UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

COMMISSION FILE NUMBER: 1-33901

Fifth Street Finance Corp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**26-1219283**
(State or jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
777 West Putnam Avenue, 3rd Floor Greenwich, CT	**06830**
(Address of principal executive office)	*(Zip Code)*

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(203) 681-3600

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

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

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) YES ☐ NO ☑

The registrant had 139,189,449 shares of common stock outstanding as of August 6, 2014.

FIFTH STREET FINANCE CORP.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014
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PART I – FINANCIAL INFORMATION

Item 1. *Consolidated Financial Statements.*

Fifth Street Finance Corp.

Consolidated Statements of Assets and Liabilities
(in thousands, except per share amounts)
(unaudited)

	June 30, 2014	September 30, 2013
ASSETS		
Investments at fair value:		
Control investments (cost June 30, 2014: $295,813; cost September 30, 2013: $207,518)	$ 308,307	$ 215,502
Affiliate investments (cost June 30, 2014: $38,497; cost September 30, 2013: $29,807)	41,274	31,932
Non-control/Non-affiliate investments (cost June 30, 2014: $2,282,099; cost September 30, 2013: $1,622,326)	2,278,236	1,645,612
Total investments at fair value (cost June 30, 2014: $2,616,409; cost September 30, 2013: $1,859,651)	**2,627,817**	**1,893,046**
Cash and cash equivalents	74,661	147,359
Interest and fees receivable	17,503	10,379
Due from portfolio company	1,927	1,814
Deferred financing costs	21,167	19,548
Other assets	621	187
Total assets	**$ 2,743,696**	**$ 2,072,333**
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 3,927	$ 1,166
Base management fee payable	13,116	9,625
Part I incentive fee payable	8,609	7,175
Due to FSC CT, Inc.	2,214	840
Interest payable	12,219	2,939
Payables from unsettled transactions	10,000	35,716
Amounts payable to syndication partners	4,193	—
Advances received from portfolio companies	7,233	—
Credit facilities payable	535,181	188,000
SBA debentures payable	225,000	181,750
Unsecured convertible notes payable	115,000	115,000
Unsecured notes payable	409,878	161,250
Secured borrowings at fair value (proceeds of $45,750 and $0 at June 30, 2014 and September 30, 2013, respectively)	45,805	—
Total liabilities	**1,392,375**	**703,461**
Commitments and contingencies (Note 3)		
Net assets:		
Common stock, $0.01 par value, 250,000 shares authorized; 139,189 and 139,041 shares issued and outstanding at June 30, 2014 and September 30, 2013, respectively	1,391	1,390
Additional paid-in-capital	1,511,055	1,509,546
Net unrealized appreciation on investments and net unrealized depreciation on secured borrowings	11,353	33,395
Net realized loss on investments and interest rate swap	(153,571)	(154,591)
Accumulated overdistributed net investment income	(18,907)	(20,868)
Total net assets (equivalent to $9.71 and $9.85 per common share at June 30, 2014 and September 30, 2013, respectively) (Note 12)	**1,351,321**	**1,368,872**
Total liabilities and net assets	**$ 2,743,696**	**$ 2,072,333**

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Nine months ended June 30, 2014	Nine months ended June 30, 2013
Interest income:				
Control investments	$ 3,741	$ 1,279	$ 9,354	$ 3,037
Affiliate investments	1,108	741	2,971	2,050
Non-control/Non-affiliate investments	53,248	40,356	148,242	109,829
Interest on cash and cash equivalents	3	6	9	15
Total interest income	**58,100**	**42,382**	**160,576**	**114,931**
PIK interest income:				
Control investments	2,563	719	7,513	936
Affiliate investments	211	316	752	1,080
Non-control/Non-affiliate investments	3,523	3,009	9,115	9,795
Total PIK interest income	**6,297**	**4,044**	**17,380**	**11,811**
Fee income:				
Control investments	1,536	3,379	4,070	3,592
Affiliate investments	12	12	194	36
Non-control/Non-affiliate investments	8,135	7,656	35,044	32,138
Total fee income	**9,683**	**11,047**	**39,308**	**35,766**
Dividend and other income:				
Non-control/Non-affiliate investments	194	577	471	2,012
Total dividend and other income	**194**	**577**	**471**	**2,012**
Total investment income	**74,274**	**58,050**	**217,735**	**164,520**
Expenses:				
Base management fee	13,345	9,186	39,139	26,123
Part I incentive fee	8,609	7,343	26,163	20,983
Professional fees	863	959	2,775	2,931
Board of Directors fees	135	173	431	423
Interest expense	14,737	9,154	37,782	24,072
Administrator expense	715	695	2,105	2,294
General and administrative expenses	1,434	1,168	4,688	3,762
Total expenses	**39,838**	**28,678**	**113,083**	**80,588**
Base management fee waived	**(229)**	**(1,022)**	**(463)**	**(2,321)**
Net expenses	**39,609**	**27,656**	**112,620**	**78,267**
Net investment income	**34,665**	**30,394**	**105,115**	**86,253**
Unrealized appreciation (depreciation) on investments:				
Control investments	1,958	10,680	4,510	14,151
Affiliate investments	(314)	158	651	94
Non-control/Non-affiliate investments	(15,330)	2,224	(27,148)	(7,843)
Net unrealized appreciation (depreciation) on investments	**(13,686)**	**13,062**	**(21,987)**	**6,402**
Net unrealized appreciation on secured borrowings	**(45)**	**—**	**(55)**	**—**
Realized gain (loss) on investments:				
Control investments	(299)	(11,223)	(299)	(11,223)
Non-control/Non-affiliate investments	(348)	(6,227)	1,319	(5,748)
Net realized gain (loss) on investments	**(647)**	**(17,450)**	**1,020**	**(16,971)**
Net increase in net assets resulting from operations	**$ 20,287**	**$ 26,006**	**$ 84,093**	**$ 75,684**
Net investment income per common share — basic	**$ 0.25**	**$ 0.26**	**$ 0.76**	**$ 0.81**
Earnings per common share — basic	**$ 0.15**	**$ 0.22**	**$ 0.60**	**$ 0.71**
Weighted average common shares outstanding — basic	139,138	118,271	139,134	106,353
Net investment income per common share — diluted	**$ 0.25**	**$ 0.25**	**$ 0.74**	**$ 0.79**
Earnings per common share — diluted	**$ 0.15**	**$ 0.22**	**$ 0.60**	**$ 0.70**
Weighted average common shares outstanding — diluted	146,928	126,061	146,924	114,143
Distributions per common share	**$ 0.25**	**$ 0.29**	**$ 0.74**	**$ 0.87**

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Statements of Changes in Net Assets
(in thousands, except per share amounts)
(unaudited)

	Nine months ended June 30, 2014	Nine months ended June 30, 2013
Operations:		
Net investment income	$ 105,115	$ 86,253
Net unrealized appreciation (depreciation) on investments	(21,987)	6,402
Net unrealized appreciation on secured borrowings	(55)	—
Net realized gain (loss) on investments	1,020	(16,971)
Net increase in net assets resulting from operations	**84,093**	**75,684**
Stockholder transactions:		
Distributions to stockholders from ordinary income	(103,154)	(92,680)
Net decrease in net assets from stockholder transactions	**(103,154)**	**(92,680)**
Capital share transactions:		
Issuance of common stock, net	—	302,673
Issuance of common stock under dividend reinvestment plan	8,364	8,021
Repurchases of common stock under stock repurchase program	(406)	—
Repurchases of common stock under dividend reinvestment program	(6,448)	—
Net increase in net assets from capital share transactions	**1,510**	**310,694**
Total increase (decrease) in net assets	**(17,551)**	**293,698**
Net assets at beginning of period	1,368,872	903,570
Net assets at end of period	**$ 1,351,321**	**$ 1,197,268**
Net asset value per common share	**$ 9.71**	**$ 9.90**
Common shares outstanding at end of period	139,189	120,966

See notes to Consolidated Financial Statements.

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Fifth Street Finance Corp.

