of any Lender pursuant to Section 2.15, then such Lender shall use reasonable efforts (subject to overall policy considerations of such Lender) to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if in the sole judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.13 or 2.15, as the case may be, in the future and (ii) would not subject such Lender to any cost or expense not required to be reimbursed by the Borrower and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender requests compensation under Section 2.13, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for account of any Lender pursuant to Section 2.15, or if any Lender becomes a Defaulting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Commitment is being assigned, the Issuing Bank), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder (excluding, for the avoidance of doubt, any payments under Section 2.07(e) hereof), from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.13 or payments required to be made pursuant to Section 2.15, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

(c) Defaulting Lenders. If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(e), 2.05 or 9.03(c), then the Administrative Agent may, in its discretion and notwithstanding any contrary provision hereof, (i) apply any amounts thereafter received by the Administrative Agent for the account of such Lender for the benefit of the Administrative Agent or the Issuing Bank to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid, and/or (ii) hold any such amounts in a segregated account as cash collateral for, and application to, any future funding obligations of such Lender under such Sections, in the case of each of clauses (i) and (ii) above, in any order as determined by the Administrative Agent in its discretion.

## ARTICLE III

## REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that:

SECTION 3.01. Organization; Powers. Each of the Borrower and its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where the failure to do so could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.02. Authorization; Enforceability. The Transactions are within the Borrower's corporate powers and have been duly authorized by all necessary corporate and, if required, by all necessary shareholder action. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each of the other Loan Documents when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of registration or filing with, or any other action by, any Governmental Authority, except for (i) such as have been or will be obtained or made and are in full force and effect and (ii) filings and recordings in respect of the Liens created pursuant to the Security Documents, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of the Borrower or any of its Subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a default in any material respect under any indenture, agreement or other instrument binding upon the Borrower or any of its Subsidiaries or assets (including, without limitation, any Structured Facility Agreement), or give rise to a right thereunder to require any payment to be made by any such Person, and (d) except for the Liens created pursuant to the Security Documents, will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

SECTION 3.04. Financial Condition; No Material Adverse Effect.

(a) Financial Statements. The Borrower has heretofore delivered to the Lenders the unaudited interim consolidated balance sheet and statements of operations, changes in net assets and cash flows of the Borrower and its Subsidiaries as of and for the three month period ended March 31, 2010 (as reported in the Borrower's Form 10-Q filed with the SEC on May 5, 2010), certified by a Financial Officer of the Borrower. Such financial statements present fairly, in all material respects, the consolidated financial position and results of operations and cash flows of the Borrower and its Subsidiaries as of such date and for such period in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes. None of the Borrower or any of its Subsidiaries has any material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments not reflected in the financial statements referred to above.

(b) No Material Adverse Effect. Since March 31, 2010, there has not been any event, development or circumstance that has had or could reasonably be expected to have a Material Adverse Effect.

SECTION 3.05. Litigation. There are no actions, suits, investigations or proceedings by or before any arbitrator or Governmental Authority now pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any of its Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect or (ii) that involve this Agreement or the Transactions.

SECTION 3.06. Compliance with Laws and Agreements. Each of the Borrower and its Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property (including, without limitation, the Structured Facility Agreements), except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any of its Subsidiaries is subject to any contract or other arrangement, the performance of which by the Borrower could reasonably be expected to result in a Material Adverse Effect (other than the SBIC Guarantee, provided that the failure of the Borrower to perform its obligations thereunder could not reasonably be expected to result in a Material Adverse Effect so long as the Borrower does not “Participate In” an “Impermissible Change of Control” (as each such term is defined in the SBIC Guarantee and which, for the avoidance of doubt, would constitute an Event of Default hereunder)).

SECTION 3.07. Taxes. Each of the Borrower and its Subsidiaries has timely filed or has caused to be timely filed all material U.S. federal, state and local Tax returns that are required to be filed by it and all other material Tax returns that are required to be filed by it and has paid all Taxes for which it is directly or indirectly liable and any assessments made against it or any of its property and all other Taxes, fees or other charges imposed on it or any of its property by any Governmental Authority, other than any Taxes, fees or other charges the amount or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or its Subsidiaries, as the case may be. The charges, accruals and reserves on the books of the Borrower and any of its Subsidiaries in respect of Taxes and other governmental charges are adequate.

SECTION 3.08. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.09. Disclosure. The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. None of the reports, financial statements, certificates or other information furnished by or on behalf of the Borrower to the

Lenders in connection with the negotiation of this Agreement and the other Loan Documents or delivered hereunder or thereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time (it being understood that actual results during the period or periods covered by any such projections and forecasts may differ from the projected or forecasted results and such differences may be material).

SECTION 3.10. Investment Company Act; Margin Regulations.

(a) Status as Business Development Company. The Borrower is an "investment company" that has elected to be regulated as a "business development company" within the meaning of the Investment Company Act and qualifies as a RIC (and has qualified as a RIC at all times since January 2, 2008).

(b) Compliance with Investment Company Act. The business and other activities of the Borrower and its Subsidiaries, including the borrowing of the Loans hereunder, the application of the proceeds and repayment thereof by the Borrower and the consummation of the Transactions contemplated by the Loan Documents do not result in a violation or breach in any material respect of the provisions of the Investment Company Act or any rules, regulations or orders issued by the SEC thereunder.

(c) Investment Policies. The Borrower is in compliance in all material respects with the Investment Policies.

(d) Use of Credit. Neither the Borrower nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying Margin Stock, and no part of the proceeds of any extension of credit hereunder will be used to buy or carry any Margin Stock.

SECTION 3.11. Material Agreements and Liens.

(a) Material Agreements. Schedule 3.11(a) is a complete and correct list of each credit agreement, loan agreement, indenture, purchase agreement, guarantee, letter of credit or other arrangement providing for or otherwise relating to any Indebtedness or any extension of credit (or commitment for any extension of credit) to, or guarantee by, the Borrower or any of its Subsidiaries outstanding on the date hereof, and the aggregate principal or face amount outstanding or that is, or may become, outstanding under each such arrangement is correctly described in Schedule 3.11(a).

(b) Liens. Schedule 3.11(b) is a complete and correct list of each Lien securing Indebtedness of any Person outstanding on the date hereof covering any property of the Borrower or any of its Subsidiaries, and the aggregate Indebtedness secured (or that may be secured) by each such Lien and the property covered by each such Lien is correctly described in Schedule 3.11(b).

SECTION 3.12. Subsidiaries and Investments.

(a) Subsidiaries. Set forth in Schedule 3.12(a) is a complete and correct list of all of the Subsidiaries of the Borrower as of the date hereof together with, for each such Subsidiary, (i) the jurisdiction of organization of such Subsidiary, (ii) each Person holding ownership interests in such Subsidiary and (iii) the nature of the ownership interests held by each such Person and the percentage of ownership of such Subsidiary represented by such ownership interests. Except as disclosed in Schedule 3.12(a), (x) other than pursuant to the terms of the Structured Pledge Agreement (in the case of ownership interests in the Structured Subsidiary), the Borrower owns, free and clear of Liens, and has (and will have) the unencumbered right to vote, all outstanding ownership interests in each Person shown to be held by it in Schedule 3.12(a), (y) all of the issued and outstanding capital stock of each such Person organized as a corporation is validly issued, fully paid and nonassessable and (z) there are no outstanding Equity Interests with respect to such Person.

(b) Investments. Set forth in Schedule 3.12(b) is a complete and correct list of all Investments (other than Investments of the types referred to in clauses (b), (c), (d) and (e) of Section 6.04) held by the Borrower or any of its Subsidiaries in any Person on the date hereof and, for each such Investment, (x) the identity of the Person or Persons holding such Investment and (y) the nature of such Investment. Except as disclosed in Schedule 3.12(b), each of the Borrower and its Subsidiaries owns, free and clear of all Liens (other than Liens permitted pursuant to Section 6.02), all such Investments.

SECTION 3.13. Properties.

(a) Title Generally. Each of the Borrower and its Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes.

(b) Intellectual Property. Each of the Borrower and its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by the Borrower and its Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.14. Solvency. Each Obligor is and, upon the incurrence of any extension of credit hereunder by such Obligor on any date on which this representation and warranty is made, will be, Solvent.

SECTION 3.15. Affiliate Agreements. As of the date hereof, the Borrower has heretofore delivered to each of the Lenders true and complete copies of each of the Affiliate Agreements (including any schedules and exhibits thereto, and any amendments, supplements or waivers executed and delivered thereunder). As of the date of hereof, each of the Affiliate Agreements is in full force and effect.

SECTION 3.16. Structured Facility.

(a) There are no agreements or other documents relating to the Structured Facility binding upon the Borrower or any of its Subsidiaries (other than the Structured Subsidiary) other than the Structured Facility Agreements and the Lender Fee Letter (as defined in the Structured Loan Agreement), and none of the Structured Facility Agreements nor such Lender Fee Letter have been amended, supplemented or otherwise modified since the time of their original execution and delivery on November 16, 2009 (other than the Structured Loan Amendment); and

(b) The Borrower has not Guaranteed the Indebtedness or other obligations in respect of the Structured Facility.

## ARTICLE IV

## CONDITIONS

SECTION 4.01. Effective Date. The effectiveness of this Agreement and of the obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective until completion of each of the following conditions precedent (unless a condition shall have been waived in accordance with Section 9.02):

(a) Documents. Administrative Agent shall have received each of the following documents, each of which shall be satisfactory to the Administrative Agent (and to the extent specified below to each Lender) in form and substance:

(i) Executed Counterparts. From each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page to this Agreement) that such party has signed a counterpart of this Agreement.

(ii) Opinion of Counsel to the Borrower. A favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of Rutan & Tucker, LLP, counsel for the Obligors, in form and substance reasonably acceptable to the Administrative Agent and covering such matters as the Administrative Agent may reasonably request (and the Borrower hereby instructs such counsel to deliver such opinion to the Lenders and the Administrative Agent).

(iii) Corporate Documents. (i) Copies of the organizational documents of each Obligor, to the extent applicable, certified as of a recent date by the appropriate governmental official, (ii) signature and incumbency certificates of the officers of such Person executing the Loan Documents to which it is a party, (iii) resolutions of the board of directors or similar governing body of each Obligor approving and authorizing the execution, delivery and performance of this Agreement and the other Loan Documents to which it is a party or by which it or its assets may be bound as of the Effective Date, certified as of the Effective Date by its secretary or an assistant secretary as being in full force and effect without modification or amendment, (iv) a good standing certificate from the applicable Governmental Authority of each Obligor's jurisdiction of incorporation, organization or formation and in each jurisdiction in which it is qualified as a foreign corporation or other entity to do business, each dated a recent date prior to the Effective Date, and (v) such other documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Obligors, the authorization of the Transactions and any other legal matters relating to the Obligors, this Agreement or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(iv) Officer's Certificate. A certificate, dated the Effective Date and signed by a Financial Officer of the Borrower, confirming compliance with the conditions set forth in Sections 4.02(a), (b), (c) and (d).

(v) Guarantee and Security Agreement. The Guarantee and Security Agreement, duly executed and delivered by each of the parties to the Guarantee and Security Agreement.

(vi) Borrowing Base Certificate. A Borrowing Base Certificate showing a calculation of the Borrowing Base as of the Effective Date.

(vii) Structured Loan Amendment. The Structured Loan Amendment, duly executed by the Borrower, the Structured Subsidiary, Wells Fargo Securities, LLC, and the other parties thereto.

(b) Liens. The Administrative Agent shall have received results of a recent lien search in each relevant jurisdiction with respect to the Obligors, confirming the priority of the Liens in favor of the Collateral Agent created pursuant to the Security Documents and revealing no liens on any of the assets of the Borrower or its Subsidiaries except for Liens permitted under Section 6.02 or Liens to be discharged on or prior to the Effective Date pursuant to documentation satisfactory to the Administrative Agent. Subject to Section 5.08(c)(ii), all UCC financing statements, control agreements and other documents or instruments required to be filed or executed and delivered in order to create in favor of the Administrative Agent, for the benefit of the Lenders, a first priority perfected security interest in the Collateral (to the extent that such a security interest may be perfected by filing, possession or control under the Uniform Commercial Code) shall have been properly filed or executed and delivered in each jurisdiction required.

(c) Financial Statements. The Administrative Agent shall have received such financial statements, projections and other financial information relating to the Borrower and its Subsidiaries as the Administrative Agent may reasonably request, including, without limitation, the unaudited interim consolidated balance sheet and statements of operations, changes in net assets and cash flows of the Borrower and its Subsidiaries for the three month period ended March 31, 2010.

(d) Consents. The Borrower shall have obtained and delivered to the Administrative Agent certified copies of all consents, approvals, authorizations, registrations, or filings required to be made or obtained by the Borrower and all guarantors in connection with the Transactions and any transaction being financed with the proceeds of the Loans (including, without limitation, any consents, waivers and acknowledgments with respect to the Structured Facility as the Administrative Agent may request), and such consents, approvals, authorizations, registrations, filings and orders shall be in full force and effect and all applicable waiting periods shall have expired and no investigation or inquiry by any Governmental Authority regarding the Transactions or any transaction being financed with the proceeds of the Loans shall be ongoing.

(e) Evidence of Insurance. The Administrative Agent shall have received a certificate from the Borrower's insurance broker or other evidence reasonably satisfactory to it that all insurance required to be maintained pursuant to the Loan Documents is in full force and effect, together with endorsements naming the Collateral Agent, for the benefit of the Lenders, as additional insured and loss payee thereunder.

(f) No Litigation. There shall not exist any action, suit, investigation, litigation or proceeding or other legal or regulatory developments pending or threatened in any court or before any arbitrator or Governmental Authority that relates to the Transactions or that could have a Material Adverse Effect.

(g) Solvency Certificate. On the Effective Date, the Administrative Agent shall have received a solvency certificate of the chief financial officer of the Borrower dated as of the Effective Date and addressed to the Administrative Agent and the Lenders, and in form, scope and substance satisfactory to Administrative Agent, with appropriate attachments and demonstrating that both before and after giving effect to the Transactions, each Obligor is and will be Solvent.

(h) Investment Policies. The Administrative Agent shall have received the Investment Policies as in effect on the Effective Date.

(i) Due Diligence. No information shall have become available which the Administrative Agent believes has had, or could reasonably be expected to have, a Material Adverse Effect or is inconsistent in a material and adverse manner with any information or materials previously provided to Administrative Agent in connection with its due diligence review of the Borrower and its Affiliates.

(j) Fees and Expenses. The Borrower shall have paid in full to the Administrative Agent and the Lenders all fees and expenses related to this Agreement owing on the Effective Date, including a 1% up-front fee to all Lenders on the Effective Date.

(k) Other Documents. The Administrative Agent shall have received such other documents as the Administrative Agent may reasonably request in form and substance satisfactory to the Administrative Agent.

SECTION 4.02. Each Credit Event. The obligation of each Lender to make any Loan, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, including any such extension of credit on the Effective Date is additionally subject to the satisfaction of the following conditions:

(a) the representations and warranties of the Borrower set forth in this Agreement and in the other Loan Documents shall be true and correct in all material respects (other than any representation or warranty already qualified by materiality or Material Adverse Effect, which shall be true and correct in all respects) on and as of the date of such Loan or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable, or, as to any such representation or warranty that refers to a specific date, as of such specific date;

(b) at the time of and immediately after giving effect to such Loan or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing;

(c) either (i) the aggregate Covered Debt Amount (after giving effect to such extension of credit) shall not exceed the Borrowing Base reflected on the Borrowing Base Certificate most recently delivered to the Administrative Agent or (ii) the Borrower shall have delivered an updated Borrowing Base Certificate demonstrating that the Covered Debt Amount (after giving effect to such extension of credit) shall not exceed the Borrowing Base after giving effect to such extension of credit as well as any concurrent acquisitions of Portfolio Investments by the Borrower or payment of outstanding Loans or Other Covered Indebtedness;

(d) after giving effect to such extension of credit, the Borrower shall be in pro forma compliance with each of the covenants set forth in Sections 6.07(a), (b), (d) and (e);

(e) the Custodian Agreement shall have been duly executed and delivered by the Borrower, the Collateral Agent and the Custodian; and

(f) the proposed date of such extension of credit shall take place during the Availability Period.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in the preceding sentence.

## ARTICLE V

## AFFIRMATIVE COVENANTS

Until the Termination Date, the Borrower covenants and agrees with the Lenders that:

SECTION 5.01. Financial Statements and Other Information. The Borrower will furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year of the Borrower, the audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows of the Borrower and its Subsidiaries as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by PricewaterhouseCoopers or other independent public accountants of recognized national standing to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP consistently applied (which report shall be unqualified as to going concern and scope of audit and shall not contain any explanatory paragraph or paragraph of emphasis with respect to going concern); provided that the requirements set forth in this clause (a) may be fulfilled by providing to the Administrative Agent and the Lenders the report of the Borrower to the SEC on Form 10-K for the applicable fiscal year;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, the consolidated balance sheet and related statements of operations, stockholders' equity and cash flows of the Borrower and its Subsidiaries as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for (or, in the case of the balance sheet, as of the end of) the corresponding period or periods of the previous fiscal year, all certified by a Financial Officer of the Borrower as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes; provided that the requirements set forth in this clause (b) may be fulfilled by providing to the Lenders the report of the Borrower to the SEC on Form 10-Q for the applicable quarterly period;

(c) concurrently with any delivery of financial statements under clause (a) or (b) of this Section, a certificate of a Financial Officer of the Borrower (i) certifying that such statements are consistent with the financial statements filed by the Borrower with the SEC, (ii) certifying as to whether the Borrower has knowledge that a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (iii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.01, 6.02, 6.04, 6.05 and 6.07 and (iv) stating whether any change in GAAP as applied by (or in the application of GAAP by) the Borrower has occurred since the Effective Date and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) as soon as available and in any event not later than twenty (20) days after the end of each monthly accounting period (ending on the last day of each calendar month) of the Borrower and its Subsidiaries, a Borrowing Base Certificate as of the last day of such accounting period;

(e) promptly but no later than one Business Day after the Borrower shall at any time have knowledge that there is a Borrowing Base Deficiency, a Borrowing Base Certificate as at the date the Borrower has knowledge of such Borrowing Base Deficiency indicating the amount of the Borrowing Base Deficiency as at the date the Borrower obtained knowledge of such deficiency and the amount of the Borrowing Base Deficiency as of the date not earlier than one Business Day prior to the date the Borrowing Base Certificate is delivered pursuant to this paragraph;

(f) promptly upon receipt thereof copies of all significant reports submitted by the Borrower's independent public accountants in connection with each annual, interim or special audit or review of any type of the financial statements or related internal control systems of the Borrower or any of its Subsidiaries delivered by such accountants to the management or board of directors of the Borrower;

(g) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or any of its Subsidiaries with the SEC or with any national securities exchange, as the case may be;

(h) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any of its Subsidiaries, or compliance with the terms of this Agreement and the other Loan Documents, as the Administrative Agent or any Lender may reasonably request;

(i) within 45 days after the end of each fiscal quarter of the Borrower, a certificate of a Financial Officer of the Borrower certifying that attached thereto is a complete and correct description of all Portfolio Investments as of the date thereof, including, with respect to each such Portfolio Investment, the name of the Borrower or Subsidiary holding such Portfolio Investment and the name of the issuer of such Portfolio Investment.

(j) To the extent not otherwise provided by the Custodian, within thirty (30) days after the end of each month, updated copies of custody reports (including, to the extent available, an itemized list of each Portfolio Investment held in any Custodian Account) with respect to any custodian account owned by the Borrower or any of its Subsidiaries (including, for clarity, any Financing Subsidiary).

SECTION 5.02. Notices of Material Events . The Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any of its Affiliates that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding $2,500,000; and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03. Existence: Conduct of Business. The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

SECTION 5.04. Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including tax liabilities and material contractual obligations, that, if not paid, could reasonably be expected to result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.05. Maintenance of Properties; Insurance. The Borrower will, and will cause each of its Subsidiaries to, (a) keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, and (b) maintain insurance in such amounts and against such risks as the Borrower maintains as of the date hereof or such modifications thereto as reasonably determined by the Borrower in its good faith business judgment.

SECTION 5.06. Books and Records; Inspection and Audit Rights.

(a) Books and Records; Inspection Rights. The Borrower will, and will cause each of its Subsidiaries to, keep books of record and account in accordance with GAAP. The Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested, provided that the Borrower or such Subsidiary shall be entitled to have its representatives and advisors present during any inspection of its books and records; provided, further, that the Administrative Agent and the Lenders shall not conduct more than three such visits and inspections in any calendar year unless an Event of Default has occurred and is continuing at the time of any subsequent visits and inspections during such calendar year.

(b) Audit Rights. The Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by Administrative Agent (including any consultants, accountants, lawyers and appraisers retained by the Administrative Agent) to conduct evaluations and appraisals of the Borrower’s computation of the Borrowing Base and the assets included in the Borrowing Base, all at such reasonable times and as often as reasonably requested. The Borrower shall pay the reasonable fees and expenses of any representatives retained by the Administrative Agent to conduct any such evaluation or appraisal; provided that the Borrower shall not be required to pay such fees and expenses for more than one such evaluation or appraisal during any calendar year unless an Event of Default has occurred and is continuing at the time of any subsequent evaluation or appraisal during such calendar year. The Borrower also agrees to modify or adjust the computation of the Borrowing Base to the extent required by the Administrative Agent or the Required Lenders as a result of any such evaluation or appraisal, provided that if the Borrower demonstrates that such evaluation or appraisal is incorrect, the Borrower shall be permitted to re-adjust its computation of the Borrowing Base.

SECTION 5.07. Compliance with Laws and Agreements. The Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations, including the Investment Company Act (if applicable to such Person), and orders of any Governmental Authority applicable to it (including orders issued by the SEC) or its property and all indentures, agreements and other instruments (including, without limitation, the Structured Facility Agreements), except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.08. Certain Obligations Respecting Subsidiaries; Further Assurances.

(a) Subsidiary Guarantors.

(i) In the event that (i) the Borrower or any of its Subsidiaries shall form or acquire any new Subsidiary (other than an SBIC Subsidiary), (ii) the Structured Subsidiary shall no longer constitute the "Structured Subsidiary" pursuant to the definition thereof (in which case such Person shall be deemed to be a "new" Subsidiary for purposes of this Section 5.08) or (iii) any SBIC Subsidiary shall no longer constitute an "SBIC Subsidiary" pursuant to the definition thereof (in which case such Person shall be deemed to be a "new" Subsidiary for purposes of this Section 5.08), the Borrower will, in each case, cause such new Subsidiary to become a "Subsidiary Guarantor" (and, thereby, an "Obligor") under the Guarantee and Security Agreement pursuant to a Guarantee Assumption Agreement and to deliver such proof of corporate or other action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by the Borrower pursuant to Section 4.01 upon the Effective Date or as the Administrative Agent shall have reasonably requested.

(ii) The Borrower acknowledges that the Administrative Agent and the Lenders have agreed to exclude the Structured Subsidiary as an Obligor only for so long as such Person qualifies as the "Structured Subsidiary" pursuant to the definition thereof, and thereafter such Person shall no longer constitute the "Structured Subsidiary" for any purpose of this Agreement or any other Loan Document.

(iii) The Borrower acknowledges that the Administrative Agent and the Lenders have agreed to exclude each SBIC Subsidiary as an Obligor only for so long as such Person qualifies as an "SBIC Subsidiary" pursuant to the definition thereof, and thereafter such Person shall no longer constitute an “SBIC Subsidiary” for any purpose of this Agreement or any other Loan Document.

(b) Ownership of Subsidiaries. The Borrower will, and will cause each of its Subsidiaries to, take such action from time to time as shall be necessary to ensure that each of its Subsidiaries is a wholly owned Subsidiary.