Consolidated Statements of Cash Flows
(in thousands, except per share amounts)
(unaudited)

	Nine months ended June 30, 2014	Nine months ended June 30, 2013
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 84,093	$ 75,684
Adjustments to reconcile net increase in net assets resulting from operations to net cash used by operating activities:		
Net unrealized (appreciation) depreciation on investments	21,987	(6,402)
Net unrealized appreciation on secured borrowings	55	—
Net realized (gain) loss on investments	(1,020)	16,971
PIK interest income	(17,380)	(11,811)
Recognition of fee income	(39,308)	(35,766)
Accretion of original issue discount on investments	(566)	(448)
Amortization of deferred financing costs	4,759	3,896
Changes in operating assets and liabilities:		
Fee income received	37,736	29,852
Increase in interest and fees receivable	(6,637)	(3,976)
(Increase) decrease in due from portfolio company	(113)	194
Decrease in receivables from unsettled transactions	—	1,750
(Increase) decrease in other assets	107	(724)
Increase in accounts payable, accrued expenses and other liabilities	2,761	991
Increase in base management fee payable	3,491	1,591
Increase in Part I incentive fee payable	1,434	1,764
Increase (decrease) in due to FSC CT, Inc.	1,374	(4)
Increase in interest payable	9,280	2,243
Decrease in payables from unsettled transactions	(25,716)	—
Increase in amounts payable to syndication partners	4,193	—
Increase (decrease) in advances received from portfolio companies	7,233	(24)
Purchases of investments and net revolver activity	(1,306,141)	(972,155)
Principal payments received on investments (scheduled payments)	41,440	36,593
Principal payments received on investments (payoffs)	287,385	368,590
PIK interest income received in cash	6,441	5,492
Proceeds from the sale of investments	234,169	54,461
Net cash used by operating activities	**(648,943)**	**(431,238)**
Cash flows from financing activities:		
Distributions paid in cash	(94,790)	(84,658)
Borrowings under SBA debentures payable	43,250	31,750
Borrowings under credit facilities	900,338	887,548
Repayments of borrowings under credit facilities	(553,157)	(872,799)
Proceeds from the issuance of unsecured notes	244,403	155,824
Proceeds from the issuance of common stock	—	303,502
Proceeds from secured borrowings	47,750	—
Repayments of secured borrowings	(2,000)	—
Repurchases of common stock under stock repurchase program	(406)	—
Repurchases of common stock under dividend reinvestment plan	(6,448)	—
Deferred financing costs paid	(2,153)	(3,713)
Offering costs paid	(542)	(991)
Net cash provided by financing activities	**576,245**	**416,463**
Net decrease in cash and cash equivalents	**(72,698)**	**(14,775)**
Cash and cash equivalents, beginning of period	147,359	74,393
Cash and cash equivalents, end of period	**$ 74,661**	**$ 59,618**
Supplemental information:		
Cash paid for interest	$ 23,979	$ 18,230
Non-cash financing activities:		
Issuance of shares of common stock under dividend reinvestment plan	$ 8,364	$ 8,021

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Schedule of Investments
(dollar amounts in thousands)
June 30, 2014
(unaudited)

Portfolio Company/Type of Investment (1)(2)(5)(22)	Industry	Principal (8)	Cost	Fair Value
Control Investments (3)				
Traffic Solutions Holdings, Inc.	Construction and engineering			
Second Lien Term Loan, 12% cash 3% PIK due 12/31/2016		$ 14,828	$ 14,828	$ 14,854
LC Facility, 8.5% cash due 12/31/2016			—	—
746,114 Series A Preferred Units			14,022	17,127
746,114 Class A Common Stock Units			5,316	10,617
			34,166	**42,598**
TransTrade Operators, Inc. (9)	Air freight and logistics			
First Lien Term Loan, 11% cash 3% PIK due 5/31/2016		15,180	15,180	11,323
First Lien Revolver, 8% cash due 5/31/2016			—	—
596.67 Series A Common Units in TransTrade Holdings LLC			—	—
1,403,922 Series A Preferred Units in TransTrade Holdings LLC			1,404	—
5,200,000 Series B Preferred Units in TransTrade Holdings LLC			5,200	—
			21,784	**11,323**
HFG Holdings, LLC (23)	Specialized finance			
First Lien Term Loan, 6% cash 4% PIK due 6/10/2019		95,888	95,888	96,520
860,000 Class A Units (12)			22,347	29,795
			118,235	**126,315**
First Star Aviation LLC	Airlines			
First Lien Term Loan, 9% cash 3% PIK due 1/9/2018		33,863	33,863	33,560
10,104,401 Common Units			10,104	13,936
			43,967	**47,496**
First Star Speir Aviation 1 Limited	Airlines			
First Lien Term Loan, 9% cash due 7/30/2018 (12)		38,023	38,023	38,025
1,087,445 Common Units (12)			2,023	2,300
			40,046	**40,325**
First Star Bermuda Aviation Limited	Airlines			
First Lien Term Loan, 9% cash 3% PIK due 8/19/2018 (12)		11,801	11,801	11,811
4,256,042 Common Units (12)			4,256	4,885
			16,057	**16,696**
Eagle Hospital Physicians, LLC	Healthcare services			
First Lien Term Loan A, 8% PIK due 8/1/2016		11,845	11,845	11,764
First Lien Term Loan B, 8.1% PIK due 8/1/2016		3,233	3,233	3,218
First Lien Revolver, 8% cash due 8/1/2016		2,380	2,380	2,380
4,100,000 Class A Common Units			4,100	6,192
			21,558	**23,554**
Total Control Investments (22.8% of net assets)			**$ 295,813**	**$ 308,307**
Affiliate Investments (4)				
Caregiver Services, Inc.	Healthcare services			
Second Lien Term Loan, 10% cash 2% PIK due 6/30/2019		$ 9,099	$ 9,099	$ 8,997
1,080,399 shares of Series A Preferred Stock			1,080	3,704
			10,179	**12,701**
AmBath/ReBath Holdings, Inc.	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2016 (14)		2,173	2,165	2,185
First Lien Term Loan B, 12.5% cash 2.5% PIK due 4/30/2016		26,169	26,153	25,880
4,668,788 Shares of Preferred Stock			—	508
			28,318	**28,573**
Total Affiliate Investments (3.1% of net assets)			**$ 38,497**	**$ 41,274**
Non-Control/Non-Affiliate Investments (7)				
Fitness Edge, LLC	Leisure facilities			
1,000 Common Units (6)			$ 43	$ 189
			43	**189**
Thermoforming Technology Group LLC (formerly Capital Equipment Group, Inc.)	Industrial machinery			
2.28% membership interest (6)			849	810
			849	**810**

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Schedule of Investments
(dollar amounts in thousands)
June 30, 2014
(unaudited)

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
HealthDrive Corporation (9)	Healthcare services			
First Lien Term Loan A, 10% cash due 7/17/2014		$ 4,292	$ 4,290	$ 4,215
First Lien Term Loan B, 12% cash 1% PIK due 7/17/2014		11,232	11,232	11,213
First Lien Revolver, 12% cash due 7/17/2014		2,266	2,266	2,263
			17,788	**17,691**
Cenegenics, LLC	Healthcare services			
First Lien Term Loan, 9.75% cash due 9/30/2019		32,300	32,294	32,113
414,419 Common Units (6)			598	1,048
			32,892	**33,161**
Riverlake Equity Partners II, LP	Multi-sector holdings			
1.78% limited partnership interest (12)			436	509
			436	**509**
Riverside Fund IV, LP	Multi-sector holdings			
0.34% limited partnership interest (6)(12)			678	696
			678	**696**
Psilos Group Partners IV, LP	Multi-sector holdings			
2.35% limited partnership interest (11)(12)			—	—
			—	**—**
Mansell Group, Inc. (9)	Advertising			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 12/31/2015 (14)		5,246	5,219	5,219
First Lien Term Loan B, LIBOR+9% (3% floor) cash 1.5% PIK due 12/31/2015 (14)		9,532	9,499	9,484
			14,718	**14,703**
Enhanced Recovery Company, LLC	Diversified support services			
First Lien Term Loan A, LIBOR+7% (2% floor) cash due 8/13/2015 (14)		11,000	10,953	10,985
First Lien Term Loan B, LIBOR+10% (2% floor) cash 1% PIK due 8/13/2015 (14)		16,013	15,964	15,858
First Lien Revolver, LIBOR+7% (2% floor) cash due 8/13/2015 (10)(14)		—	(18)	—
			26,899	**26,843**
Specialty Bakers LLC	Food distributors			
First Lien Term Loan A, LIBOR+8.5% cash due 9/15/2015 (14)		2,674	2,606	2,675
First Lien Term Loan B, LIBOR+11% (2.5% floor) cash due 9/15/2015 (14)		11,000	10,933	11,009
First Lien Revolver, LIBOR+8.5% cash due 9/15/2015 (14)		4,000	3,976	4,000
			17,515	**17,684**
Welocalize, Inc.	Internet software & services			
3,393,060 Common Units in RPWL Holdings, LLC			3,393	6,077
			3,393	**6,077**
Miche Bag, LLC (9)	Apparel, accessories & luxury goods			
First Lien Term Loan B, LIBOR+10% (3% floor) cash 3% PIK due 12/7/2015 (14)		17,844	16,778	6,061
First Lien Revolver, LIBOR+7% (3% floor) cash due 12/7/2015 (14)		500	474	167
10,371 Series A Preferred Equity units in Miche Bag Holdings, LLC			1,037	—
1,358.854 Series C Preferred Equity units in Miche Bag Holdings, LLC			136	—
19,417 Series A Common Equity units in Miche Bag Holdings, LLC			—	—
146,289 Series D Common Equity units in Miche Bag Holdings, LLC			1,463	—
			19,888	**6,228**
Bunker Hill Capital II (QP), LP	Multi-sector holdings			
0.51% limited partnership interest (12)			368	258
			368	**258**
Drugtest, Inc. (9)	Human resources & employment services			
First Lien Term Loan A, LIBOR+7.5% (0.75% floor) cash due 6/27/2018 (14)		25,155	25,055	25,469
First Lien Term Loan B, LIBOR+10% (1% floor) cash 1.5% PIK due 6/27/2018 (14)		13,361	13,308	13,418
Acquisition Line, LIBOR+5.75% cash due 6/27/2015 (14)		9,100	9,100	9,100
First Lien Revolver, LIBOR+6% (1% floor) cash due 6/27/2018 (10)(14)			(25)	—
			47,438	**47,987**

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Schedule of Investments
(dollar amounts in thousands)
June 30, 2014
(unaudited)

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Physicians Pharmacy Alliance, Inc. (9)	Healthcare services			
First Lien Term Loan, LIBOR+9% cash 1.5% PIK due 1/4/2016 (14)		$ 11,152	$ 11,020	$ 11,099
			11,020	**11,099**
Cardon Healthcare Network, LLC	Diversified support services			
69,487 Class A Units			265	497
			265	**497**
Phoenix Brands Merger Sub LLC (9)	Household products			
Senior Term Loan, LIBOR+5% (1.5% floor) cash due 1/31/2016 (15)		3,697	3,643	3,537
Subordinated Term Loan, 10% cash 3.875% PIK due 2/1/2017		30,320	30,097	28,847
Senior Revolver, LIBOR+5% (1.5% floor) cash due 1/31/2016 (15)		3,000	2,947	3,000
			36,687	**35,384**
CCCG, LLC (9)	Oil & gas equipment services			
First Lien Term Loan, LIBOR+8% (1.75% floor) cash 1% PIK due 12/29/2017 (15)		34,396	34,053	33,177
First Lien Revolver, LIBOR+5.5% (1.75% floor) cash due 12/31/2014 (15)			—	—
			34,053	**33,177**
Maverick Healthcare Group, LLC	Healthcare equipment			
First Lien Term Loan A, LIBOR+5.5% (1.75% floor) cash due 12/31/2016 (16)		16,808	16,186	16,616
First Lien Term Loan B, LIBOR+9% (1.75% floor) cash due 12/31/2016 (16)		38,600	38,317	38,265
CapEx Line, LIBOR+5.75% (1.75% floor) cash due 12/31/2016 (16)		1,263	1,151	1,255
			55,654	**56,136**
Refac Optical Group	Specialty stores			
First Lien Term Loan A, LIBOR+7.5% cash due 9/30/2018 (17)		21,912	21,773	21,381
First Lien Term Loan B, LIBOR+8.5% cash 1.75% PIK due 9/30/2018 (17)		33,201	32,932	31,880
First Lien Term Loan C, 12% cash due 12/31/2014		3,399	3,399	3,391
First Lien Revolver, LIBOR+7.5% cash due 9/30/2018 (17)		4,400	4,346	4,400
1,550.9435 Shares of Common Stock in Refac Holdings, Inc.			1	—
500.9435 Shares of Series A-2 Preferred Stock in Refac Holdings, Inc.			305	—
1,000 Shares of Series A Preferred Stock in Refac Holdings, Inc.			999	560
			63,755	**61,612**
Baird Capital Partners V, LP	Multi-sector holdings			
0.40% limited partnership interest (6)(12)			826	895
			826	**895**
Charter Brokerage, LLC	Oil & gas equipment services			
Senior Term Loan, LIBOR+6.5% (1.5% floor) cash due 10/10/2016 (16)		27,593	27,535	27,646
Subordinated Term Loan, 11.75% cash 2% PIK due 10/10/2017		12,157	12,117	12,177
Senior Revolver, LIBOR+6.5% (1.5% floor) cash due 10/10/2016 (10)(16)			(29)	—
			39,623	**39,823**
Discovery Practice Management, Inc. (9)	Healthcare services			
First Lien Term Loan, LIBOR+9.75% cash due 11/4/2018 (14)		20,047	19,979	20,456
First Lien Revolver, LIBOR+6% cash due 11/4/2018 (14)		1,250	1,235	1,250
Capex Line, LIBOR+7% cash due 11/4/2018 (14)		500	500	500
			21,714	**22,206**
Milestone Partners IV, LP	Multi-sector holdings			
0.85% limited partnership interest (6)(12)			1,131	1,137
			1,131	**1,137**
Insight Pharmaceuticals LLC	Pharmaceuticals			
Second Lien Term Loan, LIBOR+11.75% (1.5% floor) cash due 8/25/2017 (15)		13,517	13,458	13,316
			13,458	**13,316**
National Spine and Pain Centers, LLC	Healthcare services			
Subordinated Term Loan, 11% cash 1.6% PIK due 9/27/2017		29,619	29,475	29,694
317,282.97 Class A Units (6)			317	467
			29,792	**30,161**
RCPDirect, LP	Multi-sector holdings			
0.91% limited partnership interest (6)(12)			740	820
			740	**820**

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
The MedTech Group, Inc. (9)	Healthcare equipment			
Senior Term Loan, LIBOR+5.5% (1.5% floor) cash due 9/7/2016 (15)		$ 12,204	$ 12,153	$ 12,236
			12,153	**12,236**
Digi-Star Acquisition Holdings, Inc.	Industrial machinery			
Subordinated Term Loan, 12% cash 1.5% PIK due 11/18/2017		16,634	16,564	16,681
264.37 Class A Preferred Units			115	120
2,954.87 Class A Common Units (6)			36	451
			16,715	**17,252**
CPASS Acquisition Company	Internet software & services			
First Lien Term Loan, LIBOR+9% (1.5% floor) cash 1% PIK due 11/21/2016 (14)		7,613	7,559	7,574
First Lien Revolver, LIBOR+9% (1.5% floor) cash due 11/21/2016 (14)		750	741	750
			8,300	**8,324**
Genoa Healthcare Holdings, LLC	Pharmaceuticals			
Senior Term Loan, LIBOR+5.25% (1.25% floor) cash due 12/1/2016 (15)		7,946	7,946	7,915
Subordinated Term Loan, 12% cash 2% PIK due 6/1/2017		13,170	13,103	13,223
Senior Revolver, LIBOR+5.25% (1.25% floor) cash due 12/1/2016 (15)		167	167	167
500,000 Preferred Units			261	296
500,000 Class A Common Units			25	858
			21,502	**22,459**
ACON Equity Partners III, LP	Multi-sector holdings			
0.13% limited partnership interest (6)(12)			413	312
			413	**312**
CRGT, Inc.	IT consulting & other services			
Subordinated Term Loan, 12.5% cash 3% PIK due 3/9/2018		27,356	27,200	27,518
			27,200	**27,518**
Riverside Fund V, LP	Multi-sector holdings			
0.48% limited partnership interest (6)(12)			418	348
			418	**348**
World 50, Inc.	Research & consulting services			
First Lien Term Loan A, LIBOR+6.25% (1.5% floor) cash due 3/30/2017 (18)		8,128	8,052	8,063
First Lien Term Loan B, 12.5% cash due 3/30/2017		7,000	6,952	6,908
Senior Revolver, LIBOR+6.25% (1.5% floor) cash due 3/30/2017 (10)(18)			(34)	—
			14,970	**14,971**
Nixon, Inc.	Apparel, accessories & luxury goods			
First Lien Term Loan, 8.75% cash 2.75% PIK due 4/16/2018		9,023	8,960	9,067
			8,960	**9,067**
JTC Education, Inc. (9)	Education services			
Subordinated Term Loan, 13% cash due 11/1/2017		14,500	14,430	14,493
17,391 Shares of Series A-1 Preferred Stock			313	294
17,391 Shares of Common Stock			187	—
			14,930	**14,787**
BMC Acquisition, Inc.	Other diversified financial services			
500 Series A Preferred Shares			499	573
50,000 Common Shares			1	—
			500	**573**
Ansira Partners, Inc. (9)	Advertising			
First Lien Term Loan, LIBOR+5.5% (1.5% floor) cash due 5/4/2017 (15)		9,168	9,119	9,164
First Lien Revolver, LIBOR+5.5% (1.5% floor) cash due 5/4/2017 (10)(15)			(5)	—
250 Preferred Units & 250 Class A Common Units of Ansira Holdings, LLC			250	321
			9,364	**9,485**
Edmentum, Inc.	Education services			
Second Lien Term Loan, LIBOR+9.75% (1.5% floor) cash due 5/17/2019 (15)		17,000	17,000	16,695
			17,000	**16,695**