(c) Further Assurances. The Borrower will, and will cause each of the Subsidiary Guarantors to, take such action from time to time as shall reasonably be requested by the Administrative Agent to effectuate the purposes and objectives of this Agreement. Without limiting the generality of the foregoing, the Borrower will, and will cause each of the Subsidiary Guarantors, to:

(i) take such action from time to time (including filing appropriate Uniform Commercial Code financing statements and executing and delivering such assignments, security agreements and other instruments) as shall be reasonably requested by the Administrative Agent to create, in favor of the Collateral Agent for the benefit of the Lenders (and any affiliate thereof that is a party to any Hedging Agreement entered into with the Borrower) and the holders of any Secured Longer-Term Indebtedness, perfected security interests and Liens in the Collateral; provided that any such security interest or Lien shall be subject to the relevant requirements of the Security Documents;

(ii) cause any bank or securities intermediary (within the meaning of the Uniform Commercial Code) to enter into such arrangements with the Collateral Agent as shall be appropriate in order that the Collateral Agent has “control” (within the meaning of the Uniform Commercial Code) over each bank account or securities account of the Obligors (other than (A) any such accounts that are maintained by the Borrower in its capacity as “servicer” for the Structured Subsidiary or any “Agency Account” pursuant to Section 5.08(c)(v) below, (B) any such accounts which hold solely money or financial assets of the Structured Subsidiary, (C) any payroll account so long as such payroll account is coded as such, (D) withholding tax and fiduciary accounts, (E) checking accounts of the Obligors that do not contain, at any one time, an aggregate balance in excess of $1,000,000, provided that Borrower will, and will cause each of its Subsidiary Guarantors to, use commercially reasonable efforts to obtain control agreements governing any such account in this clause (E), and (F) any account in which the aggregate value of deposits therein, together with all other such accounts under this clause (F), does not at any time exceed $75,000, provided that in the case of each of the foregoing clauses (A) through (F), no other Person shall have “control” over such account), and in that connection, the Borrower agrees, subject to Sections 5.08(c)(iv) and (v) below, to cause all cash and other proceeds of Portfolio Investments received by any Obligor to be immediately deposited into such an account (or otherwise delivered to, or registered in the name of, the Collateral Agent) and, both prior to and following such deposit, delivery or registration such cash and other proceeds shall be held in trust by the Borrower for and as the property of the Collateral Agent and shall not be commingled with any other funds or property of such Obligor or any other Person (including with any money or financial assets of the Borrower in its capacity as “servicer” for the Structured Subsidiary, or any money or financial assets of the Structured Subsidiary, or any money or financial assets of the Borrower in its capacity as “agent” for any other Credit Facility Loan subject to Section 5.08(c)(v) below);

(iii) cause the Financing Subsidiaries to execute and deliver to the Administrative Agent such certificates and agreements, in form and substance reasonably satisfactory to the Administrative Agent, as it shall determine are necessary to confirm that such Financing Subsidiary qualifies or continues to qualify as the “Structured Subsidiary” or an “SBIC Subsidiary”, as applicable, pursuant to the definitions thereof.

(iv) in the case of any Portfolio Investment consisting of a Credit Facility Loan (as defined in Section 5.13) that does not constitute all of the credit extended to the underlying borrower under the relevant underlying loan documents and a Financing Subsidiary holds any interest in the loans or other extensions of credit under such loan documents, (x)(1) cause the interest owned by such Financing Subsidiary to be evidenced by a separate note or notes which note or notes are either (A) in the name of such Financing Subsidiary or (B) in the name of the Borrower, endorsed in blank and delivered to the applicable Financing Subsidiary and beneficially owned by the Financing Subsidiary and (2) cause such Financing Subsidiary to be party to such underlying loan documents as a “lender”, in each case such that such Financing Subsidiary has a direct interest (or a participation not acquired from an Obligor) in such underlying loan documents and the extensions of credit thereunder; and (y) ensure that, subject to Section 5.08(c)(v) below, all amounts owing to any Obligor by the underlying borrower or other obligated party are remitted by such borrower or obligated party directly to the Custodian Account and no other amounts owing by such underlying borrower or obligated party are remitted to the Custodian Account.

(v) in the event that any Obligor is acting as an agent or administrative agent under any loan documents with respect to any Credit Facility Loan that does not constitute all of the credit extended to the underlying borrower under the relevant underlying loan documents, ensure that (a) all funds held by such Obligor in such capacity as agent or administrative agent is segregated from all other funds of such Obligor and clearly identified as being held in an agency capacity (an “Agency Account”); (b) all amounts owing on account of such Credit Facility Loan by the underlying borrower or other obligated party are remitted by such borrower or obligated party to either (1) such Agency Account or (2) directly to an account in the name of the underlying lender to whom such amounts are owed (for the avoidance of doubt, no funds representing amounts owing to more than one underlying lender may be remitted to any single account other than the Agency Account); (c) within two (2) Business Days after receipt of such funds, such Obligor acting in its capacity as agent or administrative agent shall distribute any such funds belonging to any Obligor to the Custodian Account.

(vi) Except as otherwise set forth in clause Section 5.08(c)(iv) above, cause all Portfolio Investments held by an Obligor that are Credit Facility Loans to be evidenced by promissory notes in the name of such Obligor, cause such Obligor to be party to the underlying loan documents as a “lender” having a direct interest (or a participation not acquired from an Affiliate) in such underlying loan documents and the extensions of credit thereunder, and cause all such underlying loan and other documents relating to any such Portfolio Investment (including, without limitation, such promissory notes that are owned by an Obligor) to be held by (x) the Collateral Agent or (y) the Custodian pursuant to the terms of the Custodian Agreement (or another custodian satisfactory to the Administrative Agent pursuant to a custodian agreement in form and substance satisfactory to the Administrative Agent), and, unless delivered to the Collateral Agent, such Credit Facility Loan shall be credited to the Custodian Account; provided that solely with respect to the Credit Facility Loans set forth on Schedule 5.08(c), Borrower's obligation to deliver underlying documentation (other than promissory notes, which must be delivered in the original) may be satisfied by delivery of copies of such underlying documentation if Borrower is unable to deliver the original underlying documentation after using commercially reasonable efforts to do so.

SECTION 5.09. Use of Proceeds. The Borrower will use the proceeds of the Loans and the issuances of Letters of Credit only for general corporate purposes of the Borrower and its Subsidiaries (other than the Financing Subsidiaries, except to the extent permitted by Section 6.03(e)) in the ordinary course of business, including making distributions not prohibited by this Agreement and the acquisition and funding (either directly or through one or more wholly-owned Subsidiary Guarantors) of leveraged loans, mezzanine loans, high-yield securities, convertible securities, preferred stock, common stock and other Portfolio Investments; provided that neither the Administrative Agent nor any Lender shall have any responsibility as to the use of any of such proceeds. No part of the proceeds of any Loan will be used in violation of applicable law or, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock. On the Effective Date and at any other time requested by the Administrative Agent or any Lender, the Borrower shall furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form G-3 or FR Form U-1, as applicable, referred to in Regulation U. Margin Stock shall be purchased by the Obligors only with the proceeds of Indebtedness not directly or indirectly secured by Margin Stock (within the meaning of Regulation U), or with the proceeds of equity capital of the Borrower. For the avoidance of doubt, Letters of Credit may be issued to support obligations of any Portfolio Company, but the underlying obligations of such Portfolio Company to the Borrower in respect of such Letters of Credit shall not be treated as Eligible Portfolio Investments.

SECTION 5.10. Status of RIC and BDC. The Borrower shall at all times maintain its status as a RIC under the Code, and as a "business development company" under the Investment Company Act.

SECTION 5.11. Investment Policies. The Borrower shall at all times be in compliance in all material respects with its Investment Policies.

SECTION 5.12. Portfolio Valuation and Diversification Etc.

(a) Industry Classification Groups. For purposes of this Agreement, the Borrower shall assign each Eligible Portfolio Investment to an Industry Classification Group. To the extent that any Eligible Portfolio Investment is not correlated with the risks of other Eligible Portfolio Investments in an Industry Classification Group, such Eligible Portfolio Investment may be assigned by the Borrower to an Industry Classification Group that is more closely correlated to such Eligible Portfolio Investment. In the absence of any correlation, the Borrower shall be permitted, upon notice to the Administrative Agent and each Lender to create up to three additional industry classification groups for purposes of this Agreement.

(b) Portfolio Valuation Etc.

(i) Settlement Date Basis. For purposes of this Agreement, all determinations of whether an investment is to be included as an Eligible Portfolio Investment shall be determined on a settlement-date basis (meaning that any investment that has been purchased will not be treated as an Eligible Portfolio Investment until such purchase has settled, and any Eligible Portfolio Investment which has been sold will not be excluded as an Eligible Portfolio Investment until such sale has settled), provided that no such investment shall be included as an Eligible Portfolio Investment to the extent it has not been paid for in full.

(ii) Determination of Values. The Borrower will conduct reviews of the value to be assigned to each of its Eligible Portfolio Investments as follows:

(A) Quoted Investments External Review. With respect to Eligible Portfolio Investments (including Cash Equivalents) for which market quotations are readily available, the Borrower shall, not less frequently than once each calendar week, determine the market value of such Eligible Portfolio Investments which shall, in each case, be determined in accordance with one of the following methodologies (as selected by the Borrower):

(w) in the case of public and 144A securities, the average of the bid prices as determined by two Approved Dealers selected by the Borrower,

(x) in the case of bank loans, the bid price as determined by one Approved Dealer selected by the Borrower,

(y) in the case of any Eligible Portfolio Investment traded on an exchange, the closing price for such Eligible Portfolio Investment most recently posted on such exchange, and

(z) in the case of any other Eligible Portfolio Investment, the fair market value thereof as determined by an Approved Pricing Service; and

(B) Unquoted Investments External Review. With respect to Eligible Portfolio Investments for which market quotations are not readily available, the Borrower shall request an Approved Third-Party Appraiser to assist the Board of Directors of the Borrower in determining the fair market value of such Eligible Portfolio Investments, as at the last day of each fiscal quarter following the Effective Date, provided that

(w) prior to June 30, 2010, the value of any such unquoted Eligible Portfolio Investment that was acquired prior to the Effective Date shall be the Borrower's internal valuations as set forth in the Borrowing Base Certificate;

(x) the value of any such unquoted Eligible Portfolio Investment acquired during a fiscal quarter shall be deemed to be equal to the cost of such Eligible Portfolio Investment until such time as the fair market value of such Eligible Portfolio Investment is determined in accordance with the foregoing provisions of this sub-clause (B) as at the last day of such fiscal quarter and

(y) notwithstanding the foregoing, the Board of Directors of the Borrower may, without the assistance of an Approved Third-Party Appraiser, determine the fair market value of any unquoted Eligible Portfolio Investment with a face value that is less than $5,000,000, so long as the aggregate value of all such Eligible Portfolio Investments so determined does not at any time exceed 10% of the aggregate Borrowing Base.

(C) Internal Review. The Borrower shall conduct internal reviews of all Eligible Portfolio Investments at least once each calendar week which shall take into account any events of which the Borrower has knowledge that adversely affect the value of any Eligible Portfolio Investment. If the value of any Eligible Portfolio Investment as most recently determined by the Borrower pursuant to this Section 5.12(b)(ii)(C) is lower than the value of such Eligible Portfolio Investment as most recently determined pursuant to Section 5.12(b)(ii)(A) and (B), such lower value shall be deemed to be the "Value" of such Eligible Portfolio Investment for all purposes hereof. If, based upon such weekly internal review, the Borrower determines that a Borrowing Base Deficiency exists, then the Borrower shall, promptly and in any event within one Business Day as provided in Section 5.01(e), deliver a Borrowing Base Certificate reflecting the new amount of the Borrowing Base and shall take the actions, and make the payments and prepayments (and provide cover for Letters of Credit), all as more specifically set forth in Section 2.09(b).

(D) Failure to Determine Values. If the Borrower shall fail to determine the value of any Eligible Portfolio Investment as at any date pursuant to the requirements (but subject to the exclusions) of the foregoing sub-clauses (A), (B) or (C), then the "Value" of such Eligible Portfolio Investment as at such date shall be deemed to be zero.

(E) Adjustment of Values. Notwithstanding anything herein to the contrary, the Administrative Agent, in its sole and absolute discretion exercised in good faith, may, and upon the request of Required Lenders, shall, revise the Value of any Eligible Portfolio Investment (in which case the "Value" of such Eligible Portfolio Investment shall for all purposes hereof be deemed to be the Value assigned by the Administrative Agent) and/or exclude any Eligible Portfolio Investment from the Borrowing Base entirely, so long as the aggregate reduction in the Borrowing Base resulting from all such revisions and exclusions in any fiscal quarter does not exceed five percent (5%). Any such revision or exclusion shall be effective ten Business Days after the Administrative Agent's delivery of notice thereof to the Borrower.

(c) Investment Company Diversification Requirements. The Borrower will, and will cause its Subsidiaries (other than Financing Subsidiaries that are exempt from the Investment Company Act) at all times to (i) comply with the portfolio diversification and similar requirements set forth in the Investment Company Act applicable to business development companies and (ii) subject to applicable grace periods set forth in the Code, comply with the portfolio diversification and similar requirements set forth in the Code applicable to RICs.

SECTION 5.13. Calculation of Borrowing Base. For purposes of this Agreement, the "Borrowing Base" shall be determined, as at any date of determination, as the sum of the products obtained by multiplying (i) the Value of each Eligible Portfolio Investment (excluding any cash held by the Administrative Agent pursuant to Section 2.04(k)) by (ii) the applicable Advance Rate, expressed as a fraction; provided that:

(a) the Advance Rate applicable to that portion of the aggregate Value of the Eligible Portfolio Investments in a single issuer that exceeds $20,000,000 shall be 0%;

(b) the Advance Rate applicable to the aggregate Value of all Eligible Portfolio Investments in their entirety shall be 0% at any time when the aggregate Value of all Low-Risk Assets included in the Borrowing Base is less than the greater of (i) $50,000,000 and (ii) the aggregate amount of the total Revolving Credit Exposures and unused Commitments in effect at such time;

(c) the Advance Rate applicable to the aggregate Value of all Eligible Portfolio Investments in their entirety shall be 0% at any time when the Borrowing Base is composed entirely of Eligible Portfolio Investments issued by less than 15 different issuers;

(d) the portion of the Borrowing Base attributable to common equity and warrants shall not exceed 5% of the Borrowing Base and the Borrowing Base shall be reduced to the extent such portion would otherwise exceed 5% of the Borrowing Base;

(e) the portion of the Borrowing Base attributable to Eligible Portfolio Investments that are not Cash, Cash Equivalents, First Lien Credit Facility Loans or Second Lien Credit Facility Loans shall not exceed 10% of the Borrowing Base and the Borrowing Base shall be reduced to the extent such portion would otherwise exceed 10% of the Borrowing Base;

(f) the portion of the Borrowing Base attributable to Eligible Portfolio Investments rated 3 by the Borrower using the Proprietary Rating System shall not exceed 10% of the Borrowing Base and the Borrowing Base shall be reduced to the extent such portion would otherwise exceed 10% of the Borrowing Base;

(g) the portion of the Borrowing Base attributable to Eligible Portfolio Investments in the Largest Industry Classification Group shall not exceed 25% of the Borrowing Base and the Borrowing Base shall be reduced to the extent such portion would otherwise exceed 25% of the Borrowing Base;

(h) the portion of the Borrowing Base attributable to Eligible Portfolio Investments in any single Industry Classification Group (other than the Largest Industry Classification Group) shall not exceed 15% of the Borrowing Base and the Borrowing Base shall be reduced to the extent such portion would otherwise exceed 15% of the Borrowing Base;

(i) the portion of the Borrowing Base attributable to PIK Obligations shall not exceed 5% of the Borrowing Base and the Borrowing Base shall be reduced to the extent such portion would otherwise exceed 5% of the Borrowing Base;

(j) the portion of the Borrowing Base attributable to debt Eligible Portfolio Investments having a final maturity greater than 7 years shall not exceed 15% of the Borrowing Base and the Borrowing Base shall be reduced to the extent such portion would otherwise exceed 15% of the Borrowing Base;

(k) the portion of the Borrowing Base attributable to Eligible Portfolio Investments that are not Low-Risk Assets shall not exceed the portion of the Borrowing Base attributable to Low-Risk Assets and the Borrowing Base shall be reduced by removing Eligible Portfolio Investments that are not Low-Risk Assets therefrom (but not from the Collateral) as the Borrower may elect to the extent necessary to cause the portion of the Borrowing Base attributable to Eligible Portfolio Investments that are not Low-Risk Assets to not exceed the portion of the Borrowing Base attributable to Low-Risk Assets;

(l) if at any time the weighted average maturity of all debt Eligible Portfolio Investments exceeds 5 years, the Borrowing Base shall be reduced by removing debt Eligible Portfolio Investments therefrom (but not from the Collateral) in the order of maturity (with the debt Eligible Portfolio Investment having the longest maturity to be removed first) to the extent necessary to cause the weighted average maturity of all debt Eligible Portfolio Investments included in the Borrowing Base to be no greater than 5 years (subject to all other constraints, limitations and restrictions set forth herein);

(m) if at any time the Weighted Average Fixed Coupon is less than 8%, the Borrowing Base shall be reduced by removing debt Eligible Portfolio Investments therefrom (but not from the Collateral) in the order of cash interest coupon amount (with the debt Eligible Portfolio Investment having the lowest cash interest coupon to be removed first) to the extent necessary to cause the Weighted Average Fixed Coupon to be at least 8% (subject to all other constraints, limitations and restrictions set forth herein); and

(n) if at any time the Weighted Average Floating Spread is less than 4.5%, the Borrowing Base shall be reduced by removing debt Eligible Portfolio Investments therefrom (but not from the Collateral) in the order of Spread amount (with the debt Eligible Portfolio Investment having the lowest Spread to be removed first) to the extent necessary to cause the Weighted Average Floating Spread to be at least 4.5% (subject to all other constraints, limitations and restrictions set forth herein).

For all purposes of this Section 5.13, all issuers of Eligible Portfolio Investments that are Affiliates of one another shall be treated as a single issuer (unless such issuers are Affiliates of one another solely because they are under the common Control of the same private equity sponsor). In addition, as used herein, the following terms have the following meanings:

"Advance Rate" means, as to any Eligible Portfolio Investment and subject to adjustment as provided above, the following percentages with respect to such Eligible Portfolio Investment:

| Eligible Portfolio Investment | Quoted | Unquoted |
|---|---|---|
| Cash and Cash Equivalents | 100% | n.a. |
| Short-Term U.S. Government Securities | 90% | n.a. |
| Long-Term U.S. Government Securities | 85% | n.a. |
| Performing First Lien Credit Facility Loans | 70% | 60% |
| Performing Second Lien Credit Facility Loans | 60% | 50% |
| Performing High Yield Securities | 55% | 45% |
| Performing Mezzanine Investments | 50% | 40% |
| Performing PIK Obligation | 45% | 35% |
| Performing Common Equity | 35% | 25% |
| Non-Performing Portfolio Investment | 0% | 0% |

"Capital Stock" of any Person means any and all shares of corporate stock (however designated) of and any and all other Equity Interests and participations representing ownership interests (including membership interests and limited liability company interests) in, such Person.

"Cash" has the meaning assigned to such term in Section 1.01 of the Credit Agreement.

"Cash Equivalents" has the meaning assigned to such term in Section 1.01 of the Credit Agreement.

"Credit Facility Loans" means debt obligations (including, without limitation, term loans, revolving loans, debtor-in-possession financings, the funded portion of revolving credit lines and letter of credit facilities and other similar loans and investments including interim loans, bridge loans and senior subordinated loans) which are generally under a syndicated loan or credit facility, which may be a portion of a larger credit facility to the same obligor(s) for which other portions thereof may be held by one or more Financing Subsidiaries or other Persons (so long as the applicable Obligor's portion is pari passu with all other obligations under such credit facility and the requirements of Section 5.08(c)(iv) have been satisfied with respect thereto).

"Defaulted Obligation" means (i) debt (a) as to which, (x) a default as to the payment of principal and/or interest has occurred and is continuing for a period of thirty two (32) consecutive days with respect to such debt (without regard to any grace period applicable thereto, or waiver thereof) or (y) a default not set forth in clause (x) has occurred and the holders of such debt have accelerated all or a portion of the principal amount thereof as a result of such default; (b) as to which a default as to the payment of principal and/or interest has occurred and is continuing on another material debt obligation of the obligor under such debt which is senior or pari passu in right of payment to such debt; (c) as to which the obligor under such debt or others have instituted proceedings to have such obligor adjudicated bankrupt or insolvent or placed into receivership and such proceedings have not been stayed or dismissed or such obligor has filed for protection under Chapter 11 of the United States Bankruptcy Code (unless, in the case of clause (b) or (c), such debt is a debtor-in-possession loan, in which case it shall not be deemed to be a Defaulted Obligation under such clause); (d) as to which any of the following actions have been taken: charging a default rate of interest for more than 90 consecutive days, acceleration of such debt, or foreclosure on collateral for such debt; or (e) that the Borrower has in its reasonable commercial judgment otherwise declared to be a Defaulted Obligation; and (ii) Preferred Stock in respect of which the issuer has failed to meet any scheduled redemption obligations or pay its latest declared cash dividend after the expiration of any applicable grace period.

"First Lien Credit Facility Loan" means a Credit Facility Loan that is entitled to the benefit of a first lien and first priority perfected security interest on a substantial portion of the assets of the respective borrower and guarantors obligated in respect thereof.

"Fixed Rate Portfolio Investment" means a debt Eligible Portfolio Investment that bears interest at a fixed rate.

"Floating Rate Portfolio Investment" means a debt Eligible Portfolio Investment that bears interest at a floating rate.

"High Yield Securities" means debt Securities and Preferred Stock, in each case (a) issued by public or private issuers, (b) issued pursuant to an effective registration statement or pursuant to Rule 144A under the Securities Act (or any successor provision thereunder) and (c) that are not Cash Equivalents, Mezzanine Investments or Credit Facility Loans.

"Long-Term U.S. Government Securities" means U.S. Government Securities maturing more than six months from the applicable date of determination.

"Low-Risk Assets" means Cash, Cash Equivalents and Performing First Lien Credit Facility Loans.

"Mezzanine Investments" means debt Securities (including convertible debt Securities (other than the "in-the-money" equity component thereof)) and Preferred Stock in each case (a) issued by public or private issuers, (b) issued without registration under the Securities Act, (c) not issued pursuant to Rule 144A under the Securities Act (or any successor provision thereunder), (d) that are not Cash Equivalents and (e) contractually subordinated in right of payment to other debt of the same issuer.

“Non-Performing Portfolio Investment” means any Eligible Portfolio Investment that is not a Performing (as defined below) Eligible Portfolio Investment.

“Performing” means with respect to any Eligible Portfolio Investment, that such Eligible Portfolio Investment is not a Defaulted Obligation and does not represent debt or Capital Stock of an issuer that has issued any Defaulted Obligation.

“Performing Common Equity” means Capital Stock (other than Preferred Stock) and warrants of an issuer all of whose outstanding debt and Capital Stock is Performing. For clarity, Performing Common Equity shall not include equity of any Financing Subsidiary or investments in LP interests in any fund.

“Performing First Lien Credit Facility Loans” means First Lien Credit Facility Loans that (a) are not PIK Obligations and (b) are Performing.

“Performing High Yield Securities” means High Yield Securities that (a) are not PIK Obligations and (b) are Performing.

“Performing Mezzanine Investments” means Mezzanine Investments that (a) are not PIK Obligations and (b) are Performing.

“Performing Second Lien Credit Facility Loans” means Second Lien Credit Facility Loans that (a) are not PIK Obligations and (b) are Performing.

“PIK Obligation” means an obligation that provides that any portion of the interest accrued for a specified period of time or until the maturity thereof is, or at the option of the obligor may be, added to the principal balance of such obligation or otherwise deferred and accrued rather than being paid in cash, provided that any such obligation shall not constitute a PIK Obligation if it (i) is a fixed rate obligation and requires payment of interest in cash on an at least quarterly basis at a rate of not less than 8% per annum or (ii) is not a fixed rate obligation and requires payment of interest in cash on an at least quarterly basis at a rate of not less than 4.5% per annum in excess of the applicable index.

“Preferred Stock,” as applied to the Capital Stock of any Person, means Capital Stock of such Person of any class or classes (however designated) that ranks prior, as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding up of such Person, to any shares (or other interests) of other Capital Stock of such Person, and shall include, without limitation, cumulative preferred, non-cumulative preferred, participating preferred and convertible preferred Capital Stock.

“Second Lien Credit Facility Loan” means a Credit Facility Loan that is entitled to the benefit of a second lien and second priority perfected security interest on a substantial portion of the assets of the respective borrower and guarantors obligated in respect thereof.

“Securities” means common and preferred stock, units and participations, member interests in limited liability companies, partnership interests in partnerships, notes, bonds, debentures, trust receipts and other obligations, instruments or evidences of indebtedness, including debt instruments of public and private issuers and tax-exempt securities (including warrants, rights, put and call options and other options relating thereto, representing rights, or any combination thereof) and other property or interests commonly regarded as securities or any form of interest or participation therein, but not including Credit Facility Loans.

"Securities Act" means the United States Securities Act of 1933, as amended.

"Short-Term U.S. Government Securities" means U.S. Government Securities maturing within six months of the applicable date of determination.

"Spread" means, with respect to Floating Rate Portfolio Investments, the cash interest spread of such Floating Rate Portfolio Investment over the applicable LIBO Rate; provided, that, in the case of any Floating Rate Portfolio Investment that does not bear interest by reference to the LIBO Rate, "Spread" shall mean the cash interest spread of such Floating Rate Portfolio Investment over the LIBO Rate in effect as of the date of determination for deposits in U.S. dollars for a period of three (3) months.

"U.S. Government Securities" has the meaning assigned to such term in Section 1.01 of the Credit Agreement.

"Value" means, subject to Section 5.12(b)(ii)(B)(y), with respect to any Eligible Portfolio Investment, the lower of the most recent internal fair value as determined pursuant to Section 5.12(b)(ii)(C) and the most recent external fair value as determined pursuant to Section 5.12(b)(ii)(A) and (B).

"Weighted Average Fixed Coupon" means, as of any date of determination, the number, expressed as a percentage, obtained by summing the products obtained by multiplying the cash interest coupon of each Fixed Rate Portfolio Investment included in the Borrowing Base as of such date by the outstanding principal balance of such Fixed Rate Portfolio Investment as of such date, dividing such sum by the aggregate outstanding principal balance of all such Fixed Rate Portfolio Investments and rounding up to the nearest 0.01%. For the purpose of calculating the Weighted Average Fixed Coupon, all Fixed Rate Portfolio Investments that are not currently paying cash interest shall have an interest rate of 0%.

"Weighted Average Floating Spread" means, as of any date of determination, the number, expressed as a percentage, obtained by summing the products obtained by multiplying, in the case of each Floating Rate Portfolio Investment included in the Borrowing Base, on an annualized basis, the Spread of such Floating Rate Portfolio Investments, by the outstanding principal balance of such Floating Rate Portfolio Investments as of such date and dividing such sum by the aggregate outstanding principal balance of all such Floating Rate Portfolio Investments and rounding the result up to the nearest 0.01%.

<u>ARTICLE VI</u>

<u>NEGATIVE COVENANTS</u>

Until the Termination Date, the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. <u>Indebtedness</u>. The Borrower will not nor will it permit any of its Subsidiaries to, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness created hereunder or under any other Loan Document;

(b) (i) Unsecured Shorter-Term Indebtedness in an aggregate principal amount not to exceed $10,000,000 and (ii) Secured Longer-Term Indebtedness, in each case, so long as (w) no Default exists at the time of the incurrence thereof, (x) the Borrower is in pro forma compliance with each of the covenants set forth in Sections 6.07(a), (b) and (c) after giving effect to the incurrence thereof and on the date of such incurrence the Borrower delivers to the Administrative Agent a certificate of a Financial Officer to such effect, (y) prior to and immediately after giving effect to the incurrence thereof, the Covered Debt Amount does not or would not exceed the Borrowing Base then in effect; and (z) on the date the incurrence thereof, the Borrower delivers to the Administrative Agent and each Lender a Borrowing Base Certificate as at such date demonstrating compliance with subclause (y) after giving effect to such incurrence. For purposes of preparing such Borrowing Base Certificate, (A) the fair market value of Eligible Portfolio Investments for which market quotations are readily available shall be the most recent quotation available for such Eligible Portfolio Investment and (B) the fair market value of Eligible Portfolio Investments for which market quotations are not readily available shall be the Value set forth in the Borrowing Base Certificate most recently delivered by the Borrower to the Administrative Agent and the Lenders pursuant to Section 5.01(d); <u>provided</u>, that the Borrower shall reduce the Value of any Eligible Portfolio Investment referred to in this sub-clause (B) to the extent necessary to take into account any events of which the Borrower has knowledge that adversely affect the value of such Eligible Portfolio Investment.

(c) Unsecured Longer-Term Indebtedness, so long as (x) no Default exists at the time of the incurrence thereof and (y) the Borrower is in pro forma compliance with each of the covenants set forth in Sections 6.07(a), (b) and (c) after giving effect to the incurrence thereof and on the date of such incurrence the Borrower delivers to the Administrative Agent a certificate of a Financial Officer to such effect;

(d) the Indebtedness of the Structured Subsidiary under (i) the Structured Facility Agreements and/or (ii) additional or replacement Indebtedness facility of the Structured Subsidiary, (x) pursuant to documentation containing terms (including amortization, covenants and events of default) that are not more materially restrictive on the Structured Subsidiary than those set forth in the Structured Facility Agreements as in effect on the date hereof (provided, however, increases in the principal amount thereof, modifications to the advance rates and/or modifications to the interest rate, fees or other pricing terms shall not be deemed “more materially restrictive” for the purposes hereof) and (y) on the date that such additional or replacement Indebtedness of the Structured Subsidiary is initially incurred the Borrower is in pro forma compliance with each of the covenants set forth in Sections 6.07(a), (b) and (c) after giving effect to the incurrence thereof and on the date of such incurrence Borrower delivers to the Administrative Agent a certificate of a Financial Officer to such effect;

(e) Indebtedness of the SBIC Subsidiaries incurred in the ordinary course of business or otherwise provided by the SBA from time to time;

(f) Other Permitted Indebtedness in an aggregate principal amount not to exceed $10,000,000;

(g) repurchase obligations arising in the ordinary course of business with respect to U.S. Government Securities;

(h) obligations payable to clearing agencies, brokers or dealers in connection with the purchase or sale of securities in the ordinary course of business;

(i) Indebtedness of the Structured Subsidiary not otherwise prohibited by Structured Facility Agreements in effect on the date hereof; and

(j) obligations of the Borrower under the SBIC Guarantee.

SECTION 6.02. Liens. The Borrower will not, nor will it permit any of its Subsidiaries to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof except:

(a) any Lien on any property or asset of the Borrower existing on the date hereof and set forth in Schedule 3.11(b), provided that (i) no such Lien shall extend to any other property or asset of the Borrower or any of its Subsidiaries, and (ii) any such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(b) Liens created pursuant to the Security Documents;

(c) Liens on assets of the Financing Subsidiaries securing Indebtedness of the Financing Subsidiaries incurred pursuant to Section 6.01(d) and (e);

(d) Liens granted pursuant to the Structured Pledge Agreement as in effect on the date hereof on Equity Interests in the Structured Subsidiary securing Indebtedness of the Structured Subsidiary incurred pursuant to Section 6.01(d);

(e) Liens on Equity Interests in any SBIC Subsidiary created in favor of the SBA;

(f) Liens securing Secured Longer-Term Indebtedness incurred pursuant to Section 6.01(b);

(g) Liens on the assets of the Structured Subsidiary not otherwise prohibited by Structured Facility Agreements in effect on the date hereof; and

(h) Permitted Liens.

SECTION 6.03. Fundamental Changes. The Borrower will not, nor will it permit any of its Subsidiaries to, enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution). The Borrower will not, nor will it permit any of its Subsidiaries to, acquire any business or property from, or capital stock of, or be a party to any acquisition of, any Person, except for purchases or acquisitions of Portfolio Investments and other assets in the normal course of the day-to-day business activities of the Borrower and its Subsidiaries and not in violation of the terms and conditions of this Agreement or any other Loan Document. The Borrower will not, nor will it permit any of its Subsidiaries (other than Financing Subsidiaries) to, convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, any part of its assets (including, without limitation, Cash, Cash Equivalents and Equity Interests), whether now owned or hereafter acquired, but excluding (x) assets (other than Portfolio Investments) sold or disposed of in the ordinary course of business (including to make expenditures of cash in the normal course of the day-to-day business activities of the Borrower and its Subsidiaries (other than the Financing Subsidiaries)) and (y) subject to the provisions of clause (d) and (e) below, Portfolio Investments.

Notwithstanding the foregoing provisions of this Section:

(a) any Subsidiary of the Borrower may be merged or consolidated with or into the Borrower or any other Subsidiary Guarantor; provided that if any such transaction shall be between a Subsidiary and a wholly owned Subsidiary Guarantor, the wholly owned Subsidiary Guarantor shall be the continuing or surviving corporation;

(b) any Subsidiary of the Borrower may sell, lease, transfer or otherwise dispose of any or all of its assets (upon voluntary liquidation or otherwise) to the Borrower or any wholly owned Subsidiary Guarantor of the Borrower;

(c) the capital stock of any Subsidiary of the Borrower may be sold, transferred or otherwise disposed of to the Borrower or any wholly owned Subsidiary Guarantor of the Borrower;

(d) the Obligors may sell, transfer or otherwise dispose of Portfolio Investments (other than to a Financing Subsidiary) so long as prior to and after giving effect to such sale, transfer or other disposition (and any concurrent acquisitions of Portfolio Investments or payment of outstanding Loans or Other Covered Indebtedness) the Covered Debt Amount does not exceed the Borrowing Base;

(e) the Obligors may sell, transfer or otherwise dispose of Portfolio Investments, Cash and Cash Equivalents to a Financing Subsidiary so long as (i) prior to and after giving effect to such sale, transfer or other disposition (and any concurrent acquisitions of Portfolio Investments or payment of outstanding Loans or Other Covered Indebtedness) the

Covered Debt Amount does not exceed the Borrowing Base and no Default exists and the Borrower delivers to the Administrative Agent a certificate of a Financial Officer to such effect, (ii) except in the case of a disposition of Loan Assets (as defined in the Structured Loan Agreement) originated by the Borrower and immediately transferred to the Structured Subsidiary pursuant to the Structured Purchase Agreement, either (x) the amount by which the Borrowing Base exceeds the Covered Debt Amount immediately prior to such release is not diminished as a result of such release or (y) the Borrowing Base immediately after giving effect to such release is at least 120% of the Covered Debt Amount and (iii) in the case of any sale, transfer or other disposition to the Structured Subsidiary, the Reinvestment Period (as defined in the Structured Loan Agreement) has not ended;

(f) the Borrower may merge or consolidate with any other Person, so long as (i) the Borrower is the continuing or surviving entity in such transaction and (ii) at the time thereof and after giving effect thereto, no Default shall have occurred or be continuing; and

(g) the Borrower and its Subsidiaries may sell, lease, transfer or otherwise dispose of equipment or other property or assets that do not consist of Portfolio Investments so long as the aggregate amount of all such sales, leases, transfer and dispositions does not exceed $5,000,000 in any fiscal year.

SECTION 6.04. Investments. The Borrower will not, nor will it permit any of its Subsidiaries to, acquire, make or enter into, or hold, any Investments except:

(a) operating deposit accounts with banks;

(b) Investments by the Borrower and the Subsidiary Guarantors in the Borrower and the Subsidiary Guarantors;

(c) Hedging Agreements entered into in the ordinary course of the Borrower’s financial planning and not for speculative purposes;

(d) Portfolio Investments by the Borrower and its Subsidiaries to the extent such Portfolio Investments are permitted under the Investment Company Act (to the extent such applicable Person is subject to the Investment Company Act) and the Borrower’s Investment Policies;

(e) Equity Interests in Financing Subsidiaries existing on the date hereof and any other Equity Interests acquired after the date hereof to the extent permitted under Section 6.03(e);

(f) Investments by the Structured Subsidiary not otherwise prohibited by Structured Facility Agreements in effect on the date hereof;

(g) Investments in Cash and Cash Equivalents; and

(h) Investments described on Schedule 3.12(b) hereto.

SECTION 6.05. Restricted Payments. The Borrower will not, nor will it permit any of its Subsidiaries (other than the Financing Subsidiaries) to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except that the Borrower may declare and pay:

(a) dividends with respect to the capital stock of the Borrower payable solely in additional shares of the Borrower's common stock;

(b) dividends and distributions in either case in cash or other property (excluding for this purpose the Borrower's common stock) in or with respect to any taxable year of the Borrower (or any calendar year, as relevant) in amounts not to exceed 105% of the amounts that are required to be distributed to: (i) allow the Company to satisfy the minimum distribution requirements imposed by Section 852(a) of the Code (or any successor thereto) to maintain its eligibility to be taxed as a regulated investment company for any such taxable year, (ii) reduce to zero for any such taxable year its liability for federal income taxes imposed on (y) its investment company taxable income pursuant to Section 852(b)(1) of the Code (or any successor thereto), or (z) its net capital gain pursuant to Section 852(b)(3) of the Code (or any successor thereto), and (iii) reduce to zero its liability for federal excise taxes for any such calendar year imposed pursuant to Section 4982 of the Code (or any successor thereto); and

(c) Subsidiaries of the Borrower may make Restricted Payments to the Borrower.

Nothing herein shall be deemed to prohibit the payment of Restricted Payments by any Subsidiary of the Borrower to the Borrower or to any other Subsidiary Guarantor.

For the avoidance of doubt, the Borrower shall not declare any dividend to the extent such declaration violates the provisions of the Investment Company Act applicable to it.

SECTION 6.06. Certain Restrictions on Subsidiaries. The Borrower will not permit any of its Subsidiaries (other than Financing Subsidiaries) to enter into or suffer to exist any indenture, agreement, instrument or other arrangement (other than the Loan Documents) that prohibits or restrains, in each case in any material respect, or imposes materially adverse conditions upon, the incurrence or payment of Indebtedness, the granting of Liens, the declaration or payment of dividends, the making of loans, advances, guarantees or Investments or the sale, assignment, transfer or other disposition of property.

SECTION 6.07. Certain Financial Covenants.

(a) Minimum Shareholders' Equity. The Borrower will not permit Shareholders' Equity at the last day of any fiscal quarter of the Borrower to be less than the greater of (i) 55% of the total assets of the Borrower and its Subsidiaries as at the last day of such fiscal quarter (determined on a consolidated basis, without duplication, in accordance with GAAP) and (ii) the sum of (x) $385,000,000 plus (y) 50% of the aggregate net proceeds of all sales of Equity Interests by the Borrower and its Subsidiaries after February 24, 2010 (other than the proceeds of sales of Equity Interests by and among the Borrower and its Subsidiaries, including, without limitation, sales of Equity Interests by the Structured Subsidiary to the

Borrower in consideration of the sale of Portfolio Investments by the Borrower to the Structured Subsidiary pursuant to the terms of the Structured Purchase Agreement).

(b) Asset Coverage Ratio. The Borrower will not permit the Asset Coverage Ratio to be less than 2.25 to 1 at any time.

(c) Consolidated Interest Coverage Ratio. The Borrower will not permit the Consolidated Interest Coverage Ratio to be less than 2.50 to 1 as of the last day of any fiscal quarter.

(d) Liquidity Test. The Borrower will not permit the aggregate Value of the Eligible Portfolio Investments that can be converted to Cash in fewer than 10 Business Days without more than a 5% change in price to be less than 15% of the Covered Debt Amount for more than 30 Business Days during any period when the Adjusted Covered Debt Balance is greater than 85% of the Adjusted Borrowing Base.

(e) Eligible Portfolio Investments Test. The Borrower will not permit the aggregate Value of (i) Eligible Portfolio Investments constituting Cash, (ii) Eligible Portfolio Investments constituting Cash Equivalents and (iii) Eligible Portfolio Investments rated 1, 2 or 3 by the Borrower using the Proprietary Rating System, to be less than $175,000,000 at any time.

SECTION 6.08. Transactions with Affiliates. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any transactions with any of its Affiliates, even if otherwise permitted under this Agreement, except (a) transactions in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) transactions between or among the Obligors not involving any other Affiliate, (c) Restricted Payments permitted by Section 6.05, (d) the transactions provided in the Affiliate Agreements, (e) a merger with the Investment Advisor or FSC, Inc., or (f) if and to the extent permitted pursuant to applicable law, the transactions described on Schedule 6.08.

SECTION 6.09. Lines of Business. The Borrower will not, nor will it permit any of its Subsidiaries to, engage to any material extent in any business other than in accordance with its Investment Policies.

SECTION 6.10. No Further Negative Pledge. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any agreement, instrument, deed or lease which prohibits or limits the ability of any Obligor to create, incur, assume or suffer to exist any Lien upon any of its properties, assets or revenues, whether now owned or hereafter acquired, or which requires the grant of any security for an obligation if security is granted for another obligation, except the following: (a) this Agreement and the other Loan Documents; (b) covenants in documents creating Liens permitted by Section 6.02 prohibiting further Liens on the assets encumbered thereby; (c) customary restrictions contained in leases not subject to a waiver; (d) the terms of the Structured Facility Agreements as in effect on the date hereof, and (e) any other agreement that does not restrict in any manner (directly or indirectly) Liens created pursuant to the Loan Documents on any Collateral securing the "Secured Obligations" under and as defined in the Guarantee and Security Agreement and does not require the direct or indirect granting of any Lien securing any Indebtedness or other obligation by virtue of the granting of Liens on or pledge of property of any Obligor to secure the Loans or any Hedging Agreement.

SECTION 6.11. Modifications of Indebtedness and Affiliate Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, consent to any modification, supplement or waiver of:

(a) any of the provisions of any agreement, instrument or other document evidencing or relating to any Secured Longer-Term Indebtedness, Unsecured Longer-Term Indebtedness or Unsecured Shorter-Term Indebtedness that would result in such Indebtedness not meeting the requirements of the definition of “Secured Longer-Term Indebtedness”, “Unsecured Longer-Term Indebtedness” and “Unsecured Shorter-Term Indebtedness”, as applicable, set forth in Section 1.01 of this Agreement, unless, in the case of Unsecured Longer-Term Indebtedness, such Indebtedness would have been permitted to be incurred as Unsecured Shorter-Term Indebtedness at the time of such modification, supplement or waiver and the Borrower so designates such Indebtedness as “Unsecured Shorter-Term Indebtedness” (whereupon such Indebtedness shall be deemed to constitute “Unsecured Shorter-Term Indebtedness” for all purposes of this Agreement);

(b) any of the Affiliate Agreements (other than the Structured Facility Agreements and the SBIC Agreements), unless such modification, supplement or waiver is not less favorable to the Borrower than could be obtained on an arm’s-length basis from unrelated third parties, in each case, without the prior consent of the Administrative Agent (with the approval of the Required Lenders).

The Administrative Agent hereby acknowledges and agrees that the Borrower may, at any time and from time to time, without the consent of the Administrative Agent, freely amend, restate or otherwise modify the Structured Facility Agreements (other than the Structured Pledge Agreement, which may only be amended with the consent of the Administrative Agent), or any other Indebtedness permitted pursuant to Section 6.01(d), including increases in the principal amount thereof, modifications to the advance rates and/or modifications to the interest rate, fees or other pricing terms, provided that no such amendment, restatement or modification shall, without the consent of the Administrative Agent (with the approval of the Required Lenders):

(a) change (to earlier dates) any dates upon which payments of principal or interest are due thereon;

(b) add additional events of default or financial performance covenants; or

(c) make existing events of default or financial performance covenants more restrictive of the Structured Subsidiary.

For clarity, no such amendment, restatement or modification shall be permitted which causes the Structured Subsidiary to fail to be a “Structured Subsidiary” in accordance with the definition thereof.

SECTION 6.12. Payments of Longer-Term Indebtedness. The Borrower will not, nor will it permit any of its Subsidiaries (other than Financing Subsidiaries) to, purchase, redeem, retire or otherwise acquire for value, or set apart any money for a sinking, defeasance or other analogous fund for the purchase, redemption, retirement or other acquisition of or make any voluntary payment or prepayment of the principal of or interest on, or any other amount owing in respect of, any Secured Longer-Term Indebtedness or Unsecured Longer-Term Indebtedness (other than the refinancing of Secured Longer-Term Indebtedness or Unsecured Longer-Term Indebtedness with Indebtedness permitted under Section 6.01), except for (a) regularly scheduled payments, prepayments or redemptions of principal and interest in respect thereof required pursuant to the instruments evidencing such Indebtedness, or (b) payments and prepayments of Secured Longer-Term Indebtedness required to comply with requirements of Section 2.09(b).

SECTION 6.13. Modification of Investment Policies and Proprietary Rating System. Other than with respect to Permitted Policy Amendments, the Borrower will not amend, supplement, waive or otherwise modify in any material respect either the Investment Policies or the Proprietary Rating System, in each case, as in effect on the date hereof.

SECTION 6.14. SBIC Guarantee. The Borrower will not, nor will it permit any of its Subsidiaries to, (i) "Participate In" an "Impermissible Change of Control" under (and as defined in) the SBIC Guarantee, or otherwise permit the occurrence of an "Impermissible Change of Control" under (and as defined in) the SBIC Guarantee or (ii) cause or permit the occurrence of any equivalent condition or event under any similar agreement with respect to any future SBIC Subsidiary.