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
I Drive Safely, LLC	Education services			
First Lien Term Loan, LIBOR+8.5% (1.5% floor) cash due 5/25/2017 (17)		$ 27,000	$ 26,965	$ 27,052
First Lien Revolver, LIBOR+6.5% (1.5% floor) cash due 5/25/2017 (10)(17)			(7)	—
75,000 Class A Common Units of IDS Investments, LLC			750	429
			27,708	**27,481**
Yeti Acquisition, LLC (9)	Leisure products			
First Lien Term Loan A, LIBOR+8% (1.25% floor) cash due 6/15/2017 (14)		17,611	17,573	17,836
First Lien Term Loan B, LIBOR+11.25% (1.25% floor) cash 1% PIK due 6/15/2017 (14)		12,000	11,984	12,138
First Lien Revolver, LIBOR+8% (1.25% floor) cash due 6/15/2017 (14)		3,000	2,986	3,000
1,500 Common Stock Units of Yeti Holdings, Inc.			1,500	3,774
			34,043	**36,748**
Specialized Education Services, Inc.	Education services			
Senior Term Loan, LIBOR+7% (1.5% floor) cash due 6/28/2017 (15)		8,699	8,699	8,504
Subordinated Term Loan, 11% cash 1.5% PIK due 6/28/2018		18,042	18,042	17,722
			26,741	**26,226**
Vitalyst Holdings, Inc. (formerly known as PC Helps Support, LLC)	IT consulting & other services			
Subordinated Term Loan, 12% cash 1.5% PIK due 9/5/2018		19,019	19,019	19,074
675 Series A Preferred Units of PCH Support Holdings, Inc.			675	784
7,500 Class A Common Stock Units of PCH Support Holdings, Inc.			75	—
			19,769	**19,858**
Olson + Co., Inc. (9)	Advertising			
First Lien Term Loan, LIBOR+5.5% (1.5% floor) cash due 9/30/2017 (15)		13,160	13,160	13,170
First Lien Revolver, LIBOR+5.5% (1.5% floor) cash due 9/30/2017 (15)			—	—
			13,160	**13,170**
Beecken Petty O'Keefe Fund IV, L.P.	Multi-sector holdings			
0.5% limited partnership interest (12)			391	350
			391	**350**
Deltek, Inc. (9)	IT consulting & other services			
Second Lien Term Loan, LIBOR+8.75% (1.25% floor) cash due 10/10/2019 (15)		25,000	25,000	25,403
First Lien Revolver, LIBOR+4.75% (1.25% floor) cash due 10/10/2017 (15)		6,667	6,667	6,667
			31,667	**32,070**
First American Payment Systems, LP	Diversified support services			
Second Lien Term Loan, LIBOR+9.5% (1.25% floor) cash due 4/12/2019 (15)		25,000	25,000	24,799
First Lien Revolver, LIBOR+4.5% (1.25% floor) cash due 10/12/2017 (15)		67	67	67
			25,067	**24,866**
Dexter Axle Company	Auto parts & equipment			
1,500 Common Shares in Dexter Axle Holding Company			1,500	2,321
			1,500	**2,321**
SumTotal Systems, LLC	Internet software & services			
Second Lien Term Loan, LIBOR+9% (1.25% floor) cash due 5/16/2019 (15)		20,000	20,000	19,650
			20,000	**19,650**
Comprehensive Pharmacy Services, LLC	Pharmaceuticals			
Subordinated Term Loan, 11.25% cash 1.5% PIK due 11/30/2019		14,308	14,308	14,337
20,000 Common Shares in MCP CPS Group Holdings, Inc.			2,000	2,647
			16,308	**16,984**
Garretson Firm Resolution Group, Inc.	Diversified support services			
First Lien Term Loan, LIBOR+5% (1.25% floor) cash due 12/20/2018 (15)		7,031	7,031	7,031
Subordinated Term Loan, 11% cash 1.5% PIK due 6/20/2019		5,075	5,075	5,087
First Lien Revolver, LIBOR+5% (1.25% floor) cash due 12/20/2017 (15)		588	588	588

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Garretson Firm Resolution Group, Inc. (continued)				
4,950,000 Preferred Units in GRG Holdings, LP			$ 495	$ 350
50,000 Common Units in GRG Holdings, LP			5	—
			13,194	**13,056**
Teaching Strategies, LLC	Education services			
First Lien Term Loan A, LIBOR+6% (1.25% floor) cash due 12/21/2017 (18)		$ 58,850	58,837	59,367
First Lien Term Loan B, LIBOR+8.35% (1.25% floor) cash 3.15% PIK due 12/21/2017 (18)		27,902	27,896	28,045
First Lien Revolver, LIBOR+6% (1.25% floor) cash due 12/21/2017 (18)		1,500	1,498	1,500
			88,231	**88,912**
Omniplex World Services Corporation	Security & alarm services			
Subordinated Term Loan, 12.25% cash 1.25% PIK due 12/21/2018		12,744	12,744	12,750
500 Class A Common Units in Omniplex Holdings Corp.			500	564
			13,244	**13,314**
Dominion Diagnostics, LLC (9)	Healthcare services			
Subordinated Term Loan, 11% cash 2% PIK due 12/21/2018		15,950	15,950	15,994
			15,950	**15,994**
Affordable Care, Inc.	Healthcare services			
Second Lien Term Loan, LIBOR+9.25% (1.25% floor) cash due 12/26/2019 (15)		21,500	21,500	21,628
			21,500	**21,628**
Aderant North America, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+8.75% (1.25% floor) cash due 6/20/2019 (15)		7,000	7,000	7,053
			7,000	**7,053**
AdVenture Interactive, Corp.	Advertising			
First Lien Term Loan, LIBOR+6.75% (1.25% floor) cash due 3/22/2018 (13)(16)		89,989	89,957	90,306
First Lien Revolver, LIBOR+6.75% (1.25% floor) cash due 3/22/2018 (10)(16)			(1)	—
2,000 Preferred Units of AVI Holdings, L.P.			1,811	1,319
			91,767	**91,625**
CoAdvantage Corporation	Human resources & employment services			
Subordinated Term Loan, 11.5% cash 1.25% PIK due 12/31/2018		14,846	14,846	14,866
50,000 Class A Units in CIP CoAdvantage Investments LLC			557	597
			15,403	**15,463**
EducationDynamics, LLC	Education services			
Subordinated Term Loan, 12% cash 6% PIK due 1/16/2017		11,573	11,573	11,204
			11,573	**11,204**
Sterling Capital Partners IV, L.P.	Multi-sector holdings			
0.20% limited partnership interest (6)(12)			620	594
			620	**594**
Devicor Medical Products, Inc.	Healthcare equipment			
First Lien Term Loan, LIBOR+5% (2% floor) cash due 7/8/2015 (15)		13,048	13,048	13,032
			13,048	**13,032**
RP Crown Parent, LLC	Application software			
First Lien Revolver, LIBOR+5.5% (1.25% floor) cash due 12/21/2017 (10)(15)			(509)	—
			(509)	**—**
Advanced Pain Management Holdings, Inc.	Healthcare services			
First Lien Term Loan, LIBOR+8.5% (1.25% floor) cash due 2/26/2018 (15)		24,000	24,000	24,218
			24,000	**24,218**
Rocket Software, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+8.75% (1.5% floor) cash due 2/8/2019 (15)		10,475	10,441	10,471
			10,441	**10,471**
TravelClick, Inc.	Internet software & services			
First Lien Term Loan, LIBOR+4.5% (1% floor) cash due 5/6/2019		5,000	5,000	5,000
Second Lien Term Loan, LIBOR+7.75% (1% floor) cash due 11/8/2021 (15)		20,000	20,000	20,000
			25,000	**25,000**