## ARTICLE VII

## EVENTS OF DEFAULT

If any of the following events ("Events of Default") shall occur and be continuing:

(a) the Borrower shall (i) fail to pay any principal of any Loan (including, without limitation, any principal payable under Section 2.09(b) or (c)) or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise or (ii) fail to deposit any amount into the Letter of Credit Collateral Account as and when required by Section 2.08(a);

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or under any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five or more Business Days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries in or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or thereof, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or thereof, shall prove to have been incorrect when made or deemed made in any material respect;

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in (i) Section 5.03 (with respect to the Borrower's and its Subsidiaries' existence only, and not with respect to the Borrower's and its Subsidiaries' rights, licenses, permits, privileges or franchises), Sections 5.08(a) or (b), Section 5.10, Section 5.12(c) or in Article VI or any Obligor shall default in the performance of any of its obligations contained in Section 7 of the Guarantee and Security Agreement or (ii) Sections 5.01(e) or (f) or 5.02 and, in the case of this clause (ii), such failure shall continue unremedied for a period of five or more days after notice thereof by the Administrative Agent (given at the request of any Lender) to the Borrower;

(e) the Borrower or any Obligor, as applicable, shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clause (a), (b) or (d) of this Article) or any other Loan Document and such failure shall continue unremedied for a period of 30 or more days after notice thereof from the Administrative Agent (given at the request of any Lender) to the Borrower;

(f) the Borrower or any of its Subsidiaries shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) any event or condition occurs that (i) results in any Material Indebtedness becoming due prior to its scheduled maturity or (ii) that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity, unless, in the case of this clause (ii), such event or condition is no longer continuing or has been waived in accordance with the terms of such Material Indebtedness such that the holder or holders thereof or any trustee or agent on its or their behalf are no longer enabled or permitted to cause such Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (h) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any of its Subsidiaries or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Subsidiaries or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed and unstayed for a period of 60 or more days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any of its Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (i) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Subsidiaries or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) the Borrower or any of its Subsidiaries shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of $5,000,000 shall be rendered against the Borrower or any of its Subsidiaries or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any of its Subsidiaries to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect;

(m) a Change in Control shall occur;

(n) an Investment Advisor Departure Event shall occur;

(o) a Key Person Departure Event shall occur;

(p) any SBIC Subsidiary shall become the subject of an enforcement action and be transferred into liquidation status by the SBA;

(q) the Liens created by the Security Documents shall, at any time with respect to Portfolio Investments held by Obligors having an aggregate Value in excess of 5% of the aggregate Value of all Portfolio Investments held by Obligors, not be valid and perfected (to the extent perfection by filing, registration, recordation, possession or control is required herein or therein) in favor of the Collateral Agent, free and clear of all other Liens (other than Liens permitted under Section 6.02 or under the respective Security Documents), except to the extent that any such loss of perfection results from the failure of the Collateral Agent to maintain possession of certificates representing securities pledged under the Guarantee and Collateral Agreement;

(r) except for expiration in accordance with its terms, any of the Security Documents shall for whatever reason be terminated or cease to be in full force and effect in any material respect, or the enforceability thereof shall be contested by any Obligor; or

(s) the Borrower or any of its Subsidiaries shall (i) "Participate In" an "Impermissible Change of Control" under (and as defined in) the SBIC Guarantee, or otherwise permit the occurrence of an "Impermissible Change of Control" under (and as defined in) the SBIC Guarantee or (ii) cause or permit the occurrence of any equivalent condition or event under any similar agreement with respect to any future SBIC Subsidiary,

then, and in every such event (other than an event described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder and under the other Loan Documents, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder and under the other Loan Documents, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

In the event that the Loans shall be declared, or shall become, due and payable pursuant to the immediately preceding paragraph then, upon notice from the Administrative Agent or Lenders with LC Exposure representing more than 50% of the total LC Exposure demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall immediately deposit into the Letter of Credit Collateral Account cash in an amount equal to the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default described in clause (h) or (i) of this Article.

## ARTICLE VIII

## THE ADMINISTRATIVE AGENT

SECTION 8.01. Appointment of the Administrative Agent. Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto.

SECTION 8.02. Capacity as Lender. The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such Person and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

SECTION 8.03. Limitation of Duties; Exculpation. The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders, and (c) except as expressly set forth herein and in the other Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein or therein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

SECTION 8.04. Reliance. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel, independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

SECTION 8.05. Sub-Agents. The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

SECTION 8.06. Resignation; Successor Administrative Agent. The Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, with the consent of the Borrower not to be unreasonably withheld (provided that no such consent shall be required if an Event of Default has occurred and is continuing), to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent's resignation shall nonetheless become effective and (1) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and (2) the Required Lenders shall perform the duties of the Administrative Agent (and all payments and communications provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender directly) until such time as the Required Lenders appoint a successor agent as provided for above in this paragraph. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring (or retired) Administrative Agent and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder (if not already discharged therefrom as provided above in this paragraph). The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

SECTION 8.07. Reliance by Lenders. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

SECTION 8.08. Modifications to Loan Documents. Except as otherwise provided in Section 9.02(b) with respect to this Agreement, the Administrative Agent may, with the prior consent of the Required Lenders (but not otherwise), consent to any modification, supplement or waiver under any of the Loan Documents; provided that, without the prior consent of each Lender, the Administrative Agent shall not (except as provided herein or in the Security

Documents) release all or substantially all of the Collateral or otherwise terminate all or substantially all of the Liens under any Security Document providing for collateral security, agree to additional obligations being secured by all or substantially all of such collateral security, or alter the relative priorities of the obligations entitled to the benefits of the Liens created under the Security Documents with respect to all or substantially all of the Collateral, except that no such consent shall be required, and the Administrative Agent is hereby authorized, to release any Lien covering property that is the subject of either a disposition of property permitted hereunder or a disposition to which the Required Lenders have consented.

SECTION 8.09. Documentation Agent. The Documentation Agent (in its capacity as such) shall not have any duties or responsibilities, nor shall it incur any liability, under this Agreement and the other Loan Documents.

## ARTICLE IX

## MISCELLANEOUS

SECTION 9.01. Notices; Electronic Communications.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to the Borrower, to it at:

Fifth Street Finance Corp.
10 Bank Street, 12th Floor
White Plains, New York 10606
Attention: Bernard D. Berman
Telecopy Number: (914) 328-4214
Telephone: (914) 286-6800

With a copy to:

Rutan & Tucker, LLP
611 Anton Boulevard, 14th Floor
Costa Mesa, California 92626
Attention: William F. Meehan
Telecopy Number: (714) 546-9035

(ii) if to the Administrative Agent or Issuing Bank, to it at:

ING Capital LLC
1325 Avenue of the Americas
New York, New York 10019
Attention: Patrick Frisch
Telephone Number: (646) 424-6912
Telecopy Number: (646) 424-6919

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064
Attention: Terry E. Schimek, Esq.
Telecopy Number: (212) 757-3990

(iii) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt. Notices delivered through electronic communications to the extent provided in paragraph (b) below, shall be effective as provided in said paragraph (b).

(b) Electronic Communications. Notices and other communications to the Lenders and the Issuing Bank hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices to any Lender or the Issuing Bank pursuant to Section 2.05 if such Lender or the Issuing Bank, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender’s receipt of an acknowledgement from the intended recipient (such as by the “return receipt requested” function, as available, return e-mail or other written acknowledgement); provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) Documents to be Delivered under Sections 5.01 and 5.12(a). For so long as a Debtdomain™ or equivalent website is available to each of the Lenders hereunder, the Borrower may satisfy its obligation to deliver documents to the Administrative Agent or the Lenders under Sections 5.01 and 5.12(a) by delivering one hard copy thereof to the Administrative Agent and either an electronic copy or a notice identifying the website where such information is located for posting by the Administrative Agent on Debtdomain™ or such equivalent website, provided that the Administrative Agent shall have no responsibility to maintain access to Debtdomain™ or an equivalent website.

SECTION 9.02. Waivers; Amendments.

(a) No Deemed Waivers Remedies Cumulative. No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Amendments to this Agreement. Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that, subject to Section 2.17(b), no such agreement shall

(i) increase the Commitment of any Lender without the written consent of such Lender,

(ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby,

(iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby,

(iv) change Section 2.16(b), (c) or (d) in a manner that would alter the pro rata sharing of payments, or making of disbursements, required thereby without the written consent of each Lender affected thereby,

(v) change any of the provisions of this Section or the percentage in the definition of the term "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender, or

(vi) permit the assignment or transfer by any Obligor of any of its rights or obligations under any Loan Document without the consent of each Lender;

provided further that (x) no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Bank hereunder without the prior written consent of the Administrative Agent or the Issuing Bank, as the case may be, and (y) the consent of Lenders holding not less than two-thirds of the Revolving Credit Exposure and unused Commitments will be required (A) for any adverse change affecting the provisions of this Agreement relating to the Borrowing Base (including the definitions used therein), or the provisions of Section 5.12(b)(ii), and (B) for any release of any material portion of the Collateral other than for fair value or as otherwise permitted hereunder or under the other Loan Documents.

(c) Amendments to Security Documents. No Security Document nor any provision thereof may be waived, amended or modified, nor may the Liens thereof be spread to secure any additional obligations (including any increase in Loans hereunder, but excluding any such increase pursuant to a Commitment Increase under Section 2.07(f) to an amount not greater than $150,000,000) except pursuant to an agreement or agreements in writing entered into by the Borrower, and by the Collateral Agent with the consent of the Required Lenders; provided that, subject to Section 2.17(b), (i) without the written consent of each Lender, no such agreement shall release all or substantially all of the Obligors from their respective obligations under the Security Documents and (ii) without the written consent of each Lender, no such agreement shall release all or substantially all of the collateral security or otherwise terminate all or substantially all of the Liens under the Security Documents, alter the relative priorities of the obligations entitled to the Liens created under the Security Documents (except in connection with securing additional obligations equally and ratably with the Loans and other obligations hereunder) with respect to all or substantially all of the collateral security provided thereby, or release all or substantially all of the guarantors under the Guarantee and Security Agreement from their guarantee obligations thereunder, except that no such consent shall be required, and the Administrative Agent is hereby authorized (and so agrees with the Borrower) to direct the Collateral Agent under the Guarantee and Security Agreement, to release any Lien covering property (and to release any such guarantor) that is the subject of either a disposition of property permitted hereunder or a disposition to which the Required Lenders have consented, or otherwise in accordance with Section 9.15.

SECTION 9.03. Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Borrower shall pay (i) all reasonable out-of-pocket costs and expenses incurred by the Administrative Agent, the Collateral Agent and their Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent and the Collateral Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration (other than internal overhead charges) of this Agreement and the other Loan Documents and any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder, (iii) all out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement and the other Loan Documents, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect thereof and (iv) and all reasonable out-of-pocket costs, expenses, taxes, assessments and other charges incurred in connection with any filing, registration, recording or perfection of any security interest contemplated by any Security Document or any other document referred to therein.

(b) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (other than Taxes or Other Taxes which shall only be indemnified by the Borrower to the extent provided in Section 2.15), including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit) or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the willful misconduct or gross negligence of such Indemnitee.

The Borrower shall not be liable to any Indemnitee for any special, indirect, consequential or punitive damages arising out of, in connection with, or as a result of the Transactions asserted by an Indemnitee against the Borrower or any other Obligor, provided that the foregoing limitation shall not be deemed to impair or affect the Obligations of the Borrower under the preceding provisions of this subsection.

(c) Reimbursement by Lenders. To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent or the Issuing Bank under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent or the Issuing Bank, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent or the Issuing Bank in its capacity as such.

(d) Waiver of Consequential Damages, Etc. To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of; this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) Payments. All amounts due under this Section shall be payable promptly after written demand therefor.

SECTION 9.04. Successors and Assigns.

(a) Assignments Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Banks and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders.

(i) Assignments Generally. Subject to the conditions set forth in clause (ii) below, any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans and LC Exposure at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld, conditioned or delayed) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, or, if an Event of Default has occurred and is continuing, any other assignee; and

(B) the Administrative Agent and the Issuing Bank.

(ii) Certain Conditions to Assignments. Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans and LC Exposure, the amount of the Commitment or Loans and LC Exposure of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than U.S. $1,000,000 unless each of the Borrower and the Administrative Agent otherwise consent; provided that no such consent of the Borrower shall be required if a Default has occurred and is continuing;

(B) each partial assignment of Commitments or Loans and LC Exposure shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement in respect of such Commitments, Loans and LC Exposure;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption in substantially the form of Exhibit A hereto, together with a processing and recordation fee of U.S. $3,500 (which fee shall not be payable in connection with an assignment to a Lender or to an Affiliate of a Lender), for which the Borrower and the Guarantors shall not be obligated; and

(D) the assignee, if it shall not already be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(iii) Effectiveness of Assignments. Subject to acceptance and recording thereof pursuant to paragraph (c) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.13, 2.14, 2.15 and 9.03 with respect to facts and circumstances occurring prior to the effective date of such assignment). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) Maintenance of Registers by Administrative Agent. The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain at one of its offices in New York City a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Registers" and each individually, a "Register"). The entries in the Registers shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Registers pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Registers shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Acceptance of Assignments by Administrative Agent. Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Special Purposes Vehicles. Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPC") owned or administered by such Granting Lender, identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrower, the option to provide all or any part of any Loan that such Granting Lender would otherwise be obligated to make; provided that (i) nothing herein shall constitute a commitment to make any Loan by any SPC, (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of such Loan, the Granting Lender shall, subject to the terms of this Agreement, make such Loan pursuant to the terms hereof, (iii) the rights of any such SPC shall be derivative of the rights of the Granting Lender, and such SPC shall be subject to all of the restrictions upon the Granting Lender herein contained, and (iv) no SPC shall be entitled to the benefits of Sections 2.13 (or any other increased costs protection provision), 2.14 or 2.15. Each SPC shall be conclusively presumed to have made arrangements with its Granting Lender for the exercise of voting and other rights hereunder in a manner which is acceptable to the SPC, the Administrative Agent, the Lenders and the Borrower, and each of the Administrative Agent, the Lenders and the Obligors shall be entitled to rely upon and deal solely with the Granting Lender with respect to Loans made by or through its SPC. The making of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Loan were made by the Granting Lender.

Each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding senior indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings or similar proceedings under the laws of the United States or any State thereof, in respect of claims arising out of this Agreement; provided that the Granting Lender for each SPC hereby agrees to indemnify, save and hold harmless each other party hereto for any loss, cost, damage and expense arising out of their inability to institute any such proceeding against its SPC. In addition, notwithstanding anything to the contrary contained in this Section, any SPC may (i) without the prior written consent of the Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Loans to its Granting Lender or to any financial institutions providing liquidity and/or credit facilities to or for the account of such SPC to fund the Loans made by such SPC or to support the securities (if any) issued by such SPC to fund such Loans (but nothing contained herein shall be construed in derogation of the obligation of the Granting Lender to make Loans hereunder); provided that neither the consent of the SPC or of any such assignee shall be required for amendments or waivers hereunder except for those amendments or waivers for which the consent of participants is required under paragraph (1) below, and (ii) disclose on a confidential basis (in the same manner described in Section 9.13(b)) any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of a surety, guarantee or credit or liquidity enhancement to such SPC.

(f) Participations. Any Lender may, with the consent of the Borrower (such consent not to be unreasonably withheld, conditioned or delayed), sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Commitments and the Loans and LC Disbursements owing to it); provided that (i) the consent of the Borrower shall not be required if such Participant does not have the right to receive any non-public information that may be provided pursuant to this Agreement, (ii) such Lender's obligations under this Agreement and the other Loan Documents shall remain unchanged, (iii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iv) the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and the other Loan Documents. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and the other Loan Documents and to approve any amendment, modification or waiver of any provision of this Agreement or any other Loan Document; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (g) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.13, 2.14 and 2.15 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.16(d) as though it were a Lender hereunder.

(g) Limitations on Rights of Participants. A Participant shall not be entitled to receive any greater payment under Section 2.13, 2.14 or 2.15 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.15 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with paragraphs (e) and (f) of Section 2.15 as though it were a Lender and in the case of a Participant claiming exemption for portfolio interest under Section 871(h) or 881(c) of the Code, the applicable Lender shall provide the Borrower with satisfactory evidence that the participation is in registered form and shall permit the Borrower to review such register as reasonably needed for the Borrower to comply with its obligations under applicable laws and regulations.

(h) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any such pledge or assignment to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such assignee for such Lender as a party hereto.

(i) No Assignments to the Borrower or Affiliates. Anything in this Section to the contrary notwithstanding, no Lender may assign or participate any interest in any Loan or LC Exposure held by it hereunder to the Borrower or any of its Affiliates or Subsidiaries without the prior consent of each Lender.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.13, 2.14, 2.15 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness; Electronic Execution.

(a) Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract between and among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page to this Agreement by telecopy or electronic mail shall be effective as delivery of a manually executed counterpart of this Agreement.

(b) Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Etc.

(a) Governing Law. This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Submission to Jurisdiction. The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court.

Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

(c) Waiver of Venue. The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Service of Process. Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Judgment Currency. This is a loan transaction in which the specification of Dollars and payment in New York City is of the essence, and Dollars shall be the currency of account in all events relating to Loans. The payment obligations of the Borrower under this Agreement shall not be discharged or satisfied by an amount paid in another currency or in another place, whether pursuant to a judgment or otherwise, to the extent that the amount so paid on conversion to Dollars and transfer to New York City under normal banking procedures does not yield the amount of Dollars in New York City due hereunder. If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder into another currency (the "Other Currency"), the rate of exchange that shall be applied shall be the rate at which in accordance with normal banking procedures the Administrative Agent could purchase Dollars with the Other Currency on the Business Day next preceding the day on which such judgment is rendered. The obligation of the Borrower in respect of any such sum due from it to the Administrative Agent or any Lender hereunder or under any other Loan Document (in this Section called an "Entitled Person") shall, notwithstanding the rate of exchange actually applied in rendering such judgment, be discharged only to the extent that on the Business Day following receipt by such Entitled Person of any sum adjudged to be due hereunder in the Other Currency such Entitled Person may in accordance with normal banking procedures purchase and transfer Dollars to New York City with the amount of the Other Currency so adjudged to be due; and the Borrower hereby, as a separate obligation and notwithstanding any such judgment, agrees to indemnify such Entitled Person against, and to pay such Entitled Person on demand, in Dollars, the amount (if any) by which the sum originally due to such Entitled Person in Dollars hereunder exceeds the amount of Dollars so purchased and transferred.

SECTION 9.12. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.13. Treatment of Certain Information; Confidentiality.

(a) Treatment of Certain Information. The Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Borrower or one or more of its Subsidiaries (in connection with this Agreement or otherwise) by any Lender or by one or more subsidiaries or affiliates of such Lender and the Borrower hereby authorizes each Lender to share any information delivered to such Lender by the Borrower and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Lender to enter into this Agreement, to any such subsidiary or affiliate, it being understood that any such subsidiary or affiliate receiving such information shall be bound by the provisions of paragraph (b) of this Section as if it were a Lender hereunder. Such authorization shall survive the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

(b) Confidentiality. Each of the Administrative Agent, the Lenders and the Issuing Bank agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and other representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Administrative Agent, any Lender, the Issuing Bank or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower.

For purposes of this Section, "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or the Issuing Bank on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries, provided that, in the case of information received from the Borrower or any of its Subsidiaries after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.14. USA PATRIOT Act. Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with said Act.

SECTION 9.15. Termination Promptly upon the Termination Date, the Administrative Agent shall direct the Collateral Agent to, on behalf of the Administrative Agent, the Collateral Agent and the Lenders, deliver to Borrower such termination statements and releases and other documents necessary or appropriate to evidence the termination of this Agreement, the Loan Documents, and each of the documents securing the obligations hereunder as the Borrower may reasonably request, all at the sole cost and expense of the Borrower.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

FIFTH STREET FINANCE CORP.

By: ______________________________
Name:
Title:

ING CAPITAL LLC, as Administrative Agent,
Issuing Bank and a Lender

By: ______________________________
Name:
Title:

ROYAL BANK OF CANADA, as a Lender

By: ______________________________
Name:
Title:

UBS LOAN FINANCE LLC, as a Lender

By: ______________________________
Name:
Title:

By: ______________________________
Name:
Title:

MORGAN STANLEY BANK, N.A., as a Lender

By: ______________________________
Name:
Title:

**Exhibit (k)(8)**

GUARANTEE, PLEDGE AND SECURITY AGREEMENT

dated as of

May 27, 2010

among

FIFTH STREET FINANCE CORP.
as Borrower

The SUBSIDIARY GUARANTORS Party Hereto

ING CAPITAL LLC
as Administrative Agent

Each FINANCING AGENT and
DESIGNATED INDEBTEDNESS HOLDER Party Hereto

and

ING CAPITAL LLC
as Collateral Agent

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GUARANTEE, PLEDGE AND SECURITY AGREEMENT, dated as of May 27, 2010 (this "Agreement"), among FIFTH STREET FINANCE CORP., a corporation duly organized and validly existing under the laws of the State of Delaware (the "Borrower"), FSFC Holdings, Inc., a Delaware corporation, FSF/MP Holdings, Inc., a Delaware corporation, and each other entity that becomes a "SUBSIDIARY GUARANTOR" after the date hereof pursuant to Section 7.05 hereof (collectively, the "Subsidiary Guarantors" and, together with the Borrower, the "Obligors"), ING CAPITAL LLC, as administrative agent for the parties defined as "Lenders" under the Credit Agreement referred to below (in such capacity, together with its successors in such capacity, the "Administrative Agent"), each "Financing Agent" or "Designated Indebtedness Holder" that becomes a party hereto after the date hereof pursuant to Section 6.01 hereof and ING CAPITAL LLC, as collateral agent for the Secured Parties hereinafter referred to (in such capacity, together with its successors in such capacity, the "Collateral Agent").

W I T N E S S E T H:

WHEREAS, concurrently with the execution and delivery of this Agreement the Borrower, certain lenders and the Administrative Agent are entering into a Senior Secured Revolving Credit Agreement dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), pursuant to which such lenders have agreed to extend credit (by means of loans and letters of credit) to the Borrower from time to time;

WHEREAS, the Borrower may from time to time after the date hereof wish to incur additional indebtedness permitted under the Credit Agreement that the Borrower designates as "Designated Indebtedness" under this Agreement, which indebtedness is to be entitled to the benefits of this Agreement;

WHEREAS, to induce such lenders to extend credit to the Borrower under the Credit Agreement, and the holders of such "Designated Indebtedness" to extend other credit to the Borrower, the Borrower wishes to provide (a) for certain of its Subsidiaries from time to time to become parties hereto and to guarantee the payment of the Guaranteed Obligations (as hereinafter defined), and (b) for the Borrower and the Subsidiary Guarantors to provide collateral security for the Secured Obligations (as hereinafter defined);

WHEREAS, the Administrative Agent (on behalf of itself and such lenders), any Financing Agent (on behalf of itself and the holders of the "Designated Indebtedness" for which it serves as agent or trustee) and each Designated Indebtedness Holder that becomes a party hereto pursuant to Section 6.01 are or will be entering into this Agreement for the purpose of setting forth their respective rights to the Collateral (as hereinafter defined); and

WHEREAS, the Obligors and the Secured Parties agree that the Collateral Agent shall administer the Collateral, and the Collateral Agent is willing to so administer the Collateral pursuant to the terms and conditions set forth herein;

NOW THEREFORE, the parties hereto agree as follows:

Section 1. Definitions, Etc.

1.01 Certain Uniform Commercial Code Terms. As used herein, the terms "Account", "Chattel Paper", "Commodity Account", "Commodity Contract", "Deposit Account", "Document", "Electronic Chattel Paper", "General Intangible", "Goods", "Instrument", "Inventory", "Equipment", "Investment Property", "Letter-of-Credit Right", "Money", "Proceeds", "Promissory Note", "Supporting Obligations" and "Tangible Chattel Paper" have the respective meanings set forth in Article 9 of the NYUCC, and the terms "Certificated Security", "Clearing Corporation", "Entitlement Holder", "Financial Asset", "Indorsement", "Securities Account", "Security", "Security Entitlement" and "Uncertificated Security" have the respective meanings set forth in Article 8 of the NYUCC.

1.02 Additional Definitions. In addition, as used herein:

"Acceleration" means the Secured Obligations of any Secured Party having been declared (or become) due and payable following a default by the Borrower and expiration of any applicable grace period with respect thereto.

"Acceleration Notice" has the meaning specified in Section 8.01.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified (for purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise; "controlled" has the meaning correlative thereto).

"Agent Members" means members of, or participants in, a depositary, including the Depositary, Euroclear or Clearstream.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed.

"Clearing Corporation Security" means a security that is registered in the name of, or Indorsed to, a Clearing Corporation or its nominee or is in the possession of the Clearing Corporation in bearer form or Indorsed in blank by an appropriate Person.

"Clearstream" means Clearstream Banking, société anonyme, a corporation organized under the laws of the Grand Duchy of Luxembourg.

"Clearstream Security" means a Security that (a) is a debt or equity security and (b) is capable of being transferred to an Agent Member's account at

Clearstream pursuant to the definition of "Delivery", whether or not such transfer has occurred.

"Collateral" has the meaning assigned to such term in Section 4.

"Commercial Tort Claims" means all "commercial tort claims" (as defined in Article 9 of the NYUCC) held by any Obligor, including, without limitation, all commercial tort claims listed on Annex 2.10 hereto.

"Control" means "control" as defined in Section 9-104, 9-105, 9-106 or 9-107 of the NYUCC.

"Copyright Licenses" means any and all agreements providing for the granting of any right in or to Copyrights (whether such Obligor is licensee or licensor thereunder) including, without limitation, each agreement referred to in Annex 2.11 hereto.

"Copyrights" shall mean all United States and foreign copyrights (including Community designs), including but not limited to copyrights in software and databases, and all Mask Works (as defined under 17 U.S.C. 901 of the U.S. Copyright Act), whether registered or unregistered, and, with respect to any and all of the foregoing: (i) all registrations and applications therefor including, without limitation, the registrations and applications referred to in Annex 2.11 hereto, (ii) all extensions and renewals thereof, (iii) all rights corresponding thereto throughout the world, (iv) all rights to sue for past, present and future infringements thereof, and (v) all proceeds of the foregoing, including, without limitation, licenses, royalties, income, payments, claims, damages and proceeds of suit.

"Credit Agreement" has the meaning assigned to such term in the preamble of this Agreement.

"Credit Agreement Obligations" means, collectively, all obligations of the Borrower to the Lenders and the Administrative Agent under the Credit Agreement and the other Loan Documents (as defined in the Credit Agreement), including in each case in respect of the principal of and interest on the loans made, or letters of credit issued, thereunder, and all fees, indemnification payments and other amounts whatsoever, whether direct or indirect, absolute or contingent, now or hereafter from time to time owing to the Administrative Agent or the Lenders or any of them under or in respect of the Credit Agreement and the other Loan Documents (as defined in the Credit Agreement), and including all interest and expenses accrued or incurred subsequent to the commencement of any bankruptcy or insolvency proceeding with respect to the Borrower, whether or not such interest or expenses are allowed as a claim in such proceeding.

"Credit Facility Loan" has the meaning assigned to such term in the Credit Agreement.

"Custodian" means Bank of America, N.A., as custodian holding Portfolio Investments on behalf of the Obligors and, pursuant to the Custodian Agreement, the Collateral Agent, or any successor in such capacity. The term "Custodian" includes any agent or sub-custodian acting on behalf of the Custodian.

"Custodian Account" means an account that is subject to a Custodian Agreement.

"Custodian Agreement" means, collectively, (i) a Pledged Collateral Account Control Agreement, in form and substance satisfactory to the Administrative Agent, among the Borrower, the Collateral Agent and the Custodian, and (ii) a Pledged Collateral Account Control Agreement, in form and substance satisfactory to the Administrative Agent, among FSC Holdings, Inc., the Collateral Agent and the Custodian.

"Debt Documents" means, collectively, the Credit Agreement, the Designated Indebtedness Documents, any Hedging Agreement evidencing or relating to any Hedging Agreement Obligations and the Security Documents.

"Default" means any event that with notice or lapse of time or both would become an Event of Default.

"Deliver", "Delivered" or "Delivery" (whether to the Collateral Agent or otherwise) means, with respect to any Portfolio Investment of any Obligor or other Collateral, that such Portfolio Investment or other Collateral is held, registered or covered by a recorded UCC-1 financing statement as described below, in each case in a manner satisfactory to the Collateral Agent:

(a) subject to clause (l) below, in the case of each Certificated Security (other than a U.S. Government Security, Clearing Corporation Security, Euroclear Security or Clearstream Security), that such Certificated Security is either (i) in the possession of the Collateral Agent and registered in the name of the Collateral Agent (or its nominee) or Indorsed to the Collateral Agent or in blank, or (ii) in the possession of the Custodian and registered in the name of the Custodian (or its nominee) or Indorsed in blank and the Custodian has either (A) agreed in documentation reasonably satisfactory to the Collateral Agent to hold such Certificated Security as bailee on behalf of the Collateral Agent or (B) credited the same to a Securities Account for which the Custodian is a Securities Intermediary and has agreed that such Certificated Security constitutes a Financial Asset and that the Collateral Agent has Control over such Securities Account;

(b) subject to clause (l) below, in the case of each Instrument, that such Instrument is either (i) in the possession of the Collateral Agent and indorsed to the Collateral Agent or in blank, or (ii) in the possession of the Custodian and credited the same to a Securities Account for which the Custodian is a Securities Intermediary and has agreed that such Instrument constitutes a Financial Asset and that the Collateral Agent has Control over such Securities Account;

(c) subject to clause (l) below, in the case of each Uncertificated Security (other than a U.S. Government Security, Clearing Corporation Security, Euroclear Security or Clearstream Security), that such Uncertificated Security is either (i) registered on the books of the issuer thereof to the Collateral Agent (or its nominee), or (ii) registered on the books of the issuer thereof to the Custodian (or its nominee) under an arrangement where the Custodian has credited the same to a Securities Account for which the Custodian is a Securities Intermediary and has agreed that such Uncertificated Security constitutes a Financial Asset and that the Collateral Agent has Control over such Securities Account;

(d) subject to clause (l) below, in the case of each Clearing Corporation Security, that such Clearing Corporation Security is either (i) credited to a Securities Account of the Collateral Agent at such Clearing Corporation (and, if such Clearing Corporation Security is a Certificated Security, that the same is in the possession of such Clearing Corporation), or (ii) credited to a Securities Account of the Custodian at such Clearing Corporation (and, if a Certificated Security, so held in the possession of such Clearing Corporation, or of an agent or custodian on its behalf) and the Security Entitlement of the Custodian in such Clearing Corporation Securities Account has been credited by the Custodian to a Securities Account for which the Custodian is a Securities Intermediary under an arrangement where the Custodian has agreed that such Security constitutes a Financial Asset and that the Collateral Agent has Control over such Securities Account;

(e) in the case of each Euroclear Security and Clearstream Security, that the actions described in clause (d) above have been taken with respect to such Security as if such Security were a Clearing Corporation Security and Euroclear and Clearstream were Clearing Corporations; provided, that such additional actions shall have been taken as shall be necessary under the law of Belgium (in the case of Euroclear) and Luxembourg (in the case of Clearstream) to accord the Collateral Agent rights substantially equivalent to Control over such Security under the NYUCC;

(f) in the case of each U.S. Government Security, that such U.S. Government Security is either (i) credited to a securities account of the Collateral Agent at a Federal Reserve Bank, or (ii) credited to a Securities Account of the Custodian at a Federal Reserve Bank and the Security Entitlement of the Custodian in such Federal Reserve Bank Securities Account has been credited by the Custodian to a Securities Account for which the Custodian is a Securities Intermediary under an arrangement where the Custodian has agreed that such U.S. Government Security constitutes a Financial Asset and that the Collateral Agent has Control over such Securities Account;

(g) in the case of any Tangible Chattel Paper, that the original of such Tangible Chattel Paper is either (i) in the possession of the Collateral Agent in the United States or (ii) in the possession of the Custodian in the United States under an arrangement where the Custodian has agreed to hold such Tangible Chattel Paper as bailee on behalf of the Collateral Agent, and in each case any agreements that constitute or evidence such Tangible Chattel Paper is free of any marks or notations indicating that it is then pledged, assigned or otherwise conveyed to any Person other than the Collateral Agent;

(h) subject to clause (m) below, in the case of each General Intangible (including any participation in a debt obligation) of an Obligor organized in the United States, that such General Intangible falls within the collateral description of a UCC-1 financing statement, naming the relevant Obligor as debtor and the Collateral Agent as secured party and filed (x) in the jurisdiction of organization of such Obligor, in the case of an Obligor that is a "registered organization" (as defined in the NYUCC) or (y) in such other filing office as may be required under the Uniform Commercial Code as in effect any applicable jurisdiction, in the case of any other Obligor; provided that in the case of a participation in a debt obligation where such participation obligation is evidenced by an Instrument, either (i) such Instrument is in the possession of the applicable participating institution in the United States, and such participating institution has agreed that it holds possession of such Instrument for the benefit of the Collateral Agent (or for the benefit of the Custodian, and the Custodian has agreed that it holds the interest in such Instrument as bailee on behalf of the Collateral Agent) or (ii) such Instrument is in the possession of the applicable participating institution outside of the United States and such participating institution (and, if applicable, the obligor that issued such Instrument) has taken such actions as shall be necessary under the law of the jurisdiction where such Instrument is physically located to accord the Collateral Agent rights equivalent to Control over such Instrument under the NYUCC;

(i) subject to clause (m) below, in the case of each General Intangible (including any participation in a debt obligation) of an Obligor not organized in the United States, that such Obligor shall have taken such action as shall be necessary to accord the Collateral Agent rights substantially equivalent to a perfected first-priority security interest in such General Intangible under the NYUCC;

(j) in the case of any Deposit Account or Securities Account, that the bank or Securities Intermediary at which such Deposit Account or Securities Account, as applicable, is located has agreed that the Collateral Agent has Control over such Deposit Account or Securities Account, or that such Deposit Account or Securities Account is in the name of the Custodian and the Custodian has credited its rights in respect of such Deposit Account or Securities Account (the "Underlying Accounts") to a Securities Account for which the Custodian is a Securities Intermediary under an arrangement where the Custodian has agreed that the rights of the Custodian in such Underlying Accounts constitute a Financial Asset and that the Collateral Agent has Control over such Securities Account;

(k) in the case of any money (regardless of currency), that such money has been credited to a Deposit Account over which the Collateral Agent has Control as described in clause (j) above;

(l) in the case of any Certificated Security, Uncertificated Security or Instrument issued by a Person organized outside of the United States, that such additional actions shall have been taken as shall be necessary under applicable law to accord the Collateral Agent rights substantially equivalent to those accorded to a secured party under the NYUCC that has possession or control of such Certificated Security, Uncertificated Security or Instrument;

(m) in the case of each Portfolio Investment of any Obligor consisting of a Credit Facility Loan, in addition to all other actions required to be taken hereunder, that all actions shall have been taken as required by Section 5.08(c) of the Credit Agreement; and

(n) in the case of each Portfolio Investment of any Obligor or other Collateral not of a type covered by the foregoing clauses (a) through (m) that such Portfolio Investment or other Collateral has been transferred to the Collateral Agent in accordance with applicable law and regulation.

"Depositary" means The Depositary Trust Company, its nominees and their respective successors.

"Designated Indebtedness" means any Other Secured Indebtedness that has been designated by the Borrower at the time of the incurrence thereof as "Designated Indebtedness" for purposes of this Agreement in accordance with the requirements of Section 6.01.

"Designated Indebtedness Documents" means, in respect of any Designated Indebtedness, all documents or instruments pursuant to which such Designated Indebtedness shall be incurred or otherwise governing the terms or conditions thereof.

"Designated Indebtedness Holders" means, in respect of any Designated Indebtedness, the Persons from time to time holding such Designated Indebtedness.

"Designated Indebtedness Obligations" means, collectively, in respect of any Designated Indebtedness, all obligations of the Borrower to any Designated Indebtedness Holder or Financing Agent under the Designated Indebtedness Documents relating to such Designated Indebtedness, including in each case in respect of the principal of and interest on the notes or other instruments issued thereunder, all fees, indemnification payments and other amounts whatsoever, whether direct or indirect, absolute or contingent, now or hereafter from time to time owing to any Designated Indebtedness Holder or any Financing Agent or any of them under such Designated Indebtedness Documents, and including all interest and expenses accrued or incurred subsequent to the commencement of any bankruptcy or insolvency proceeding with respect to the Borrower, whether or not such interest or expenses are allowed as a claim in such proceeding.

"Excluded Assets" means, individually and collectively, (i) any Excluded Equity Interest, (ii) any right or interest of the Borrower in and to the Structured Facility Agreements (as defined in the Credit Agreement), including any contractual rights or benefits thereunder of the Borrower in its capacity as servicer, seller or otherwise, (iii) any payroll accounts so long as such payroll account is coded as such, withholding tax accounts, pension fund accounts and 401(k) accounts, (iv) any fiduciary accounts or any account for which any Obligor is the servicer for another Person, including any accounts in the name of the Borrower in its capacity as servicer for the Structured Subsidiary (as defined in the Credit Agreement) or any "Agency Account" pursuant to Section 5.08(c)(v) of the Credit Agreement, or (v) any intent-to-use application for United States trademark registration.

"Equity Interests" means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.

"Excluded Equity Interest" means any Equity Interest issued by any "Financing Subsidiary" under and as defined in the Credit Agreement; provided, that if any such Financing Subsidiary shall at any time cease to be a Financing Subsidiary pursuant to Section 5.08(a)(ii) or (iii) of the Credit Agreement or otherwise, the Equity Interests issued by such Person shall no longer constitute Excluded Equity Interests and shall become part of the Collateral hereunder.

"Euroclear" means Euroclear Bank, S.A., as operator of the Euroclear system.

"Euroclear Security" means a Security that (a) is a debt or equity Security and (b) is capable of being transferred to an Agent Member's account at Euroclear, whether or not such transfer has occurred.

"Event of Default" means any Event of Default under and as defined in the Credit Agreement and any event or condition that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Designated Indebtedness Obligations or Hedging Agreement Obligations or any trustee or agent on its or their behalf to cause any Designated Indebtedness Obligations or Hedging Agreement Obligations to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity.

"Financing Agent" means, in respect of any Designated Indebtedness, any trustee or agent for the holders of such Designated Indebtedness.

"Governmental Authority" means the government of the United States of America, or of any other nation, or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee Assumption Agreement" means a Guarantee Assumption Agreement substantially in the form of Exhibit B, between the Collateral Agent and an entity that, pursuant to Section 7.05, is required to become a "Subsidiary Guarantor" hereunder (with such changes as the Collateral Agent shall reasonably request, consistent with the requirements of Section 7.05).

"Guaranteed Obligations" means, collectively, the Credit Agreement Obligations, the Designated Indebtedness Obligations and the Hedging Agreement Obligations.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange protection agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Hedging Agreement Obligations" means, collectively, all obligations of any Obligor to any Lender (or any Affiliate thereof) under any Hedging Agreement that is an interest rate protection agreement or other interest rate hedging arrangement and has been designated by the Borrower by notice to the Administrative Agent as being secured by this Agreement, including in each case all fees, indemnification payments and other amounts whatsoever, whether direct or indirect, absolute or contingent, now or hereafter from time to time owing to such Lender (or any Affiliate thereof) under such Hedging Agreement, and including all interest and expenses accrued or incurred subsequent to the commencement of any bankruptcy or insolvency proceeding with respect to such Obligor, whether or not such interest or expenses are allowed as a claim in such proceeding.

For purposes hereof, it is understood that any obligations of any Obligor to a Person arising under a Hedging Agreement entered into at the time such Person (or an Affiliate thereof) is a "Lender" party to the Credit Agreement shall nevertheless continue to constitute Hedging Agreement Obligations for purposes hereof, notwithstanding that such Person (or its Affiliate) may have assigned all of its Loans and other interests in the Credit Agreement and, therefore, at the time a claim is to be made in respect of such obligations, such Person (or its Affiliate) is no longer a "Lender" party to the Credit Agreement, provided that neither such Person nor any such Affiliate shall be entitled to the benefits of this Agreement (and such obligations shall not constitute Hedging Agreement Obligations hereunder) unless, at or prior to the time it ceased to be a Lender hereunder, it shall have notified the Administrative Agent in writing of the existence of such agreement. Subject to and without limiting the preceding sentence, any Affiliate of a Lender that is a party to a Hedging Agreement shall be included in the term "Lender" for purposes of this Agreement solely for purposes of the rights and obligations arising hereunder in respect of such Hedging Agreement and the Hedging Agreement Obligations thereunder.

The designation of any Hedging Agreement as being secured by this Agreement in accordance with the first paragraph under this definition of "Hedging Agreement Obligations" shall not create in favor of any Lender or any Affiliate thereof that is a party thereto any rights in connection with the management or release of any Collateral or of the obligations of any Guarantor under this Agreement.

"Indorsed" means, with respect to any Certificated Security, that such Certificated Security has been assigned or transferred to the applicable transferee pursuant to an effective Indorsement.

"ING" means ING Capital LLC.

"Intellectual Property" means, collectively, the Copyrights, the Copyright Licenses, the Patents, the Patent Licenses, the Trademarks, the Trademark Licenses, the Trade Secrets, and the Trade Secret Licenses.

"Investment" means, for any Person: (a) Equity Interests, bonds, notes, debentures or other securities of any other Person or any agreement to acquire any Equity Interests, bonds, notes, debentures or other securities of any other Person (including any "short sale" or any sale of any securities at a time when such securities are not owned by the Person entering into such sale); (b) deposits, advances, loans or other extensions of credit made to any other Person (including purchases of property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such property to such Person); or (c) Hedging Agreements.

"Lenders" means any Lender or any Issuing Bank (in each case as defined in the Credit Agreement), that are from time to time party to the Credit Agreement.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities, except in favor of the issuer thereof.

"Notice of Designation" has the meaning specified in Section 6.01.

"NYUCC" means the Uniform Commercial Code as in effect from time to time in the State of New York.

"Obligors" has the meaning given to such term in the preamble of this Agreement.

"Other Secured Indebtedness" means "Secured Longer-Term Indebtedness" under and as defined in the Credit Agreement.

“Patent Licenses” means all agreements providing for the granting of any right in or to Patents (whether such Obligor is licensee or licensor thereunder) including, without limitation, each agreement referred to in Annex 2.11 hereto.

“Patents” means all United States and foreign patents and certificates of invention, or similar industrial property rights, and applications for any of the foregoing, including, but not limited to: (i) each patent and patent application referred to in Annex 2.11 hereto, (ii) all reissues, divisions, continuations, continuations-in-part, extensions, renewals, and reexaminations thereof, (iii) all rights corresponding thereto throughout the world, (iv) all inventions and improvements described therein, (v) all rights to sue for past, present and future infringements thereof, and (vi) all proceeds of the foregoing, including, without limitation, licenses, royalties, income, payments, claims, damages, and proceeds of suit.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Pledge Supplement” means a supplement to this Agreement substantially in the form of Exhibit D.

“Pledged Debt” means all indebtedness owed to any Obligor (other than Eligible Portfolio Investments (unless issued by a Subsidiary)), the instruments evidencing such indebtedness (including, without limitation, the instruments described on Annex 2.08 hereto) and all interest, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such indebtedness.

“Pledged Equity Interests” means all Equity Interests (other than Excluded Equity Interest) owned by any Obligor issued by any Subsidiary of such Obligor (including, without limitation, the Equity Interests described on Annex 2.07 hereto) and the certificates, if any, representing such Equity Interests and any interest of such Obligor in the entries on the books of the issuer of such Equity Interests or on the books of any Securities Intermediary pertaining to such Equity Interests, and all dividends, distributions, cash, warrants, rights, options, instruments, securities and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such Equity Interests.

“Pledged Interests” means all Pledged Debt and Pledged Equity Interests.

“Portfolio Investments” means any Investment held by the Borrower and its Subsidiaries in their asset portfolio. Without limiting the generality of the foregoing, it is understood that Portfolio Investments includes any right, title and interest of the Borrower and its Subsidiaries in, to and under Hedging Agreements.

“Related Parties” means, with respect to any specified Person, such Person’s Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person’s Affiliates.

“Required Secured Parties” means (a) so long as no Trigger Event has occurred and is continuing, “Required Lenders” under and as defined in the Credit Agreement or (b) if a Trigger Event shall have occurred and be continuing, Secured Parties holding more than 50% of the aggregate amount of the sum of the Credit Agreement Obligations and the Designated Indebtedness Obligations.

“Secured Obligations” means, collectively, (a) in the case of the Borrower, the Credit Agreement Obligations, the Designated Indebtedness Obligations and the Hedging Agreement Obligations, (b) in the case of the Subsidiary Guarantors, the obligations of the Subsidiary Guarantors in respect of the Guaranteed Obligations pursuant to Section 3.01 and (c) in the case of all Obligors, all present and future obligations of the Obligors to the Secured Parties, or any of them, hereunder or under any other Security Document.

“Secured Party” means, collectively, the Lenders, the Administrative Agent, each Designated Indebtedness Holder, each Financing Agent and the Collateral Agent.

“Security Documents” means, collectively, this Agreement, the Custodian Agreement, all Uniform Commercial Code financing statements filed with respect to the security interests in the Collateral created pursuant hereto and all other assignments, pledge agreements, security agreements, control agreements, custodial agreements and other instruments executed and delivered at any time by any of the Obligors pursuant hereto or otherwise providing or relating to any collateral security for any of the Secured Obligations.

“Subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with generally accepted accounting principles as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise controlled, by the parent or one or more Subsidiaries of the parent or by the parent and one or more Subsidiaries of the parent. Anything herein to the contrary notwithstanding, the term “Subsidiary” shall not include any Person that constitutes an investment held by any Obligor in the ordinary course of business and that is not, under generally accepted accounting principles, consolidated on the financial statements of the Borrower and its Subsidiaries. Unless otherwise specified, “Subsidiary” means a Subsidiary of the Borrower.

“Subsidiary Guarantors” has the meaning given to such term in the preamble of this Agreement.

“Trademark Licenses” means any and all agreements providing for the granting of any right in or to Trademarks (whether such Obligor is licensee or licensor thereunder) including, without limitation, each agreement referred to in Annex 2.11 hereto.

“Trademarks” means all United States and foreign trademarks, trade names, corporate names, company names, business names, fictitious business names, Internet domain names, service marks, certification marks, collective marks, logos, other source or business identifiers, designs and general intangibles of a like nature, and all registrations and applications for any of the foregoing including, but not limited to: (i) the registrations and applications referred to in Annex 2.11 hereto, (ii) all extensions or renewals of any of the foregoing, (iii) all of the goodwill of the business connected with the use of and symbolized by the foregoing, (iv) the right to sue for past, present and future infringement or dilution of any of the foregoing or for any injury to goodwill, and (v) all proceeds of the foregoing, including, without limitation, licenses, royalties, income, payments, claims, damages, and proceeds of suit.

“Trade Secret Licenses” means any and all agreements providing for the granting of any right in or to Trade Secrets (whether such Obligor is licensee or licensor thereunder) including, without limitation, each agreement referred to in Annex 2.11 hereto.

“Trade Secrets” means all trade secrets and all other confidential or proprietary information and know-how whether or not such Trade Secret has been reduced to a writing or other tangible form, including all documents and things embodying, incorporating, or referring in any way to such Trade Secret, including but not limited to: (i) the right to sue for past, present and future misappropriation or other violation of any Trade Secret, and (ii) all proceeds of the foregoing, including, without limitation, licenses, royalties, income, payments, claims, damages, and proceeds of suit.

“Trigger Event” means any of the following events or conditions:

(a) Acceleration of Secured Obligations representing 66-2/3% or more of the aggregate Secured Obligations at the time outstanding;

(b) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of any Obligor or its debts, or of a substantial part of its assets, under any Federal or state bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any Obligor or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for a period of 60 or more days or an order or decree approving or ordering any of the foregoing shall be entered; or

(c) any Obligor shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal or state bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (b) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any Obligor or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any corporate or other action for the purpose of effecting any of the foregoing.