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Pingora MSR Opportunity Fund I, LP	Thrift & mortgage finance			
1.90% limited partnership interest (12)			$ 2,472	$ 2,377
			2,472	**2,377**
Chicago Growth Partners III, LP	Multi-sector holdings			
0.50% limited partnership interest (11)(12)			—	—
			—	**—**
Credit Infonet, Inc.	Data processing & outsourced services			
Subordinated Term Loan, 12.25% cash due 10/26/2018		13,250	13,250	13,269
			13,250	**13,269**
H.D. Vest, Inc.	Specialized finance			
Second Lien Term Loan, LIBOR+8% (1.25% floor) cash due 6/18/2019 (16)		8,750	8,750	8,823
			8,750	**8,823**
2Checkout.com, Inc.	Diversified support services			
First Lien Revolver, LIBOR+5% cash due 6/26/2016 (17)		2,150	2,148	2,150
			2,148	**2,150**
Meritas Schools Holdings, LLC	Education services			
First Lien Term Loan, LIBOR+5.75% (1.25% floor) cash due 6/25/2019 (15)		9,893	9,893	9,900
			9,893	**9,900**
Personable Holdings, Inc.	Other diversified financial services			
First Lien Term Loan, LIBOR+6% (1.25% floor) cash due 5/16/2018 (15)		10,688	10,688	10,752
First Lien Revolver, LIBOR+6% (1.25% floor) cash due 5/16/2018 (15)		1,585	1,585	1,585
			12,273	**12,337**
Royal Adhesives and Sealants, LLC	Specialty chemicals			
Second Lien Term Loan, LIBOR+8.5% (1.25% floor) cash due 1/31/2019 (15)		13,500	13,500	13,524
			13,500	**13,524**
Bracket Holding Corp.	Healthcare services			
Second Lien Term Loan, LIBOR+8.25% (1% floor) cash due 2/15/2020 (15)		32,000	32,000	31,392
50,000 Common Units in AB Group Holdings, LP			500	162
			32,500	**31,554**
Salus CLO 2012-1, Ltd.	Asset management & custody banks			
Class F Deferrable Notes - A, LIBOR+11.5% cash due 3/5/2021 (12)(19)		7,500	7,500	7,500
Class F Deferrable Notes - B, LIBOR+10.85% cash due 3/5/2021 (12)(19)		22,000	22,000	22,000
			29,500	**29,500**
HealthEdge Software, Inc.	Application software			
Second Lien Term Loan, 12% cash due 9/30/2018		17,500	17,309	17,291
482,453 Series A-3 Preferred Stock Warrants (exercise price $1.450918)			213	296
			17,522	**17,587**
InMotion Entertainment Group, LLC	Consumer electronics			
First Lien Term Loan, LIBOR+7.75% (1.25% floor) cash due 10/1/2018 (14)		23,813	23,804	23,475
First Lien Revolver, LIBOR+6.75% (1.25% floor) cash due 10/1/2018 (14)		4,154	4,153	4,154
CapEx Line, LIBOR+7.75% (1.25% floor) cash due 10/1/2018 (14)		272	270	272
1,000,000 Class A Units in InMotion Entertainment Holdings, LLC			1,000	1,220
			29,227	**29,121**
BMC Software Finance, Inc.	Application software			
First Lien Revolver, LIBOR+4% (1% floor) cash due 9/10/2018 (20)			—	—
			—	**—**

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
CT Technologies Intermediate Holdings, Inc.	Healthcare services			
Second Lien Term Loan, LIBOR+8% (1.25% floor) cash due 10/4/2020 (15)		$ 12,000	$ 12,000	$ 11,893
			12,000	**11,893**
Thing5, LLC	Data processing & outsourced services			
First Lien Term Loan, LIBOR+7% (1% floor) cash due 10/11/2018 (13)(15)		45,000	44,989	45,037
First Lien Revolver, LIBOR+7% (1% floor) cash due 10/11/2018 (10)(15)			(1)	—
2,000,000 Common Units in T5 Investment Vehicle, LLC (6)			2,000	3,029
			46,988	**48,066**
Epic Health Services, Inc.	Healthcare services			
Second Lien Term Loan, LIBOR+8% (1.25% floor) cash due 10/18/2019 (15)		25,000	25,000	24,826
			25,000	**24,826**
Kason Corporation	Industrial machinery			
Subordinated Term Loan, 11.5% cash 1.75% PIK due 10/28/2019		5,670	5,670	5,558
450 Class A Preferred Units in Kason Investment, LLC			450	392
5,000 Class A Common Units in Kason Investment, LLC			50	—
			6,170	**5,950**
First Choice ER, LLC	Healthcare services			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 10/31/2018 (14)		75,000	74,993	75,120
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 10/31/2018 (10)(14)			(1)	—
First Lien Delayed Draw Term Loan, LIBOR+7.5% (1% floor) cash due 4/30/2015 (14)		25,000	24,984	25,136
			99,976	**100,256**
SPC Partners V, LP	Multi-sector holdings			
0.4% limited partnership interest (6)(12)			429	372
			429	**372**
Systems Maintenance Services Holdings, Inc.	IT consulting & other services			
Second Lien Term Loan, LIBOR+8.25% (1% floor) cash due 10/18/2020 (15)		24,000	24,000	24,095
			24,000	**24,095**
Vandelay Industries Merger Sub, Inc.	Industrial machinery			
Second Lien Term Loan, 10.75% cash 1% PIK due 11/12/2019		27,001	27,001	27,037
2,500,000 Class A Common Units in Vandelay Industries, LP			2,500	3,291
			29,501	**30,328**
Vitera Healthcare Solutions, LLC	Healthcare technology			
First Lien Term Loan, LIBOR+5% (1% floor) cash due 11/4/2020 (20)		4,975	4,975	4,983
Second Lien Term Loan, LIBOR+8.25% (1% floor) cash due 11/4/2021 (20)		8,000	8,000	8,067
			12,975	**13,050**
SugarSync, Inc.	Internet software & services			
First Lien Term Loan, LIBOR+10% (0.5% floor) cash due 11/18/2016 (14)		6,500	6,500	6,447
			6,500	**6,447**
The Active Network, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+8.5% (1% floor) cash due 11/15/2021 (15)		13,600	13,600	13,649
			13,600	**13,649**
OmniSYS Acquisition Corporation	Diversified support services			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 11/21/2018 (21)		20,737	20,723	20,641
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 11/21/2018 (10)(21)			(2)	—
100,000 Common Units in OSYS Holdings, LLC			1,000	803
			21,721	**21,444**
Med-Data, Incorporated	Diversified support services			
First Lien Term Loan, LIBOR+7.25% (1% floor) cash due 11/22/2018 (17)		38,954	38,940	38,802
First Lien Revolver, LIBOR+7.25% (1% floor) cash due 11/22/2018 (10)(17)			(2)	—
			38,938	**38,802**

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All Web Leads, Inc.	Advertising			
First Lien Term Loan, LIBOR+8% (1% floor) cash due 11/26/2018 (17)		$ 35,210	$ 35,195	$ 34,911
First Lien Revolver, LIBOR+8% (1% floor) cash due 11/26/2018 (10)(17)			(2)	—
			35,193	**34,911**
Moelis Capital Partners Opportunity Fund I-B, LP	Multi-sector holdings			
1.0% limited partnership interest (6)(12)			715	678
			715	**678**
Aden & Anais Merger Sub, Inc.	Apparel, accessories & luxury goods			
Subordinated Term Loan, 10% cash 2% PIK due 6/23/2019		12,127	12,127	12,167
30,000 Common Units in Aden & Anais Holdings, Inc.			3,000	3,544
			15,127	**15,711**
Lift Brands, Inc.	Leisure facilities			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 12/23/2019 (15)		59,000	58,967	59,048
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 12/23/2019 (15)		2,000	1,992	2,000
2,000,000 Class A Common Units in Snap Investments, LLC			2,000	2,370
			62,959	**63,418**
Tailwind Capital Partners II, LP	Multi-sector holdings			
0.3% limited partnership interest (6)(12)			388	388
			388	**388**
Long's Drugs Incorporated	Pharmaceuticals			
Subordinated Term Loan, 11% cash 1% PIK due 1/31/2020		9,494	9,494	9,529
50 Series A Preferred Shares in TWL Holdings Corp.			500	523
			9,994	**10,052**
American Cadastre, LLC	Systems software			
First Lien Revolver, LIBOR+5% (1% floor) cash due 8/14/2015 (14)		5,470	5,464	5,470
			5,464	**5,470**
Five9, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+9% (1% floor) cash due 2/20/2019 (14)		20,000	19,705	20,056
118,577 Common Stock Warrants (exercise price $10.12)			321	304
			20,026	**20,360**
Crealta Pharmaceuticals LLC	Pharmaceuticals			
Second Lien Term Loan, 12.75% cash due 8/21/2020		20,000	20,000	20,040
			20,000	**20,040**
Conviva Inc.	Application software			
First Lien Term Loan, LIBOR+8.75% (1% floor) cash due 2/28/2018 (14)		5,000	4,906	5,000
417,851 Series D Preferred Stock Warrants (exercise price $1.1966)			105	92
			5,011	**5,092**
OnCourse Learning Corporation	Education services			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 2/28/2019 (14)		65,000	64,946	65,216
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 2/28/2019 (14)		1,000	996	1,000
200,000 Class A Units in CIP OCL Investments, LLC			2,000	1,826
			67,942	**68,042**
ShareThis, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+10.5% (1% floor) cash due 3/5/2018 (14)		15,000	14,663	15,001
345,452 Series C Preferred Stock Warrants (exercise price $3.0395)			367	328
			15,030	**15,329**
Aegis Toxicology Sciences Corporation	Healthcare services			
Second Lien Term Loan, LIBOR+8.5% (1% floor) cash due 8/24/2021 (15)		18,000	18,000	18,007
			18,000	**18,007**
Aptean, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+7.5% (1% floor) cash due 2/24/2021 (15)		3,000	3,000	3,028
			3,000	**3,028**

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Desert NDT, LLC	Oil & gas equipment services			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 3/26/2019 (16)		$ 133,000	$ 132,970	$ 133,000
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 3/26/2019 (16)		3,866	3,863	3,866
			136,833	**136,866**
Integrated Petroleum Technologies, Inc.	Oil & gas equipment services			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 3/31/2019 (15)		32,896	32,867	33,024
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 3/31/2019 (10)(15)			(5)	—
			32,862	**33,024**
Total Military Management, Inc.	Air freight and logistics			
First Lien Term Loan, LIBOR+5.75% (1.25% floor) cash due 3/31/2019 (16)		13,261	13,261	13,305
Delayed Draw Term Loan, LIBOR+5.75% (1.25% floor) cash due 3/31/2019 (16)			—	—
First Lien Revolver, LIBOR+5.75% (1.25% floor) cash due 3/31/2019 (16)			—	—
			13,261	**13,305**
ExamSoft Worldwide, Inc.	Internet software & services			
First Lien Term Loan, LIBOR+8% (1% floor) cash due 5/1/2019 (14)		15,000	14,825	15,000
First Lien Revolver, LIBOR+8% (1% floor) cash due 5/1/2019 (14)			—	—
180,707 Class C Units in ExamSoft Investor LLC			181	181
			15,006	**15,181**
Language Line, LLC	Integrated telecommunication services			
Second Lien Term Loan, LIBOR+8.75% (1.75% floor) cash due 12/20/2016 (15)		6,600	6,591	6,600
			6,591	**6,600**
DigiCert, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+8.25% (1% floor) cash due 6/2/2020 (15)		42,000	42,000	42,000
			42,000	**42,000**
Puerto Rico Cable Acquisition Company Inc.	Cable & satellite			
Second Lien Term Loan, LIBOR+8.5% (1% floor) cash due 5/30/2019 (12)(15)		27,000	27,000	27,000
			27,000	**27,000**
RCPDirect II, L.P.	Multi-sector holdings			
0.5% limited partnership interest (11)(12)			—	—
			—	**—**
PR Wireless, Inc.	Integrated telecommunication services			
First Lien Term Loan, LIBOR+9% (1% floor) cash due 8/2/2020 (20)		10,000	10,000	10,000
118.4211 Common Stock Warrants (exercise price $0.01)			—	—
			10,000	**10,000**
Total Non-Control/Non-Affiliate Investments (168.6% of net assets)			**$ 2,282,099**	**$ 2,278,236**
Total Portfolio Investments (194.5% of net assets)			**$ 2,616,409**	**$ 2,627,817**

See notes to Consolidated Financial Statements.

(dollar amounts in thousands)

(1) All debt investments are income producing unless otherwise noted. 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 tier pricing arrangements or 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
Dominion Diagnostics, LLC	April 8, 2014		- 1.0% on Term Loan	Per loan amendment
Phoenix Brands Merger Sub LLC	April 1, 2014	+ 0.75% on Senior Term Loan and Revolver - 10% on Subordinated Term Loan	+ 12.75% on Subordinated Term Loan	Tier pricing per loan agreement
Olson + Co., Inc.	December 13, 2013	+ 0.25% on Term Loan & Revolver		Per loan amendment
Discovery Practice Management, Inc.	November 4, 2013	- 2.25% on Term Loan A - 1.0% on Revolver		Per loan amendment
TransTrade Operators, Inc.	October 1, 2013	- 11.0% on Term Loan	+ 11.0% on Term Loan	Per loan amendment
HealthDrive Corporation	October 1, 2013	- 4.0% on Term Loan A - 6.0% on Term Loan B	+ 6.0% on Term Loan A + 7.0% on Term Loan B	Per loan amendment
Miche Bag, LLC	July 26, 2013	- 3.0% on Term Loan B	- 1.0% on Term Loan B	Per loan amendment
Ansira Partners, Inc.	June 30, 2013	- 0.5% on Term Loan & Revolver		Tier pricing per loan agreement
Drugtest, Inc.	June 27, 2013	- 1.5% on Term Loan A - 0.75% on Term Loan B - 0.25% on Revolver	- 0.5% on Term Loan B	Per loan amendment
The MedTech Group, Inc.	June 21, 2013	- 0.50% on Term Loan		Per loan amendment
Physicians Pharmacy Alliance, Inc.	April 1, 2013	+ 1.0% on Term Loan	+ 1.0% on Term Loan	Per loan agreement
Deltek, Inc.	February 1, 2013	- 1.0% on Revolver		Per loan amendment
JTC Education, Inc.	January 1, 2013	+ 0.25% on Term Loan		Per loan amendment
Mansell Group, Inc.	January 1, 2013	+ 2.0% on Term Loan A and Term Loan B		Per loan agreement
CCCG, LLC	November 15, 2012	+ 0.5% on Term Loan	+ 1.0% on Term Loan	Per loan amendment
Yeti Acquisition, LLC	October 1, 2012	– 1.0% on Term Loan A, Term Loan B & Revolver		Tier pricing per loan agreement

(10) Investment has undrawn commitments and a negative cost basis as a result of unamortized fees. Unamortized fees are classified as unearned income which reduces cost basis.

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

(12) Investment is not a "qualifying asset" as defined under Section 55(a) of the 1940 Act, in whole or in part.

(13) The sale of a portion of this loan does not qualify for sale accounting under ASC Topic 860 - *Transfers and Servicing*, and therefore, the entire debt investment remains in the Schedule of Investments. (See Note 15 in the accompanying notes to the Consolidated Financial Statements.)

(14) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 90-day LIBOR.

(15) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 30-day, 60-day, 90-day or 180-day LIBOR, at the borrower's option.

(16) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 30-day, 60-day or 90-day LIBOR, at the borrower's option.

(17) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 30-day LIBOR.

(18) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 30-day or 60-day LIBOR, at the borrower's option.

(19) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 180-day LIBOR.

(20) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 30-day, 90-day or 180-day LIBOR, at the borrower's option.

(21) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 30-day or 90-day LIBOR, at the borrower's option.

(22) Each of the Company's investments are pledged as collateral under one or more of its credit facilities. A single investment may be divided into parts that are individually pledged as collateral to separate credit facilities.

(23) The Company, through its investments in HFG Holdings LLC, acquired a majority equity interest in Healthcare Finance Group, LLC, which provides financing to healthcare companies. The fair value of the Company’s debt and equity investments in HFG Holdings approximates the fair value of HFG Holdings’ equity investment in Healthcare Finance Group, LLC.

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Schedule of Investments
(dollar amounts in thousands)
September 30, 2013