1.03 Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Sections, Exhibits and Annexes shall be construed to refer to Sections of, and Exhibits and Annexes to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

Section 2. Representations and Warranties. Each Obligor represents and warrants to the Secured Parties that:

2.01 Organization. Such Obligor is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization.

2.02 Authorization; Enforceability. The execution, delivery and performance of this Agreement, and the granting of the Liens contemplated hereunder, are within such Obligor's corporate or other powers and have been duly authorized by all necessary corporate or other action, including by all necessary shareholder action. This Agreement has been duly executed and delivered by such Obligor and constitutes a legal, valid and binding obligation of such Obligor, enforceable in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

2.03 Governmental Approvals; No Conflicts. The execution, delivery and performance of this Agreement, and the granting of the Liens contemplated hereunder, (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except for (i) such as have been or will be obtained or made and are in full force and effect and (ii) filings and recordings in respect of the Liens created pursuant hereto, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of any Obligor or any order of any Governmental Authority, (c) will not violate or result in a default in any material respect under any indenture, agreement or other instrument binding upon any Obligor or any of its assets, or give rise to a right thereunder to require any payment to be made by any such Person, and (d) except for the Liens created pursuant hereto, will not result in the creation or imposition of any Lien on any asset of any Obligor.

2.04 Title. Such Obligor is the sole beneficial owner of the Collateral in which a security interest is purported to be granted by such Obligor hereunder and no Lien exists upon such Collateral other than (a) the security interest created or provided for herein, which security interest constitutes a valid first and prior perfected Lien on the Collateral and (b) other Liens not prohibited by the provisions of any Debt Document.

2.05 Names, Etc. The full and correct legal name, type of organization, jurisdiction of organization, organizational ID number (if applicable) and place of business (or, if more than one, chief executive office) of each Obligor as of the date hereof are correctly set forth in Annex 2.05 (and of each additional Obligor as of the date of the Guarantee Assumption Agreement referred to below are set forth in the supplement to Annex 2.05 in Appendix A to the Guarantee Assumption Agreement executed and delivered by such Obligor pursuant to Section 7.05).

2.06 Changes in Circumstances. No Obligor has (a) within the period of four months prior to the date hereof (or, in the case of any Subsidiary Guarantor, within the period of four months prior to the date it becomes a party hereto pursuant to a Guarantee Assumption Agreement), changed its location (as defined in Section 9-307 of the NYUCC), (b) as of the date hereof (or, with respect to any Subsidiary Guarantor, as of the date it becomes a party hereto pursuant to a Guarantee Assumption Agreement), changed its name or (c) as of the date hereof (or, with respect to any Subsidiary Guarantor, as of the date it becomes a party hereto pursuant to a Guarantee Assumption Agreement), become a “new debtor” (as defined in Section 9-102(a)(56) of the NYUCC) with respect to a currently effective security agreement previously entered into by any other Person and binding upon such Obligor, in each case except as notified in writing to the Collateral Agent prior to the date hereof (or, in the case of any Subsidiary Guarantor, prior to the date it becomes a party hereto pursuant to a Guarantee Assumption Agreement).

2.07 Pledged Equity Interests. (i) Annex 2.07 sets forth a complete and correct list of all Pledged Equity Interests owned by any Obligor on the date hereof (or owned by a Subsidiary Guarantor on the date it becomes a party hereto pursuant to a Guarantee Assumption Agreement) and such Pledged Equity Interests constitute the percentage of issued and outstanding shares of stock, percentage of membership interests, percentage of partnership interests or percentage of beneficial interest of the respective issuers thereof indicated on Annex 2.07; (ii) the Obligors are the record and beneficial owners of the Pledged Equity Interests free of all Liens, rights or claims of other Persons and there are no outstanding warrants, options or other rights to purchase, or shareholder, voting trust or similar agreements outstanding with respect to, or property that is convertible into, or that requires the issuance or sale of, any Pledged Equity Interests; and (iii) no consent of any Person including any other general or limited partner, any other member of a limited liability company, any other shareholder or any other trust beneficiary is necessary in connection with the creation, perfection or first priority status of the security interest of the Collateral Agent in any Pledged Equity Interests or the exercise by the Collateral Agent of the voting or other rights provided for in this Agreement or the exercise of remedies in respect thereof.

2.08 Promissory Notes. Annex 2.08 sets forth a complete and correct list of all Promissory Notes (other than any previously delivered to the Custodian or held in a Securities Account referred to in Annex 2.09) held by any Obligor on the date hereof (or held by a Subsidiary Guarantor on the date it becomes a party hereto pursuant to a Guarantee Assumption Agreement).

2.09 Deposit Accounts and Securities Accounts. Annex 2.09 sets forth a complete and correct list of all Deposit Accounts, Securities Accounts and Commodity Accounts of the Obligors on the date hereof (and of any Subsidiary Guarantor on the date it becomes a party hereto pursuant to a Guarantee Assumption Agreement), except for any Deposit Account specially and exclusively used for payroll, payroll taxes and other employee wage and benefit payments.

2.10 Commercial Tort Claims. Annex 2.10 sets forth a complete and correct list of all Commercial Tort Claims of the Obligors on the date hereof (and of any Subsidiary Guarantor on the date it becomes a party hereto pursuant to a Guarantee Assumption Agreement).

2.11 Intellectual Property and Licenses.

(a) Annex 2.11 sets forth a true and complete list of (i) all United States, state and foreign registrations of and applications for Patents, Trademarks, and Copyrights owned by each Obligor and (ii) all Patent Licenses, Trademark Licenses, Trade Secret Licenses and Copyright Licenses material to the business of such Obligor;

(b) Each Obligor is the sole and exclusive owner of the entire right, title, and interest in and to all Intellectual Property listed on Annex 2.11, and owns or has the valid right to use all other Intellectual Property used in or necessary to conduct its business, free and clear of all Liens, claims, encumbrances and licenses, except for Permitted Liens and the licenses set forth on Annex 2.11;

(c) all Intellectual Property is subsisting and has not been adjudged invalid or unenforceable, in whole or in part, and each Obligor has performed all acts and has paid all renewal, maintenance, and other fees and taxes required to maintain each and every registration and application of Copyrights, Patents and Trademarks in full force and effect;

(d) all Intellectual Property set forth in Annex 2.11 is valid and enforceable; no holding, decision, or judgment has been rendered in any action or proceeding before any court or administrative authority challenging the validity of, any Obligor's right to register, or any Obligor's rights to own or use, any Intellectual Property and no such action or proceeding is pending or, to the best of each Obligor's knowledge, threatened;

(e) all registrations and applications for Copyrights, Patents and Trademarks are standing in the name of each Obligor, and none of the Trademarks, Patents, Copyrights or Trade Secrets has been licensed by any Obligor to any Affiliate or third party, except as disclosed in Annex 2.11;

(f) each Obligor has been using appropriate statutory notice of registration in connection with its use of registered Trademarks, proper marking practices in connection with the use of Patents, and appropriate notice of copyright in connection with the publication of Copyrights material to the business of such Obligor;

(g) each Obligor uses adequate standards of quality in the manufacture, distribution, and sale of all products sold and in the provision of all services rendered under or in connection with all Trademarks owned by or licensed to such Obligor and has taken all action necessary to ensure that all licensees of such Trademarks use such adequate standards of quality;

(h) the conduct of each Obligor's business does not infringe upon or otherwise violate any trademark, patent, copyright, trade secret or other intellectual property right owned or controlled by a third party; no claim has been made that the use of any Intellectual Property owned or used by any Obligor (or any of its respective licensees) violates the asserted rights of any third party;

(i) to the best of each Obligor's knowledge, no third party is infringing upon or otherwise violating any rights in any Intellectual Property owned or used by such Obligor, or any of its respective licensees;

(j) no settlement or consents, covenants not to sue, nonassertion assurances, or releases have been entered into by any Obligor or to which any Obligor is bound that adversely affect any Obligor's rights to own or use any Intellectual Property; and

(k) each Obligor has not made a previous assignment, sale, transfer or agreement constituting a present or future assignment, sale, transfer or agreement of any Intellectual Property that has not been terminated or released. There is no effective financing statement or other document or instrument now executed, or on file or recorded in any public office, granting a security interest in or otherwise encumbering any part of the Intellectual Property, other than in favor of the Collateral Agent.

Section 3. Guarantee.

3.01 The Guarantee. The Subsidiary Guarantors hereby jointly and severally guarantee to each of the Secured Parties and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the Guaranteed Obligations. The Subsidiary Guarantors hereby further jointly and severally agree that if the Borrower shall fail to pay in full when due (whether at stated or extended maturity, by acceleration or otherwise) any of the Guaranteed Obligations, the Subsidiary Guarantors will jointly and severally pay the same without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

3.02 Obligations Unconditional. The obligations of the Subsidiary Guarantors under Section 3.01 are irrevocable, absolute and unconditional, joint and several, irrespective of the value, genuineness, validity, regularity or enforceability of the obligations of the Borrower under this Agreement, the other Debt Documents or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section 3 that the obligations of the Subsidiary Guarantors hereunder shall be absolute and unconditional under any and all circumstances. Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of the Subsidiary Guarantors hereunder, which shall remain absolute and unconditional as described above:

(a) at any time or from time to time, without notice to the Subsidiary Guarantors, the time for any performance of or compliance with any of the Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

(b) any of the acts mentioned in any of the provisions of this Agreement, the other Debt Documents or any other agreement or instrument referred to herein or therein shall be done or omitted;

(c) the maturity of any of the Guaranteed Obligations shall be accelerated, or any of the Guaranteed Obligations shall be modified, supplemented or amended in any respect, or any right under this Agreement, the other Debt Documents or any other agreement or instrument referred to herein or therein shall be waived or any other guarantee of any of the Guaranteed Obligations or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with; or

(d) any lien or security interest granted to, or in favor of, any Secured Party as security for any of the Guaranteed Obligations shall fail to be perfected.

The Subsidiary Guarantors hereby expressly waive diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that any Secured Party exhaust any right, power or remedy or proceed against the Borrower under this Agreement, the other Debt Documents or any other agreement or instrument referred to herein or therein, or against any other Person under any other guarantee of, or security for, any of the Guaranteed Obligations.

3.03 Reinstatement. The obligations of the Subsidiary Guarantors under this Section 3 shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Borrower in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, and the Subsidiary Guarantors jointly and severally agree that they will indemnify the Secured Parties on demand for all reasonable costs and expenses (including reasonable fees and other charges of counsel) incurred by the Secured Parties in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

3.04 Subrogation. The Subsidiary Guarantors hereby jointly and severally agree that until the payment and satisfaction in full in cash of all Guaranteed Obligations, and the expiration and termination of all letters of credit or commitments to extend credit under all Debt Documents, they shall not exercise any right or remedy arising by reason of any performance by them of their guarantee in Section 3.01, whether by subrogation or otherwise, against the Borrower or any other guarantor of any of the Guaranteed Obligations or any security for any of the Guaranteed Obligations.

3.05 Remedies. The Subsidiary Guarantors jointly and severally agree that, as between the Subsidiary Guarantors and the Secured Parties, a Guaranteed Obligation may be declared to be forthwith due and payable as provided in the respective Debt Document therefor including, in the case of the Credit Agreement, Article VII thereof (and shall be deemed to have become automatically due and payable in the circumstances provided therein including, in the case of the Credit Agreement, such Article VII) for purposes of Section 3.01 notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against the Borrower or any Subsidiary Guarantors and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by the Borrower) shall forthwith become due and payable by the Subsidiary Guarantors for purposes of Section 3.01.

3.06 Continuing Guarantee. The guarantee in this Section 3 is a continuing guarantee of payment (and not of collection), and shall apply to all Guaranteed Obligations whenever arising.

3.07 Instrument for the Payment of Money. Each Subsidiary Guarantor hereby acknowledges that the guarantee in this Section 3 constitutes an instrument for the payment of money, and consents and agrees that any Secured Party, at its sole option, in the event of a dispute by such Subsidiary Guarantor in the payment of any moneys due hereunder, shall have the right to bring motion action under New York CPLR Section 3213.

3.08 Rights of Contribution. The Obligors hereby agree, as between themselves, that if any Subsidiary Guarantor shall become an Excess Funding Guarantor (as defined below) by reason of the payment by such Subsidiary Guarantor of any Guaranteed Obligations, then each other Subsidiary Guarantor shall, on demand of such Excess Funding Guarantor (but subject to the next sentence), pay to such Excess Funding Guarantor an amount equal to such Subsidiary Guarantor’s Pro Rata Share (as defined below and determined, for this purpose, without reference to the properties, debts and liabilities of such Excess Funding Guarantor) of the Excess Payment (as defined below) in respect of such Guaranteed Obligations. The payment obligation of a Subsidiary Guarantor to any Excess Funding Guarantor under this Section 3.08 shall be subordinate and subject in right of payment to the prior payment in full of the obligations of such Subsidiary Guarantor under the other provisions of this Section 3 and such Excess Funding Guarantor shall not exercise any right or remedy with respect to such excess until payment and satisfaction in full of all of such obligations.

For purposes of this Section 3.08, (i) “Excess Funding Guarantor” means, in respect of any Guaranteed Obligations, a Subsidiary Guarantor that has paid an amount in excess of its Pro Rata Share of such Guaranteed Obligations, (ii) “Excess Payment” means, in respect of any Guaranteed Obligations, the amount paid by an Excess Funding Guarantor in excess of its Pro Rata Share of such Guaranteed Obligations and (iii) “Pro Rata Share” means, for any Subsidiary Guarantor, the ratio (expressed as a percentage) of (x) the amount by which the aggregate fair saleable value of all properties of such Subsidiary Guarantor (excluding any shares of stock or other equity interest of any other Subsidiary Guarantor) exceeds the amount of all the debts and liabilities of such Subsidiary Guarantor (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of such Subsidiary Guarantor hereunder and any obligations of any other Subsidiary Guarantor that have been Guaranteed by such Subsidiary Guarantor) to (y) the amount by which the aggregate fair saleable value of all properties of the Borrower and all of the Subsidiary Guarantors exceeds the amount of all the debts and liabilities (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of the Obligors hereunder) of the Borrower and all of the Subsidiary Guarantors, determined (A) with respect to any Subsidiary Guarantor that is a party hereto on the date hereof, as of the date hereof, and (B) with respect to any other Subsidiary Guarantor, as of the date such Subsidiary Guarantor becomes a Subsidiary Guarantor hereunder.

3.09 General Limitation on Guarantee Obligations. In any action or proceeding involving any state corporate or other law, or any Federal or state bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of any Subsidiary Guarantor under Section 3.01 would otherwise, taking into account the provisions of Section 3.08, be held or determined to be void, invalid or unenforceable, or subordinated to the claims of any other creditors, on account of the amount of its liability under Section 3.01, then, notwithstanding any other provision hereof to the contrary, the amount of such liability shall, without any further action by such Subsidiary Guarantor, any Secured Party or any other Person, be automatically limited and reduced to the highest amount that is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding.

3.10 Indemnity by Borrower. In addition to all such rights of indemnity and subrogation as the Subsidiary Guarantors may have under applicable law (but subject to Section 3.04), the Borrower agrees that (a) in the event a payment shall be made by any Subsidiary Guarantor under this Agreement, the Borrower shall indemnify such Subsidiary Guarantor for the full amount of such payment and such Subsidiary Guarantor shall be subrogated to the rights of the Person to whom such payment shall have been made to the extent of such payment and (b) in the event any assets of any Subsidiary Guarantor shall be sold pursuant to this Agreement or any other Security Document to satisfy in whole or in part the Guaranteed Obligations, the Borrower shall indemnify such Subsidiary Guarantor in an amount equal to the greater of the book value or the fair market value of the assets so sold.

Section 4. Collateral. As collateral security for the payment in full when due (whether at stated maturity, by acceleration or otherwise) of its Secured Obligations, each Obligor hereby pledges and grants to the Collateral Agent for the benefit of the Secured Parties as hereinafter provided a security interest in all of such Obligor's right, title and interest in, to and under all of such Obligor's personal property, including, without limitation, the following, in each case whether tangible or intangible, wherever located, and whether now owned by such Obligor or hereafter acquired and whether now existing or hereafter coming into existence (all of the property described in this Section 4 being collectively referred to herein as "Collateral"):

(a) all Accounts, all Chattel Paper, all Deposit Accounts, all Documents, all General Intangibles (including all Intellectual Property), all Instruments (including all Promissory Notes), all Portfolio Investments, all Pledged Debt, all Pledged Equity Interests, all Investment Property not covered by the foregoing (including all Securities, all Securities Accounts and all Security

Entitlements with respect thereto and Financial Assets carried therein, and all Commodity Accounts and Commodity Contracts), all Letter-of-Credit Rights, all Money and all Goods (including Inventory and Equipment), and all Commercial Tort Claims;

(b) to the extent related to any Collateral, all Supporting Obligations;

(c) to the extent related to any Collateral, all books, correspondence, credit files, records, invoices and other papers (including all tapes, cards, computer runs and other papers and documents in the possession or under the control of such Obligor or any computer bureau or service company from time to time acting for such Obligor); and

(d) all Proceeds of any of the foregoing Collateral.

IT BEING UNDERSTOOD, HOWEVER, that in no event shall the security interest granted under this Section 4 attach to (A) any contract, property rights, obligation, instrument or agreement to which an Obligor is a party (or to any of its rights or interests thereunder) if the grant of such security interest would constitute or result in either (i) the abandonment, invalidation or unenforceability of any right, title or interest of such Obligor therein or (ii) in a breach or termination pursuant to the terms of, or a default under, any such contract, property rights, obligation, instrument or agreement (other than to the extent that any such terms would be rendered ineffective by Section 9-406, 9-407, 9-408 or 9-409 of the Uniform Commercial Code as in effect in the relevant jurisdiction) or (B) any Excluded Assets, and notwithstanding anything to the contrary provided in this Agreement, the term “Collateral” shall not include, and the Obligors shall not be deemed to have granted a security interest in, any Excluded Assets.

Section 5. Certain Agreements Among Secured Parties.

5.01 Priorities; Additional Collateral.

(a) Pari Passu Status of Obligations. Each Lender and each Designated Indebtedness Holder by acceptance of the benefits of this Agreement and the other Security Documents agrees that their respective interests in the Security Documents and the Collateral shall rank *pari passu* and that the Secured Obligations shall be equally and ratably secured by the Security Documents subject to the terms hereof and the priority of payment established in Section 8.06.

(b) Sharing of Guaranties and Liens. Each Lender and each Designated Indebtedness Holder by acceptance of the benefits of this Agreement and the other Security Documents agrees that (i) such Secured Party will not accept from any Subsidiary of the Borrower any guarantee of any of the Guaranteed Obligations unless such guarantor simultaneously guarantees the payment of all of the Guaranteed Obligations owed to all Secured Parties and (ii) such Secured Party will not hold, take, accept or obtain any Lien upon any assets of any Obligor or any Subsidiary of the Borrower to secure the payment and performance of the Secured Obligations except and to the extent that such Lien is in favor of the Collateral Agent pursuant to this Agreement or another Security Document to which the Collateral Agent is a party for the benefit of all of the Secured Parties as provided herein.

Anything in this Section, or any other provision of this Agreement, to the contrary notwithstanding, this Agreement shall be inapplicable to any debtor-in-possession financing that may be provided by any Secured Party to the Borrower or any of its Subsidiaries in any Federal or state bankruptcy or insolvency proceeding, and no consent or approval of any other Secured Party shall be required as a condition to the provision by any Secured Party of any such financing, and no other Secured Party shall be entitled to share in any Lien upon any Collateral granted to any Secured Party to secure repayment of such debtor-in-possession financing; provided, that no Secured Party shall be barred from objecting to any such financing on the basis of adequate protection or any other grounds.

5.02 Turnover of Collateral. If a Secured Party acquires custody, control or possession of any Collateral or the Proceeds therefrom, other than pursuant to the terms of this Agreement, such Secured Party shall promptly (but in any event within five Business Days) cause such Collateral or Proceeds to be Delivered in accordance with the provisions of this Agreement. Until such time as such Secured Party shall have complied with the provisions of the immediately preceding sentence, such Secured Party shall be deemed to hold such Collateral and Proceeds in trust for the benefit of the Collateral Agent.

5.03 Cooperation of Secured Parties. Each Secured Party will cooperate with the Collateral Agent and with each other Secured Party in the enforcement of the Liens upon the Collateral and otherwise in order to accomplish the purposes of this Agreement and the Security Documents.

5.04 Limitation upon Certain Independent Actions by Secured Parties. No Secured Party shall have any right to institute any action or proceeding to enforce any term or provision of the Security Documents or to enforce any of its rights in respect of the Collateral or to exercise any other remedy pursuant to the Security Documents or at law or in equity, for the purpose of realizing on the Collateral, or by reason of jeopardy of any Collateral, or for the execution of any trust or power hereunder (collectively, the "Specified Actions"), unless the Required Secured Parties have delivered written instructions to the Collateral Agent and the Collateral Agent shall have failed to act in accordance with such instructions within 30 days thereafter. In such case but not otherwise, the Required Secured Parties may appoint one Person to act on behalf of the Secured Parties solely to take any of the Specified Actions (the "Appointed Party"), and, upon the acceptance of its appointment as Appointed Party, the Appointed Party shall be entitled to commence proceedings in any court of competent jurisdiction or to take any other Specified Actions as the Collateral Agent might have taken pursuant to this Agreement or the Security Documents (in accordance with the directions of the Required

Secured Parties). The Obligors acknowledge and agree that should the Appointed Party act in accordance with this provision, such Appointed Party will have all the rights, remedies, benefits and powers as are granted to the Collateral Agent pursuant hereto or pursuant to any Security Documents.

5.05 No Challenges. In no event shall any Secured Party take any action to challenge, contest or dispute the validity, extent, enforceability, or priority of the Collateral Agent's Liens hereunder or under any other Security Document with respect to any of the Collateral, or that would have the effect of invalidating any such Lien or support any Person who takes any such action. Each of the Secured Parties agrees that it will not take any action to challenge, contest or dispute the validity, enforceability or secured status of any other Secured Party's claims against any Obligor (other than any such claim resulting from a breach of this Agreement by a Secured Party, or any challenge, contest or dispute alleging arithmetical error in the determination of a claim), or that would have the effect of invalidating any such claim, or support any Person who takes any such action.

5.06 Rights of Secured Parties as to Secured Obligations. Notwithstanding any other provision of this Agreement, the right of each Secured Party to receive payment of the Secured Obligations held by such Secured Party when due (whether at the stated maturity thereof, by acceleration or otherwise) as expressed in any instrument evidencing or agreement governing such Secured Obligations, or to institute suit for the enforcement of such payment on or after such due date, and the obligation of the Obligors to pay their respective Secured Obligations when due, shall not be impaired or affected without the consent of such Secured Party; provided that, notwithstanding the foregoing, each Secured Party agrees that it will not attempt to exercise remedies with respect to any Collateral except as provided in this Agreement.

Section 6. Designation of Designated Indebtedness; Recordkeeping, Etc.

6.01 Designation of Other Secured Indebtedness. The Borrower may at any time designate as "Designated Indebtedness" hereunder any Other Secured Indebtedness satisfying the terms and conditions of the definition of "Secured Longer-Term Indebtedness" in the Credit Agreement and the provisions of Section 6.01(b) of the Credit Agreement, such designation to be effected by delivery to the Collateral Agent of a notice substantially in the form of Exhibit A or in such other form approved by the Collateral Agent (a "Notice of Designation"), which notice shall identify such Other Secured Indebtedness, request that such Other Secured Indebtedness be designated as "Designated Indebtedness" hereunder and be accompanied by a certificate of the chief financial officer or chief executive officer of the Borrower delivered to the Administrative Agent, each Financing Agent, each Designated Indebtedness Holder party hereto and the Collateral Agent:

(a) certifying that such Other Secured Indebtedness satisfies the conditions of this Section, and that after giving effect to such designation and the incurrence of such Designated Indebtedness, no Default or Event of Default or Trigger Event shall have occurred and be continuing;

(b) attaching (and certifying as true and complete) copies of the Designated Indebtedness Documents for such Designated Indebtedness (including all schedules and exhibits, and all amendments or supplements, thereto); and

(c) identifying the Financing Agent, if any, for such Designated Indebtedness (or, if there is no Financing Agent for such Designated Indebtedness, identifying each holder of such Designated Indebtedness).