Portfolio Company/Type of Investment (1)(2)(5)(21)	Industry	Principal (8)	Cost	Fair Value
Control Investments (3)				
Traffic Solutions Holdings, Inc.	Construction and engineering			
Second Lien Term Loan, 12% cash 3% PIK due 12/31/2016		$ 14,494	$ 14,480	$ 14,499
LC Facility, 8.5% cash due 12/31/2016 (10)			(5)	—
746,114 Series A Preferred Units			12,786	15,891
746,114 Class A Common Stock Units			5,316	10,529
			32,577	**40,919**
TransTrade Operators, Inc.	Air freight and logistics			
First Lien Term Loan, 11% cash 3% PIK due 5/31/2016		13,660	13,660	13,524
596.67 Series A Common Units in TransTrade Holding LLC			—	—
3,033,333.33 Preferred Units in TransTrade Holding LLC			3,033	539
			16,693	**14,063**
HFG Holdings, LLC (22)	Specialized finance			
First Lien Term Loan, 6% cash 4% PIK due 6/10/2019		93,135	93,135	93,297
860,000 Class A Units (12)			22,347	22,346
			115,482	**115,643**
First Star Aviation LLC	Airlines			
First Lien Term Loan, 9% cash 3% PIK due 1/9/2018		19,211	19,211	19,211
5,264,207 Common Units			5,264	5,264
			24,475	**24,475**
Eagle Hospital Physicians, LLC (13)	Healthcare services			
First Lien Term Loan A, 8% PIK due 8/1/2016		11,150	11,150	11,149
First Lien Term Loan B, 8.1% PIK due 8/1/2016		3,041	3,041	3,050
First Lien Revolver, 8% cash due 8/1/2016			—	—
4,100,000 Class A Common Units			4,100	6,203
			18,291	**20,402**
Total Control Investments (15.7% of net assets)			**$ 207,518**	**$ 215,502**
Affiliate Investments (4)				
Caregiver Services, Inc.	Healthcare services			
1,080,399 shares of Series A Preferred Stock			$ 1,080	$ 3,256
			1,080	**3,256**
AmBath/ReBath Holdings, Inc. (9)	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2016 (15)		$ 3,223	3,219	3,272
First Lien Term Loan B, 12.5% cash 2.5% PIK due 4/30/2016		25,515	25,508	25,317
4,668,788 Shares of Preferred Stock			—	87
			28,727	**28,676**
Total Affiliate Investments (2.3% of net assets)			**$ 29,807**	**$ 31,932**
Non-Control/Non-Affiliate Investments (7)				
Fitness Edge, LLC	Leisure facilities			
1,000 Common Units (6)			$ 43	$ 190
			43	**190**
Capital Equipment Group, Inc. (9)	Industrial machinery			
Second Lien Term Loan, 12% cash 2.75% PIK due 12/27/2015		$ 4,007	4,007	4,003
33,786 shares of Common Stock			345	1,206
			4,352	**5,209**
Western Emulsions, Inc.	Construction materials			
Second Lien Term Loan, 12.5% cash 2.5% PIK due 6/30/2014		7,200	7,170	7,297
			7,170	**7,297**
HealthDrive Corporation (9)	Healthcare services			
First Lien Term Loan A, 10% cash due 7/17/2014		4,151	4,148	4,213
First Lien Term Loan B, 12% cash 1% PIK due 7/17/2014		10,573	10,573	10,497
First Lien Revolver, 12% cash due 7/17/2014		2,266	2,266	2,266
			16,987	**16,976**

Fifth Street Finance Corp.

Consolidated Schedule of Investments
(dollar amounts in thousands)
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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Cenegenics, LLC	Healthcare services			
First Lien Term Loan, 9.75% cash due 9/30/2019		$ 33,500	$ 33,468	$ 33,527
414,419 Common Units (6)			598	1,317
			34,066	**34,844**
Riverlake Equity Partners II, LP	Multi-sector holdings			
1.78% limited partnership interest (6)(12)			362	325
			362	**325**
Riverside Fund IV, LP	Multi-sector holdings			
0.34% limited partnership interest (6)(12)			713	658
			713	**658**
Psilos Group Partners IV, LP	Multi-sector holdings			
2.35% limited partnership interest (11)(12)			—	—
			—	**—**
Mansell Group, Inc. (9)	Advertising			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2015 (15)		6,551	6,498	6,616
First Lien Term Loan B, LIBOR+9% (3% floor) cash 1.5% PIK due 4/30/2015 (15)		9,424	9,362	9,510
First Lien Revolver, LIBOR+6% (3% floor) cash due 4/30/2015 (10)(15)		—	(13)	—
			15,847	**16,126**
Enhanced Recovery Company, LLC	Diversified support services			
First Lien Term Loan A, LIBOR+7% (2% floor) cash due 8/13/2015 (15)		11,500	11,398	11,522
First Lien Term Loan B, LIBOR+10% (2% floor) cash 1% PIK due 8/13/2015 (15)		16,013	15,913	15,999
First Lien Revolver, LIBOR+7% (2% floor) cash due 8/13/2015 (15)		500	463	500
			27,774	**28,021**
Specialty Bakers LLC	Food distributors			
First Lien Term Loan A, LIBOR+8.5% cash due 9/15/2015 (15)		3,720	3,596	3,721
First Lien Term Loan B, LIBOR+11% (2.5% floor) cash due 9/15/2015 (15)		11,000	10,882	11,011
First Lien Revolver, LIBOR+8.5% cash due 9/15/2015 (15)		4,000	3,957	4,000
			18,435	**18,732**
Welocalize, Inc.	Internet software & services			
3,393,060 Common Units in RPWL Holdings, LLC			3,393	7,695
			3,393	**7,695**
Miche Bag, LLC (9)	Apparel, accessories & luxury goods			
First Lien Term Loan B, LIBOR+10% (3% floor) 3% PIK due 12/7/2015 (15)		17,576	16,307	17,514
First Lien Revolver, LIBOR+7% (3% floor) cash due 12/7/2015 (10)(15)			(33)	—
10,371 Series A Preferred Equity units in Miche Bag Holdings, LLC			1,037	419
1,358.854 Series C Preferred Equity units in Miche Bag Holdings, LLC			136	—
19,417 Series A Common Equity units in Miche Bag Holdings, LLC			—	—
146,289 Series D Common Equity units in Miche Bag Holdings, LLC			1,463	—
			18,910	**17,933**

See notes to Consolidated Financial Statements.

Consolidated Schedule of Investments
(dollar amounts in thousands)
September 30, 2013

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Bunker Hill Capital II (QP), LP	Multi-sector holdings			
0.51% limited partnership interest (12)			$ 214	$ 121
			214	**121**
Drugtest, Inc. (9)	Human resources & employment services			
First Lien Term Loan A, LIBOR+7.5% (0.75% floor) cash due 6/27/2018 (15)		$ 38,809	38,702	38,864
First Lien Term Loan B, LIBOR+10% (1% floor) 1.5% PIK due 6/27/2018 (15)		15,752	15,682	15,899
First Lien Revolver, LIBOR+6% (1% floor) cash due 6/27/2018 (10)(15)			(34)	—
			54,350	**54,763**
Saddleback Fence and Vinyl Products, Inc. (9)	Building products			
First Lien Term Loan, 8% cash due 11/30/2013		635	635	635
First Lien Revolver, 8% cash due 11/30/2013		100	100	100
			735	**735**
Physicians Pharmacy Alliance, Inc. (9)	Healthcare services			
First Lien Term Loan, LIBOR+9% cash 1.5% PIK due 1/4/2016 (15)		11,435	11,266	11,399
First Lien Revolver, LIBOR+6% cash due 1/4/2016 (10)(15)			(20)	—
			11,246	**11,399**
Cardon Healthcare Network, LLC	Diversified support services			
65,903 Class A Units			250	523
			250	**523**
Phoenix Brands Merger Sub LLC (9)	Household products			
Senior Term Loan, LIBOR+5% (1.5% floor) cash due 1/31/2016 (16)		5,518	5,432	5,423
Subordinated Term Loan, 10% cash 3.875% PIK due 2/1/2017		21,610	21,323	20,842
Senior Revolver, LIBOR+5% (1.5% floor) cash due 1/31/2016 (16)		3,000	2,922	3,000
			29,677	**29,265**
CCCG, LLC (9)	Oil & gas equipment services			
First Lien Term Loan, LIBOR+8% (1.75% floor) cash 1% PIK due 12/29/2017 (16)		35,148	34,717	34,988
First Lien Revolver, LIBOR+5.5% (1.75% floor) cash due 12/31/2014 (16)			—	—
			34,717	**34,988**
Maverick Healthcare Group, LLC	Healthcare equipment			
First Lien Term Loan A, LIBOR+9% (1.75% floor) cash due 12/31/2016 (17)		9,950	9,950	9,956
First Lien Term Loan B, LIBOR+9% (1.75% floor) cash due 12/31/2016 (17)		38,900	38,546	38,838
			48,496	**48,794**
Refac Optical Group (14)	Specialty stores			
First Lien Term Loan A, LIBOR+7.5% cash due 9/30/2018 (18)		24,674	24,510	24,923
First Lien Term Loan B, LIBOR+8.5% cash 1.75% PIK due 9/30/2018 (18)		32,932	32,639	33,205
First Lien Term Loan C, 12% cash due 12/31/2014		10,000	10,000	10,013
First Lien Revolver, LIBOR+7.5% cash due 9/30/2018 (10)(18)			(69)	—
1,550.9435 Shares of Common Stock in Refac Holdings, Inc.			1	—
500.9435 Shares of Series A-2 Preferred Stock in Refac Holdings, Inc.			305	—
1,000 Shares of Series A Preferred Stock in Refac Holdings, Inc.			999	884
			68,385	**69,025**
GSE Environmental, Inc. (9)	Environmental & facilities services			
First Lien Term Loan, LIBOR+5.5% (1.5% floor) cash due 5/27/2016 (16)		8,812	8,755	8,113
			8,755	**8,113**
Baird Capital Partners V, LP	Multi-sector holdings			
0.40% limited partnership interest (12)			649	728
			649	**728**