No such designation shall be effective unless and until the Borrower and such Financing Agent (or, if there is no Financing Agent, each holder of such Designated Indebtedness) shall have executed and delivered to the Collateral Agent a joinder agreement in form and substance satisfactory to the Collateral Agent, appropriately completed and duly executed and delivered by each party thereto, pursuant to which such Financing Agent (or, if there is no Financing Agent, such holder) shall have become a party hereto and assumed the obligations of a Financing Agent (or holder) hereunder, as applicable.

6.02 Recordkeeping. The Collateral Agent will maintain books and records necessary to enable it to determine at any time all transactions under this Agreement which have occurred on or prior to such time. Each Obligor agrees that such books and records maintained in good faith by the Collateral Agent shall be conclusive as to the matters contained therein absent manifest error. Each Obligor shall have the right to inspect such books and records at any time upon reasonable prior notice.

Section 7. Covenants of the Obligors. In furtherance of the grant of the security interest pursuant to Section 4, each Obligor hereby agrees with the Collateral Agent for the benefit of the Secured Parties as follows:

7.01 Delivery and Other Perfection.

(a) Within ten (10) days after the acquisition by an Obligor of any Portfolio Investment or other Collateral as to which physical possession by the Collateral Agent or the Custodian is required in order for such Portfolio Investment to have been "Delivered", such Obligor shall take such actions as shall be necessary to effect Delivery of such Portfolio Investment. As to all other Collateral, such Obligor shall cause the same to be Delivered within three Business Days of the acquisition thereof, provided that Delivery shall not be required with respect to (1) accounts of the type described in clauses (A) — (C) of Section 7.06, and (2) immaterial assets so long as (x) such assets are not included in the Borrowing Base, (y) the Collateral Agent has a perfected first priority lien on such assets and no other Person exercises Control over such assets and such assets have not been otherwise "Delivered" to any other Person, and (z) the aggregate value of such assets described in this Section 7.01(a)(2) does not at any time exceed $75,000. In addition, and without limiting the generality of the foregoing, each Obligor shall promptly from time to time give, execute, deliver, file, record, authorize or obtain all such financing statements, continuation statements, notices, instruments, documents, account control agreements or any other agreements or consents or other papers as may be necessary in the judgment of the Collateral Agent to create, preserve, perfect, maintain the perfection of or validate the security interest granted pursuant hereto onto enable the Collateral Agent to exercise and enforce its rights hereunder with respect to such security interest, and without limiting the foregoing, shall:

(i) keep full and accurate books and records relating to the Collateral in all material respects; and

(ii) permit representatives of the Collateral Agent, upon reasonable notice, at any time during normal business hours to inspect and make abstracts from its books and records pertaining to the Collateral, and permit representatives of the Collateral Agent to be present at such Obligor's place of business to receive copies of communications and remittances relating to the Collateral, and forward copies of any notices or communications received by such Obligor with respect to the Collateral, all in such manner as the Collateral Agent may require; provided that each such Obligor shall be entitled to have its representatives and advisors present during any inspection of its books and records at such Obligor's place of business.

(b) Unless released from the Collateral pursuant to Section 10.03(e), once any Collateral has been Delivered, the Obligors shall not take or permit any action that would result in such Collateral no longer being Delivered hereunder and shall promptly from time to time give, execute, deliver, file, record, authorize or obtain all such financing statements, continuation statements, notices, instruments, documents, account control agreements or any other agreements or consents or other papers as may be necessary or desirable in the judgment of the Collateral Agent to continue the Delivered status of any Collateral. Without limiting the generality of the foregoing, the Obligors shall not terminate any arrangement with the Custodian unless and until a successor Custodian satisfactory to the Collateral Agent has been appointed and has executed all documentation necessary to continue the Delivered status of the Collateral, which documentation shall be in form and substance reasonably satisfactory to the Collateral Agent.

7.02 Name; Jurisdiction of Organization, Etc. Each Obligor agrees that (a) without providing at least thirty (30) days prior written notice to the Collateral Agent, such Obligor will not change its name, its place of business or, if more than one, chief executive office, or its mailing address or organizational identification number if it has one, (b) if such Obligor does not have an organizational identification number and later obtains one, such Obligor will forthwith notify the Collateral Agent of such organizational identification number, and (c) such Obligor will not change its type of organization, jurisdiction of organization or other legal structure.

7.03 Other Liens, Financing Statements or Control. Except as otherwise permitted under Section 6.02 of the Credit Agreement and the applicable provisions of each other Debt Document, the Obligors shall not (a) create or suffer to exist any Lien upon or with respect to any Collateral, (b) file or suffer to be on file, or authorize or permit to be filed or to be on file, in any jurisdiction, any financing statement or like instrument with respect to any of the Collateral in which the Collateral Agent is not named as the sole Collateral Agent for the benefit of the Secured Parties, or (c) cause or permit any Person other than the Collateral Agent to have Control of any Deposit Account, Electronic Chattel Paper, Investment Property or Letter-of-Credit Right constituting part of the Collateral.

7.04 Transfer of Collateral. Except as otherwise permitted under Section 6.03 of the Credit Agreement and the applicable provisions of each other Debt Document, the Obligors shall not sell, transfer, assign or otherwise dispose of any Collateral.

7.05 Additional Subsidiary Guarantors. As contemplated by Section 5.08 of the Credit Agreement, new Subsidiaries of the Borrower formed or acquired by the Borrower after the date hereof and existing Subsidiaries of the Borrower that after the date hereof cease to constitute “Financing Subsidiaries” under and as defined in the Credit Agreement, are required to become a “Subsidiary Guarantor” under this Agreement, by executing and delivering to the Collateral Agent a Guarantee Assumption Agreement in the form of Exhibit B hereto. Accordingly, upon the execution and delivery of any such Guarantee Assumption Agreement by any such Subsidiary, such Subsidiary shall automatically and immediately, and without any further action on the part of any Person, become a “Subsidiary Guarantor” and an “Obligor” for all purposes of this Agreement, and Annexes 2.05, 2.07, 2.08, 2.09, 2.10 and 2.11 hereto shall be deemed to be supplemented in the manner specified in such Guarantee Assumption Agreement. In addition, upon execution and delivery of any such Guarantee Assumption Agreement, the new Subsidiary Guarantor makes the representations and warranties set forth in Section 2 as of the date of such Guarantee Assumption Agreement.

7.06 Control Agreements. No Obligor shall open or maintain any account with any bank, securities intermediary or commodities intermediary (other than (A) any account included in the definition of Excluded Assets, (B) checking accounts of the Obligors that do not contain, at any one time, an aggregate balance in excess of $1,000,000, provided that such Obligor will use commercially reasonable efforts to obtain control agreements governing any such account in this clause (B), and (C) any account in which the aggregate value of deposits therein, together with all other such accounts under this clause (C), does not at any time exceed $75,000, provided that in the case of each of the foregoing clauses (A) through (C), no other Person shall have Control over such account and such account shall not have been otherwise “Delivered” to any other Person) unless such Obligor has notified the Collateral Agent of such new account and the Collateral Agent has Control over such account pursuant to a control agreement in form and substance satisfactory to the Collateral Agent.

7.07 Credit Agreement. Each Subsidiary Guarantor agrees to perform, comply with and be bound by the covenants contained in Articles V and VI of the Credit Agreement (which provisions are incorporated herein by reference) applicable to such

Subsidiary Guarantor as if each Subsidiary Guarantor were a signatory to the Credit Agreement.

7.08 Pledged Equity Interests.

(a) In the event any Obligor acquires rights in any Pledged Equity Interest after the date hereof or any Excluded Equity Interest held by any Obligor becomes a Pledged Equity Interest after the date hereof because it ceases to constitute an Excluded Equity Interest, such Obligor shall deliver to the Collateral Agent a completed Pledge Supplement, together with all supplements to Annexes thereto, reflecting such new Pledged Equity Interests. Notwithstanding the foregoing, it is understood and agreed that the security interest of the Collateral Agent shall attach to all Pledged Equity Interests immediately upon any Obligor's acquisition of rights therein and shall not be affected by the failure of any Obligor to deliver a supplement to Annex 2.07 as required hereby; and

(b) Without the prior written consent of the Collateral Agent, no Obligor shall vote to enable or take any other action to: (a) amend or terminate any partnership agreement, limited liability company agreement, certificate of incorporation, by-laws or other organizational documents in any way that materially changes the rights of such Obligor with respect to any Pledged Equity Interest or adversely affects the validity, perfection or priority of the Collateral Agent's security interest, (b) permit any issuer of any Pledged Equity Interest that is a Subsidiary of any Obligor to issue any additional stock, partnership interests, limited liability company interests or other equity interests of any nature or to issue securities convertible into or granting the right of purchase or exchange for any stock or other equity interest of any nature of such issuer, (c) other than as permitted under the Credit Agreement and each other Debt Document, permit any issuer of any Pledged Equity Interest to dispose of all or a material portion of their assets, (d) waive any default under or breach of any terms of organizational document relating to the issuer of any Pledged Equity Interest, or (e) cause any issuer of any Pledged Equity Interests which are interests in a partnership or limited liability company and which are not securities (for purposes of the Uniform Commercial Code) on the date hereof to elect or otherwise take any action to cause such Pledged Equity Interests to be treated as securities for purposes of the Uniform Commercial Code; provided, however, notwithstanding the foregoing, if any issuer of any such Pledged Equity Interests takes any such action in violation of the foregoing in this clause (e), such Obligor shall promptly notify the Collateral Agent in writing of any such election or action and, in such event, shall take all steps necessary or advisable to establish the Collateral Agent's Control thereof; and

(c) Each Obligor consents to the grant by each other Obligor of a security interest in all Pledged Equity Interests to the Collateral Agent and, without limiting the foregoing, consents to the transfer of any Pledged Equity Interest to the Collateral Agent or its nominee following an Event of Default and to the substitution of the Collateral Agent or its nominee as a partner in any partnership or as a member in any limited liability company with all the rights and powers related thereto.

7.09 Voting Rights, Dividends, Etc. in Respect of Pledged Interests.

(a) So long as no Event of Default or Trigger Event shall have occurred and be continuing:

(i) each Obligor may exercise any and all voting and other consensual rights pertaining to any Pledged Interests for any purpose not inconsistent with the terms of this Agreement or any Debt Document; provided, however, that (A) each Obligor will give the Collateral Agent at least five (5) Business Days' notice of the manner in which it intends to exercise, or the reasons for refraining from exercising, any such right that could reasonably be expected to adversely affect in any material respect the value, liquidity or marketability of any Collateral or the creation, perfection and priority of the Collateral Agent's Lien; and (B) none of the Obligors will exercise or refrain from exercising any such right, as the case may be, if the Collateral Agent gives an Obligor notice that, in the Collateral Agent's judgment, such action (or inaction) could reasonably be expected to adversely affect in any material respect the value, liquidity or marketability of any Collateral or the creation, perfection and priority of the Collateral Agent's Lien;

(ii) each of the Obligors may receive and retain any and all dividends, interest or other distributions paid in respect of the Pledged Interests to the extent permitted by the Debt Documents; provided, however, that (except with respect to any Pledged Debt that is also a Portfolio Investment) any and all (A) dividends and interest paid or payable other than in cash in respect of, and Instruments and other property received, receivable or otherwise distributed in respect of or in exchange for, any Pledged Interests, (B) dividends and other distributions paid or payable in cash in respect of any Pledged Interests in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in surplus, and (C) cash paid, payable or otherwise distributed in redemption of, or in exchange for, any Pledged Interests, together with any dividend, interest or other distribution or payment which at the time of such payment was not permitted by the Debt Documents, shall be, and shall forthwith be delivered to the Collateral Agent to hold as, Pledged Interests and shall, if received by any of the Obligors, be received in trust for the benefit of the Collateral Agent, shall be segregated from the other property or funds of the Obligors, and shall be forthwith delivered to the Collateral Agent in the exact form received with any necessary indorsement and/or appropriate stock powers duly executed in blank, to be held by the Collateral Agent as Pledged Interests and as further collateral security for the Secured Obligations; and

(iii) the Collateral Agent will execute and deliver (or cause to be executed and delivered) to any Obligor all such proxies and other instruments as such Obligor may reasonably request for the purpose of enabling such Obligor to exercise the voting and other rights which it is entitled to exercise pursuant to

Section 7.09(a)(i) hereof and to receive the dividends, interest and/or other distributions which it is authorized to receive and retain pursuant to Section 7.09(a)(ii) hereof.

(b) Upon the occurrence and during the continuance of an Event of Default or a Trigger Event:

(i) all rights of each Obligor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Section 7.09(a)(i) hereof, and to receive the dividends, distributions, interest and other payments that it would otherwise be authorized to receive and retain pursuant to Section 7.09(a)(ii) hereof, shall cease, and all such rights shall thereupon become vested in the Collateral Agent, which shall thereupon have the sole right to exercise such voting and other consensual rights and to receive and hold as Pledged Interests such dividends, distributions and interest payments;

(ii) the Collateral Agent is authorized to notify each debtor with respect to the Pledged Debt or other Portfolio Investments to make payment directly to the Collateral Agent (or its designee) and may collect any and all moneys due or to become due to any Obligor in respect of the Pledged Debt or other Portfolio Investments, and each of the Obligors hereby authorizes each such debtor to make such payment directly to the Collateral Agent (or its designee) without any duty of inquiry;

(iii) without limiting the generality of the foregoing, the Collateral Agent may at its option exercise any and all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any of the Pledged Interests or any Portfolio Investments as if it were the absolute owner thereof, including, without limitation, the right to exchange, in its discretion, any and all of the Pledged Interests or any Portfolio Investments upon the merger, consolidation, reorganization, recapitalization or other adjustment of any issuer thereof, or upon the exercise by any such issuer of any right, privilege or option pertaining to any Pledged Interests or any Portfolio Investments, and, in connection therewith, to deposit and deliver any and all of the Pledged Interests or any Portfolio Investments with any committee, depository, transfer agent, registrar or other designated agent upon such terms and conditions as it may determine; and

(iv) all dividends, distributions, interest and other payments that are received by any of the Obligors contrary to the provisions of Section 7.09(b)(i) hereof shall be received in trust for the benefit of the Collateral Agent, shall be segregated from other funds of the Obligors, and shall be forthwith paid over to the Collateral Agent as Pledged Interests in the exact form received with any necessary indorsement and/or appropriate stock powers duly executed in blank, to be held by the Collateral Agent as Pledged Interests and as further collateral security for the Secured Obligations.

7.10 Commercial Tort Claims. Each Obligor agrees that with respect to any Commercial Tort Claim in excess of $100,000 individually hereafter arising it shall deliver to the Collateral Agent a completed Pledge Supplement, together with all supplements to Annexes thereto, identifying such new Commercial Tort Claims.

7.11 Intellectual Property. Each Obligor hereby covenants and agrees as follows:

(a) it shall not do any act or omit to do any act whereby any of the Intellectual Property which is material to the business of such Obligor may lapse, or become abandoned, dedicated to the public, or unenforceable, or which would adversely affect the validity, grant, or enforceability of the security interest granted therein;

(b) it shall not, with respect to any Trademarks which are material to the business of any Obligor, cease the use of any of such Trademarks or fail to maintain the level of the quality of products sold and services rendered under any such Trademark at a level at least substantially consistent with the quality of such products and services as of the date hereof, and each Obligor shall take all steps necessary to ensure that licensees of such Trademarks use such consistent standards of quality;

(c) it shall promptly notify the Collateral Agent if it knows or has reason to know that any item of the Intellectual Property that is material to the business of any Obligor may become (a) abandoned or dedicated to the public or placed in the public domain, (b) invalid or unenforceable, or (c) subject to any adverse determination or development (including the institution of proceedings) in any action or proceeding in the United States Patent and Trademark Office, the United States Copyright Office, any state registry, any foreign counterpart of the foregoing, or any court;

(d) it shall take all reasonable steps in the United States Patent and Trademark Office, the United States Copyright Office, any state registry or any foreign counterpart of the foregoing, to pursue any application and maintain any registration of each Trademark, Patent, and Copyright owned by any Obligor that is material to its business which is now or shall become included in the Intellectual Property Collateral;

(e) in the event that any Intellectual Property owned by or exclusively licensed to any Obligor is infringed, misappropriated, or diluted by a third party, such Obligor shall promptly take all reasonable actions to stop such infringement, misappropriation, or dilution and protect its rights in such Intellectual Property including, but not limited to, the initiation of a suit for injunctive relief and to recover damages;

(f) it shall promptly (but in no event more than thirty (30) days after any Obligor obtains knowledge thereof) report to the Collateral Agent (i) the filing by or on behalf of such Obligor of any application to register any Intellectual Property with the United States Patent and Trademark Office, the United States Copyright Office, or any state registry or foreign counterpart of the foregoing and (ii) the registration of any Intellectual Property owned by such Obligor by any such office, in each case by executing and delivering to the Collateral Agent a completed Pledge Supplement, together with all supplements to Annexes thereto;

(g) it shall, promptly upon the reasonable request of the Collateral Agent, execute and deliver to the Collateral Agent any document required to acknowledge, confirm, register, record, or perfect the Collateral Agent's interest in any part of the Intellectual Property Collateral, whether now owned or hereafter acquired by or on behalf of such Obligor, including, without limitation, intellectual property security agreements in the form of Exhibit C hereto;

(h) except with the prior consent of the Collateral Agent or as permitted under the Credit Agreement, each Obligor shall not execute, and there will not be on file in any public office, any financing statement or other document or instruments, except financing statements or other documents or instruments filed or to be filed in favor of the Collateral Agent, and each Obligor shall not sell, assign, transfer, license, grant any option, or create or suffer to exist any Lien upon or with respect to the Intellectual Property Collateral, except for the Lien created by and under this Agreement;

(i) it shall hereafter use best efforts so as not to permit the inclusion in any contract to which it hereafter becomes a party of any provision that could or might in any way materially impair or prevent the creation of a security interest in, or the assignment of, such Obligor's rights and interests in any property included within the definitions of any Intellectual Property acquired under such contracts;

(j) it shall take all steps reasonably necessary to protect the secrecy of all Trade Secrets, including, without limitation, entering into confidentiality agreements with employees and labeling and restricting access to secret information and documents;

(k) it shall use proper statutory notice in connection with its use of any of the Intellectual Property Collateral; and

(l) it shall continue to collect, at its own expense, all amounts due or to become due to such Obligor in respect of the Intellectual Property Collateral or any portion thereof. In connection with such collections, each Obligor may take (and, at the Collateral Agent's reasonable direction, shall take) such action as such Obligor or the Collateral Agent may deem reasonably necessary or advisable to enforce collection of such amounts. Notwithstanding the foregoing, the Collateral Agent shall have the right at any time, to notify, or require any Obligor to notify, any obligors with respect to any such amounts of the existence of the security interest created hereby.

Section 8. Acceleration Notice; Remedies; Distribution of Collateral.

8.01 Notice of Acceleration. Upon receipt by the Collateral Agent of a written notice from any Secured Party or the Borrower which (i) expressly refers to this Agreement, (ii) describes an event or condition which has occurred and is continuing and (iii) expressly states that such event or condition constitutes an Acceleration as defined herein, the Collateral Agent shall promptly notify each other party hereto of the receipt and contents thereof (any such notice is referred to herein as a "Acceleration Notice").

8.02 Preservation of Rights. The Collateral Agent shall not be required to take steps necessary to preserve any rights against prior parties to any of the Collateral.

8.03 Events of Default, Etc. During the period during which an Event of Default or Trigger Event shall have occurred and be continuing:

(a) each Obligor shall, at the request of the Collateral Agent, assemble the Collateral owned by it at such place or places, reasonably convenient to both the Collateral Agent and such Obligor, designated in the Collateral Agent's request;

(b) the Collateral Agent may make any reasonable compromise or settlement deemed desirable with respect to any of the Collateral and may extend the time of payment, arrange for payment in installments, or otherwise modify the terms of, any of the Collateral;

(c) the Collateral Agent shall have all of the rights and remedies with respect to the Collateral of a secured party under the Uniform Commercial Code (whether or not the Uniform Commercial Code is in effect in the jurisdiction where the rights and remedies are asserted) and such additional rights and remedies to which a secured party is entitled under the laws in effect in any jurisdiction where any rights and remedies hereunder may be asserted, including the right, to the fullest extent permitted by applicable law, to exercise all voting, consensual and other powers of ownership pertaining to the Collateral as if the Collateral Agent were the sole and absolute owner thereof (and each Obligor agrees to take all such action as may be appropriate to give effect to such right);

(d) the Collateral Agent in its discretion may, in its name or in the name of any Obligor or otherwise, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for any of the Collateral, but shall be under no obligation to do so; and

(e) the Collateral Agent may, upon reasonable prior notice (provided that at least ten Business Days' prior notice shall be deemed to be reasonable) to the Obligors of the time and place (or, if such sale is to take place on the NYSE or any other established exchange or market, prior to the time of such sale or other disposition), with respect to the Collateral or any part thereof which shall then be or shall thereafter come into the possession, custody or control of the Collateral Agent, the other Secured Parties or any of their respective agents, sell, assign or otherwise dispose of all or any part of such Collateral, at such place or places as the Collateral Agent deems appropriate, and for cash or for credit or for future delivery (without thereby assuming any credit risk), at public or private sale, without demand of performance or notice of intention to effect any such disposition or of the time or place thereof (except such notice as is required above or by applicable statute and cannot be waived), and the Collateral Agent or any other Secured Party or anyone else may be the purchaser, assignee or recipient of any or all of the Collateral so disposed of at any public sale (or, to the extent permitted by law, at any private sale) and thereafter, to the fullest extent permitted by law, hold the same absolutely, free from any claim or right of whatsoever kind, including any right or equity of redemption (statutory or otherwise), of the Obligors, any such demand, notice and right or equity being hereby expressly waived and released, to the fullest extent permitted by law.

The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the sale may be so adjourned.

The proceeds of each collection, sale or other disposition under this Section shall be applied in accordance with Section 8.06.

The Obligors recognize that, by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and applicable state securities laws, the Collateral Agent may be compelled, with respect to any sale of all or any part of the Collateral, to limit purchasers to those who will agree, among other things, to acquire the Collateral for their own account, for investment and not with a view to the distribution or resale thereof. The Obligors acknowledge that any such private sales may be at prices and on terms less favorable to the Collateral Agent than those obtainable through a public sale without such restrictions, and, notwithstanding such circumstances, agree that to the extent any such private sale is conducted by the Collateral Agent in a commercially reasonable manner, the Collateral Agent shall have no obligation to engage in public sales and no obligation to delay the sale of any Collateral for the period of time necessary to permit the Obligors, or the issuer thereof, to register it for public sale.

8.04 Deficiency. If the proceeds of sale, collection or other realization of or upon the Collateral pursuant to Section 8.03 are insufficient to cover the costs and expenses of such realization and the payment in full of the Secured Obligations, the Obligors shall remain liable for any deficiency.

8.05 Private Sale. The Collateral Agent and the Secured Parties shall incur no liability as a result of the sale of the Collateral, or any part thereof, at any private sale pursuant to Section 8.03 conducted in a commercially reasonable manner. Each

Obligor hereby waives any claims against the Collateral Agent or any other Secured Party arising by reason of the fact that the price at which the Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale or was less than the aggregate amount of the Secured Obligations, even if the Collateral Agent accepts the first offer received and does not offer the Collateral to more than one offeree, so long as such private sale was conducted in a commercially reasonable manner.

8.06 Application of Proceeds. Except as otherwise herein expressly provided, the proceeds of any collection, sale or other realization of all or any part of the Collateral of any Obligor pursuant hereto, and any other cash of any Obligor at the time held by the Collateral Agent under this Agreement, shall be applied by the Collateral Agent as follows:

First, to the payment of the costs and expenses of such collection, sale or other realization, including reasonable out-of-pocket costs and expenses of the Collateral Agent and the reasonable fees and expenses of its agents and counsel, and all expenses incurred and advances made by the Collateral Agent in connection therewith;

Second, to the payment of any fees and other amounts then owing by such Obligor to the Collateral Agent in its capacity as such;

Third, to the payment of the Secured Obligations of such Obligor then due and payable, in each case to each Secured Party ratably in accordance with the amount of Secured Obligations then due and payable to such Secured Party (it being understood that, for the purposes hereof (i) the outstanding principal amount of the loans under the Credit Agreement shall be deemed then due and payable whether or not any Acceleration of such loans has occurred, and (ii) to the extent any cover in respect of a letter of credit shall be due and payable under a Debt Document, that such cover shall be deemed to be a Secured Obligation that is due and payable for purposes hereof); and

Fourth, after application as provided in clauses "First" "Second" and "Third" above, to the payment to the respective Obligor, or their respective successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining.

In making the allocations required by this Section, the Collateral Agent may rely upon its records and information supplied to it pursuant to Section 9.02, and the Collateral Agent shall have no liability to any of the other Secured Parties for actions taken in reliance on such information, except to the extent of its gross negligence or willful misconduct. The Collateral Agent may, in its sole discretion, at the time of any application under this Section, withhold all or any portion of the proceeds otherwise to be applied to the Secured Obligations as provided above and maintain the same in a segregated cash collateral account in the name and under the exclusive Control of the Collateral Agent, to the extent that it in good faith believes that the information provided to it pursuant to Section 9.02 is either incomplete or inaccurate and that application of the full amount of such proceeds to the Secured Obligations would be disadvantageous to any Secured Party. All distributions made by the Collateral Agent pursuant to this Section shall be final (subject to any decree of any court of competent jurisdiction), and the Collateral Agent shall have no duty to inquire as to the application by the other Secured Parties of any amounts distributed to them.

8.07 Attorney-in-Fact. Without limiting any rights or powers granted by this Agreement to the Collateral Agent while no Event of Default or Trigger Event has occurred and is continuing, upon the occurrence and during the continuance of any Event of Default or Trigger Event, the Collateral Agent is hereby appointed the attorney-in-fact of each Obligor for the purpose of carrying out the provisions of this Section 8 and taking any action and executing any instruments which the Collateral Agent may reasonably deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, so long as the Collateral Agent shall be entitled under this Section 8 to make collections in respect of the Collateral, the Collateral Agent shall have the right and power to receive, endorse and collect all checks made payable to the order of any Obligor representing any dividend, payment or other distribution in respect of the Collateral or any part thereof and to give full discharge for the same.

8.08 Grant of Intellectual Property License. For the purpose of enabling the Collateral Agent, upon the occurrence and during the continuance of an Event of Default or Trigger Event, to exercise rights and remedies hereunder at such time as the Collateral Agent shall be lawfully entitled to exercise such rights and remedies, each Obligor hereby grants to the Collateral Agent, to the extent of such Obligor's rights to grant the same, an irrevocable, non-exclusive license to use, assign, license or sublicense any of the Intellectual Property Collateral now owned or hereafter acquired by such Obligor. Such license shall include access to all media in which any of the licensed items may be recorded or stored and to all computer programs used for the compilation or printout thereof.

Section 9. The Collateral Agent.

9.01 Appointment; Powers and Immunities. Each Lender, the Administrative Agent, each Financing Agent and, by acceptance of the benefits of this Agreement and the other Security Documents, each Designated Indebtedness Holder hereby irrevocably appoints and authorizes ING to act as its agent hereunder with such powers as are specifically delegated to the Collateral Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. The Collateral Agent (which term as used in this sentence and in Section 9.06 and the first sentence of Section 9.07 shall include reference to its Affiliates and its own and its Affiliates' officers, directors, employees and agents):

(a) shall have no duties or responsibilities except those expressly set forth in this Agreement and shall not by reason of this Agreement be a trustee for, or a fiduciary with respect to, any Lender or Designated Indebtedness Holder;

(b) shall not be responsible to the Lenders, the Administrative Agent, the Financing Agents or the Designated Indebtedness Holders for any recitals, statements, representations or warranties contained in this Agreement or in any notice delivered hereunder, or in any other certificate or other document referred to or provided for in, or received by it under, this Agreement, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other document referred to or provided for herein or therein or for any failure by the Obligors or any other Person to perform any of its obligations hereunder;

(c) shall not be required to initiate or conduct any litigation or collection proceedings hereunder except, subject to Section 9.07, for any such litigation or proceedings relating to the enforcement of the guarantee set forth in Section 3, or the Liens created pursuant to Section 4; and

(d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, except for its own gross negligence or willful misconduct.

9.02 Information Regarding Secured Parties. The Borrower will at such times and from time to time as shall be requested by the Collateral Agent, supply a list in form and detail reasonably satisfactory to the Collateral Agent setting forth the amount of the Secured Obligations held by each Secured Party (excluding, so long as ING is both the Collateral Agent and the Administrative Agent, the Credit Agreement Obligations) as at a date specified in such request. The Collateral Agent shall provide any such list to any Secured Party upon request. The Collateral Agent shall be entitled to rely upon such information, and such information shall be conclusive and binding for all purposes of this Agreement, except to the extent the Collateral Agent shall have been notified by a Secured Party that such information as set forth on any such list is inaccurate or in dispute between such Secured Party and the Borrower.

9.03 Reliance by Collateral Agent. The Collateral Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telecopy, telex, telegram, cable or electronic mail) believed by it in good faith to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Collateral Agent. As to any matters not expressly provided for by this Agreement, the Collateral Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or thereunder in accordance with instructions given by the Required Secured Parties, and such instructions of the Required Secured Parties and any action taken or failure to act pursuant thereto shall be binding on all of the Secured Parties. If in one or more instances the Collateral

Agent takes any action or assumes any responsibility not specifically delegated to it pursuant to this Agreement, neither the taking of such action nor the assumption of such responsibility shall be deemed to be an express or implied undertaking on the part of the Collateral Agent that it will take the same or similar action or assume the same or similar responsibility in any other instance.

9.04 Rights as a Secured Party. With respect to its obligation to extend credit under the Credit Agreement, ING (and any successor acting as Collateral Agent) in its capacity as a Lender under the Credit Agreement shall have the same rights and powers hereunder as any other Secured Party and may exercise the same as though it were not acting as Collateral Agent, and the term "Secured Party" or "Secured Parties" shall, unless the context otherwise indicates, include the Collateral Agent in its individual capacity. ING (and any successor acting as Collateral Agent) and its Affiliates may (without having to account therefor to any other Secured Party) accept deposits from, lend money to, make investments in and generally engage in any kind of banking, trust or other business with any of the Obligors (and any of their Subsidiaries or Affiliates) as if it were not acting as Collateral Agent, and ING and its Affiliates may accept fees and other consideration from any of the Obligors for services in connection with this Agreement or otherwise without having to account for the same to the other Secured Parties.

9.05 Indemnification. Each Lender and each Designated Indebtedness Holder by acceptance of the benefits of this Agreement and the other Security Documents agrees to indemnify the Collateral Agent and each Related Party of the Collateral Agent (each such Person being called an "Indemnitee") (to the extent not reimbursed under Section 10.04, but without limiting the obligations of the Obligors under Section 10.04) ratably in accordance with the aggregate Secured Obligations held by the Lenders and the Designated Indebtedness Holders, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against any Indemnitee (including by any other Secured Party) arising out of or by reason of any investigation in connection with or in any way relating to or arising out of this Agreement, any other Debt Documents, or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (including the costs and expenses that the Obligors are obligated to pay under Section 10.04, but excluding, unless an Event of Default or a Trigger Event has occurred and is continuing, normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents; provided, that no Lender or Designated Indebtedness Holder shall be liable for any of the foregoing to the extent they are determined by a court of competent jurisdiction in a final, nonappealable judgment to have resulted from the gross negligence or willful misconduct of the party to be indemnified.

9.06 Non-Reliance on Collateral Agent and Other Secured Parties. The Administrative Agent and each Financing Agent (and each Lender and each Designated Indebtedness Holder by acceptance of the benefits of this Agreement and the other Security Documents) agrees that it has, independently and without reliance on the

Collateral Agent or any other Secured Party, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower, the Subsidiary Guarantors and their Subsidiaries and decision to extend credit to the Borrower in reliance on this Agreement and that it will, independently and without reliance upon the Collateral Agent or any other Secured Party, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement and any Debt Document to which it is a party. Except as otherwise expressly provided herein, the Collateral Agent shall not be required to keep itself informed as to the performance or observance by any Obligor of this Agreement, any other Debt Document or any other document referred to or provided for herein or therein or to inspect the properties or books of any Obligor. The Collateral Agent shall not have any duty or responsibility to provide any other Secured Party with any credit or other information concerning the affairs, financial condition or business of any Obligor or any of its Subsidiaries (or any of their Affiliates) that may come into the possession of the Collateral Agent or any of its Affiliates, except for notices, reports and other documents and information expressly required to be furnished to the other Secured Parties by the Collateral Agent hereunder.

9.07 Failure to Act. Except for action expressly required of the Collateral Agent hereunder, the Collateral Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall receive further assurances to its satisfaction from the other Secured Parties of their indemnification obligations under Section 9.05 against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Collateral Agent shall not be required to take any action that in the judgment of the Collateral Agent would violate any applicable law.

9.08 Resignation of Collateral Agent. Subject to the appointment and acceptance of a successor Collateral Agent as provided below, the Collateral Agent may resign at any time by giving notice thereof to the other Secured Parties and the Obligors. Upon any such resignation, the Required Secured Parties shall have the right, with the consent of the Borrower not to be unreasonably withheld (provided that no such consent shall be required if an Event of Default or Trigger Event has occurred and is continuing) to appoint a successor Collateral Agent. If no successor Collateral Agent shall have been so appointed by the Required Secured Parties and shall have accepted such appointment within 30 days after the retiring Collateral Agent's giving of written notice of resignation of the retiring Collateral Agent, then the retiring Collateral Agent may, on behalf of the other Secured Parties, appoint a successor Collateral Agent, that shall be a financial institution that has an office in New York, New York and has a combined capital and surplus and undivided profits of at least $1,000,000,000. Upon the acceptance of any appointment as Collateral Agent hereunder by a successor Collateral Agent, such successor Collateral Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Collateral Agent, and the retiring Collateral Agent shall be discharged from its duties and obligations hereunder. After any retiring Collateral Agent's resignation hereunder as Collateral Agent, the provisions of this Section 9 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Collateral Agent. The Borrower shall pay to any successor Collateral Agent the fees and charges necessary to induce such successor Collateral Agent to accept its appointment hereunder.

9.09 Agents and Attorneys-in-Fact. The Collateral Agent may employ agents and attorneys-in-fact in connection herewith and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith.

Section 10. Miscellaneous.

10.01 Notices. All notices, requests, consents and other demands hereunder and other communications provided for herein shall be given or made in writing, (a) to any party hereto, telecopied or delivered to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof or, in the case of any Financing Agent or Designated Indebtedness Holder that shall become a party hereto after the date hereof, at such "Address for Notices" as shall be specified pursuant to or in connection with the joinder agreement executed and delivered by such Financing Agent or Designated Indebtedness Holder pursuant to Section 6.01 (provided that notices to any Subsidiary Guarantor shall be given to such Subsidiary Guarantor care of the Borrower at the address for the Borrower specified herein) or (b) as to any party, at such other address as shall be designated by such party in a written notice to each other party. All notices to any Lender or Designated Indebtedness Holder that is not a party hereto shall be given to the Administrative Agent or Financing Agent for such Designated Indebtedness Holder.

10.02 No Waiver. No failure on the part of the Collateral Agent or any other Secured Party to exercise, and no course of dealing with respect to, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise by any Secured Party of any right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies herein are cumulative and are not exclusive of any remedies provided by law.

10.03 Amendments, Etc. Except as otherwise provided in any Security Document, the terms of this Agreement and the other Security Documents may be waived, altered or amended only by an instrument in writing duly executed by each Obligor and the Collateral Agent, with the consent of the Required Secured Parties; provided, that, subject to Section 2.17(b) of the Credit Agreement:

(a) no such amendment shall adversely affect the relative rights of any Secured Party as against any other Secured Party without the prior written consent of such first Secured Party,

(b) without the prior written consent of each of the Lenders under the Credit Agreement, the Collateral Agent shall not release all or substantially all of the collateral under the Security Documents or release all or substantially all of the Subsidiary Guarantors from their guarantee obligations under Section 3 hereof (except that if any amounts have become due and payable in respect of any Designated Indebtedness Obligations or Hedging Agreement Obligations, and shall have remained unpaid for 30 or more days, then the prior written consent (voting as a single group) of the holders of a majority in interest of the Designated Indebtedness Obligations and the Hedging Agreement Obligations, whichever of such obligations are then due and payable, will also be required to release all or substantially all of such collateral or guarantee obligations),

(c) without the consent of each of the Lenders and Designated Indebtedness Holders, no modification, supplement or waiver shall modify the definition of the term "Required Secured Parties" or modify in any other manner the number of percentage of the Secured Parties required to make any determinations or waive any rights under any Security Document;

(d) without the consent of the Collateral Agent, no modification, supplement or waiver shall modify the terms of Section 9;

(e) the Collateral Agent is authorized to release (and shall release) any Collateral that is either the subject of a disposition not prohibited under the Credit Agreement or to which the Required Secured Parties shall have consented; notwithstanding the foregoing, Portfolio Investments constituting Collateral shall be automatically released from the lien of this Agreement, without any action of the Collateral Agent, in connection with any disposition of Portfolio Investments that (i) occurs in the ordinary course of the Borrower's business and (ii) is not prohibited under the Credit Agreement; and

(f) the Collateral Agent is authorized to release (and shall release) any Subsidiary Guarantor from any of its guarantee obligations under Section 3 hereof to the extent such Subsidiary is the subject of a disposition not prohibited under the Debt Documents or to which the Required Secured Parties shall have consented, and, upon such release, the Collateral Agent is authorized to release (and shall release) any collateral security granted by such Subsidiary Guarantor hereunder and under the other Security Documents.

Any such amendment or waiver shall be binding upon the Collateral Agent, each Secured Party and each Obligor.

10.04 Expenses: Indemnity: Damage Waiver.

(a) Costs and Expenses. The Obligors hereby jointly and severally agree to reimburse the Collateral Agent and each of the other Secured Parties and their respective Affiliates for all out-of-pocket costs and expenses incurred by them (including the fees, charges and disbursements of legal counsel) in connection with (i) any Default or Trigger Event and any enforcement or collection proceeding resulting therefrom, including all manner of participation in or other involvement with (w) performance by the Collateral Agent of any obligations of the Obligors in respect of the Collateral that the

Obligors have failed or refused to perform in the time period required under this Agreement, (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings of any Obligor, or any actual or attempted sale, or any exchange, enforcement, collection, compromise or settlement in respect of any of the Collateral, and for the care of the Collateral and defending or asserting rights and claims of the Collateral Agent in respect thereof, by litigation or otherwise, including expenses of insurance, (y) judicial or regulatory proceedings arising from or related to this Agreement and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated) and (ii) the enforcement of this Section, and all such costs and expenses shall be Secured Obligations entitled to the benefits of the collateral security provided pursuant to Section 4.

(b) Indemnification by the Obligors. The Obligors shall indemnify each Indemnitee against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or (ii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the willful misconduct or gross negligence of such Indemnitee.

Neither the Borrower nor any Obligor shall be liable to any Indemnitee for any special, indirect, consequential or punitive damages arising out of, in connection with, this Agreement asserted by an Indemnitee against the Borrower or any other Obligor, provided that the foregoing limitation shall not be deemed to impair or affect the Obligations of the Borrower under the preceding provisions of this subsection.

10.05 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the Obligors and the Secured Parties (provided that none of the Obligors shall assign or transfer its rights or obligations hereunder without the prior written consent of the Collateral Agent and each Lender).

10.06 Counterparts; Integration; Effectiveness; Electronic Execution.

(a) Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Collateral Agent constitute the entire contract between and among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. This Agreement shall become effective when it shall have been executed by the Collateral Agent and when the Collateral Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page to this Agreement by telecopy or electronic mail shall be effective as delivery of a manually executed counterpart of this Agreement.

(b) Electronic Execution of Assignments. The words “execution,” “signed,” “signature” shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

10.07 Severability. If any provision hereof is invalid and unenforceable in any jurisdiction, then, to the fullest extent permitted by law, (a) the other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of the Secured Parties in order to carry out the intentions of the parties hereto as nearly as may be possible and (b) the invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity or enforceability of such provision in any other jurisdiction.

10.08 Governing Law; Submission to Jurisdiction.

(a) Governing Law. This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Submission to Jurisdiction. Each Obligor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any Secured Party may otherwise have to bring any action or proceeding relating to this Agreement against any Obligor or its properties in the courts of any jurisdiction.

(c) Waiver of Venue. Each Obligor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Service of Process. Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 10.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

10.09 Waiver of Jury Trial. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.10 Headings. Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Guarantee, Pledge and Security Agreement to be duly executed and delivered as of the day and year first above written,

**FIFTH STREET FINANCE CORP.**

By: ______________________________
Name:
Title:

**FSFC HOLDINGS, INC.**

By: ______________________________
Name:
Title:

**FSF/MP HOLDINGS, INC.**

By: ______________________________
Name:
Title:

Address for Notices

Fifth Street Finance Corp.
10 Bank Street
12th Floor
White Plains, New York 10606
Attention: Leonard M. Tannenbaum
Telecopier: [__________]
Telephone: [__________]

with a copy to:

Rutan & Tucker, LLP
611 Anton Boulevard, 14th Floor
Costa Mesa, California 92626
Attention: William F. Meehan
Telecopier: (714) 546-9035

**ING CAPITAL LLC,**
as Administrative Agent and Collateral Agent

By ______________________________
Name:
Title:

Address for Notices

ING Capital LLC
1325 Avenue of the Americas
New York, New York 10019
Attention: Patrick Kennedy
Telecopier: [__________]
Telephone: (646) — 424-8235

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064
Attention: Terry E. Schimek, Esq.
Telecopier: (212) 757-3990

[Letterhead of Sutherland Asbill & Brennan LLP]

June 4, 2010

Fifth Street Finance Corp.
10 Bank Street, Suite 1210
White Plains, NY 10606

Ladies and Gentlemen:

We have acted as counsel to Fifth Street Finance Corp., a Delaware corporation (the ***"Company"***), in connection with the offering by the Company pursuant to Rule 415 under the Securities Act of 1933, as amended (the ***"Securities Act"***), of up to $500,000,000 of shares (the ***"Shares"***) of the Company's common stock, par value $0.01 per share (the ***"Common Stock"***). That offering will be made pursuant to a registration statement on Form N-2 (No. 333-166012) filed under the Securities Act (the ***"Registration Statement"***).

As counsel to the Company, we have participated in the preparation of the Registration Statement and have examined the originals or copies of such records, documents or other instruments as we in our judgment deem necessary or appropriate for us to render the opinions set forth in this opinion letter including, without limitation, the following:

(i) The Restated Certificate of Incorporation of the Company, certified as of the date of this opinion letter by an officer of the Company (the ***"Certificate of Incorporation"***);

(ii) The Amended and Restated Bylaws of the Company, certified as of the date of this opinion letter by an officer of the Company (the ***"Bylaws"***);

(iii) A Certificate of Good Standing with respect to the Company issued by the Delaware Secretary of State as of a recent date (the ***"Certificate of Good Standing"***); and

(iv) The resolutions of the board of directors of the Company (the ***"Board"***) relating to, among other things, (a) the authorization and approval of the preparation and filing of the Registration Statement, and (b) the authorization, issuance, offer and sale of the Shares pursuant to the Registration Statement, certified as of the date of this opinion letter by an officer of the Company (collectively, the ***"Resolutions"***).

As to certain matters of fact relevant to the opinions in this opinion letter, we have relied on a certificate of an officer of the Company. We have also relied on certificates of public officials. We have not independently established the facts, or in the case of certificates of public officials, the other statements, so relied upon.

For purposes of our opinions in this opinion letter, we have assumed that: (a) each document that we have reviewed is accurate and complete, is either an authentic original or a copy that conforms to an authentic original, and the signatures on it are genuine; (b) each governmental or officer's certificate has been properly issued and that it is accurate, complete and authentic (and we have assumed that such certificates remain accurate on the date of this letter); (c) all natural persons have sufficient legal capacity; and (d) the accuracy and completeness of all corporate records made available to us by the Company.

This opinion letter is limited to the effect of the General Corporation Law of the State of Delaware (the ***"DGCL"***), as in effect on the date of this opinion letter, and reported judicial decisions interpreting the foregoing, and we express no opinion as to the applicability or effect of any other laws of such jurisdiction or the laws of any other jurisdictions. Without limiting the preceding sentence, we express no opinion as to any state securities or broker dealer laws or regulations thereunder relating to the offer, issuance and sale of the Shares. This opinion letter has been prepared, and should be interpreted, in accordance with customary practice followed in the preparation of opinion letters by lawyers who regularly give, and such customary practice followed by lawyers who on behalf of their clients regularly advise opinion recipients regarding, opinion letters of this kind.

On the basis of and subject to the foregoing and subject to the limitations and qualifications set forth in this opinion letter and assuming that (i) the issuance, offer and sale of the Shares from time to time and the final terms and conditions of such issuance, offer and sale, including those relating to the price and amount of the Shares to be issued, offered and sold, have been duly authorized and determined or otherwise established by proper action of the Board in accordance with the DGCL, the Company's Certificate of Incorporation and Bylaws, and the Resolutions, (ii) the Shares have been delivered to, and the agreed consideration has been fully paid at the time of such delivery by, the purchasers thereof, (iii) upon issuance of the Shares, the total number of shares of Common Stock issued and outstanding does not exceed the total number of shares of Common Stock that the Company is then authorized to issue under the Certificate of Incorporation, and (iv) the Certificate of Good Standing remains accurate, we are of the opinion that the Shares will be duly authorized, validly issued, fully paid and nonassessable.

The opinions expressed in this opinion letter (a) are strictly limited to the matters stated in this opinion letter, and without limiting the foregoing, no other opinions are to be implied and (b) are only as of the date of this opinion letter, and we are under no obligation, and do not undertake, to advise the addressee of this opinion letter or any other person or entity either of any change of law or fact that occurs, or of any fact that comes to our attention, after the date of this opinion letter, even though such change or such fact may affect the legal analysis or a legal conclusion in this opinion letter.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our firm in the “Legal Matters” section in the Registration Statement. We do not admit by giving this consent that we are in the category of persons whose consent is required under Section 7 of the Securities Act.

Very truly yours,

/s/ Sutherland Asbill & Brennan LLP

**Exhibit (n)(1)**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated December 9, 2009, with respect to the consolidated financial statements, schedule, and internal control over financial reporting of Fifth Street Finance Corp. contained in the Registration Statement and Prospectus. We consent to the use of the aforementioned reports in the Registration Statement and Prospectus, and to the use of our name as it appears under the caption “Independent Registered Public Accounting Firm.”

/s/ GRANT THORNTON LLP

New York, New York
June 4, 2010