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Schedule of Investments
(dollar amounts in thousands)
September 30, 2013

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Charter Brokerage, LLC	Oil & gas equipment services			
Senior Term Loan, LIBOR+6.5% (1.5% floor) cash due 10/10/2016 (17)		$ 28,914	$ 28,828	$ 29,462
Subordinated Term Loan, 11.75% cash 2% PIK due 10/10/2017		11,976	11,921	12,004
Senior Revolver, LIBOR+6.5% (1.5% floor) cash due 10/10/2016 (10)(17)			(40)	—
			40,709	**41,466**
Stackpole Powertrain International Holding, L.P.	Auto parts & equipment			
1,000 Common Units (12)			1,000	3,200
			1,000	**3,200**
Discovery Practice Management, Inc. (9)	Healthcare services			
First Lien Term Loan A, LIBOR+7.5% cash due 8/8/2016 (15)		5,756	5,706	5,761
First Lien Term Loan B, 12% cash 3% PIK due 8/8/2016 (15)		6,606	6,559	6,608
First Lien Revolver, LIBOR+7% cash due 8/8/2016 (15)		3,000	2,977	3,000
			15,242	**15,369**
CTM Group, Inc.	Leisure products			
Subordinated Term Loan A, 11% cash 2% PIK due 2/10/2017		10,966	10,896	11,024
Subordinated Term Loan B, 18.4% PIK due 2/10/2017		4,553	4,532	4,559
			15,428	**15,583**
Milestone Partners IV, LP	Multi-sector holdings			
0.86% limited partnership interest (6)(12)			586	638
			586	**638**
Insight Pharmaceuticals LLC	Pharmaceuticals			
Second Lien Term Loan, LIBOR+11.75% (1.5% floor) cash due 8/25/2017 (16)		13,517	13,439	13,607
			13,439	**13,607**
National Spine and Pain Centers, LLC	Healthcare services			
Subordinated Term Loan, 11% cash 1.6% PIK due 9/27/2017		29,263	29,084	29,535
317,282.97 Class A Units			317	404
			29,401	**29,939**
RCPDirect, LP	Multi-sector holdings			
0.91% limited partnership interest (6)(12)			476	569
			476	**569**
The MedTech Group, Inc. (9)	Healthcare equipment			
Senior Term Loan, LIBOR+5.5% (1.25% floor) cash due 9/7/2016 (16)		12,448	12,379	12,454
			12,379	**12,454**
Digi-Star Acquisition Holdings, Inc.	Industrial machinery			
Subordinated Term Loan, 12% cash 1.5% PIK due 11/18/2017		12,316	12,231	12,439
264.37 Class A Preferred Units			264	304
2,954.87 Class A Common Units			36	246
			12,531	**12,989**
CPASS Acquisition Company	Internet software & services			
First Lien Term Loan, LIBOR+9% (1.5% floor) cash 1% PIK due 11/21/2016 (15)		8,069	8,005	8,166
First Lien Revolver, LIBOR+9% (1.5% floor) cash due 11/21/2016 (10)(15)			(12)	—
			7,993	**8,166**
Genoa Healthcare Holdings, LLC	Pharmaceuticals			
Senior Term Loan, LIBOR+5.25% (1.25% floor) cash due 12/1/2016 (16)		8,775	8,775	8,797
Subordinated Term Loan, 12% cash 2% PIK due 6/1/2017		12,973	12,890	13,206
Senior Revolver, LIBOR+5.25% (1.25% floor) cash due 12/1/2016 (16)			—	—
500,000 Preferred units (6)			261	275
500,000 Class A Common Units			25	466
			21,951	**22,744**

See notes to Consolidated Financial Statements.

(dollar amounts in thousands)

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
ACON Equity Partners III, LP	Multi-sector holdings			
0.15% limited partnership interest (6)(12)			$ 329	$ 361
			329	**361**
CRGT, Inc.	IT consulting & other services			
Subordinated Term Loan, 12.5% cash 3% PIK due 3/9/2018		$ 26,741	26,553	27,445
			26,553	**27,445**
Riverside Fund V, LP	Multi-sector holdings			
0.48% limited partnership interest (12)			288	239
			288	**239**
World 50, Inc.	Research & consulting services			
First Lien Term Loan A, LIBOR+6.25% (1.5% floor) cash due 3/30/2017 (19)		10,718	10,622	10,834
First Lien Term Loan B, 12.5% cash due 3/30/2017		7,000	6,941	7,078
Senior Revolver, LIBOR+6.25% (1.5% floor) cash due 3/30/2017 (10)(19)			(42)	—
			17,521	**17,912**
Nixon, Inc.	Apparel, accessories & luxury goods			
First Lien Term Loan, 8.75% cash 2.75% PIK due 4/16/2018		9,551	9,476	9,791
			9,476	**9,791**
JTC Education, Inc. (9)	Education services			
Subordinated Term Loan, 13% cash due 11/1/2017		14,500	14,415	14,503
17,391 Shares of Series A-1 Preferred Stock			313	174
17,391 Shares of Common Stock			187	—
			14,915	**14,677**
BMC Acquisition, Inc.	Diversified financial services			
Senior Term Loan, LIBOR+5.5% (1% floor) cash due 5/1/2017 (16)		5,315	5,285	5,311
Senior Revolver, LIBOR+5% (1% floor) cash due 5/1/2017 (10)(16)			(7)	—
500 Series A Preferred Shares			500	534
50,000 Common Shares			1	—
			5,779	**5,845**
Ansira Partners, Inc. (9)	Advertising			
First Lien Term Loan, LIBOR+5.5% (1.5% floor) cash due 5/4/2017 (16)		10,593	10,529	10,580
First Lien Revolver, LIBOR+5.5% (1.5% floor) cash due 5/4/2017 (10)(16)			(6)	—
250 Preferred Units & 250 Class A Common Units of Ansira Holdings, LLC			250	334
			10,773	**10,914**
Edmentum, Inc.	Education services			
Second Lien Term Loan, LIBOR+9.75% (1.5% floor) cash due 5/17/2019 (16)		17,000	17,000	17,288
			17,000	**17,288**

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(dollar amounts in thousands)
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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
I Drive Safely, LLC	Education services			
First Lien Term Loan, LIBOR+8.5% (1.5% floor) cash due 5/25/2017 (18)		$ 27,000	$ 26,975	$ 27,521
First Lien Revolver, LIBOR+6.5% (1.5% floor) cash due 5/25/2017 (10)(18)			(5)	—
75,000 Class A Common Units of IDS Investments, LLC			750	755
			27,720	**28,276**
Yeti Acquisition, LLC (9)	Leisure products			
First Lien Term Loan A, LIBOR+8% (1.25% floor) cash due 6/15/2017 (15)		18,345	18,317	18,523
First Lien Term Loan B, LIBOR+11.25% (1.25% floor) cash 1% PIK due 6/15/2017 (15)		12,000	11,988	12,089
First Lien Revolver, LIBOR+8% (1.25% floor) cash due 6/15/2017 (10)(15)			(10)	—
1,500 Common Stock Units of Yeti Holdings, Inc.			1,500	3,755
			31,795	**34,367**
Specialized Education Services, Inc.	Education services			
Senior Term Loan, LIBOR+5.5% (1.5% floor) cash due 6/28/2017 (16)		8,988	8,988	9,056
Subordinated Term Loan, 11% cash 1.5% PIK due 6/28/2018		17,839	17,839	18,200
			26,827	**27,256**
PC Helps Support, LLC	IT consulting & other services			
Subordinated Term Loan, 12% cash 1.5% PIK due 9/5/2018		18,804	18,804	18,989
675 Series A Preferred Units of PCH Support Holdings, Inc.			675	674
7,500 Class A Common Stock Units of PCH Support Holdings, Inc.			75	—
			19,554	**19,663**
Olson + Co., Inc.	Advertising			
First Lien Term Loan, LIBOR+5.5% (1.5% floor) cash due 9/30/2017 (16)		12,853	12,853	12,853
First Lien Revolver, LIBOR+5.5% (1.5% floor) cash due 9/30/2017 (16)			—	—
			12,853	**12,853**
Beecken Petty O'Keefe Fund IV, L.P.	Multi-sector holdings			
0.5% limited partnership interest (11)(12)			—	—
			—	—
Deltek, Inc. (9)	IT consulting & other services			
Second Lien Term Loan, LIBOR+8.75% (1.25% floor) cash due 10/10/2019 (16)		25,000	25,000	25,415
First Lien Revolver, LIBOR+4.75% (1.25% floor) cash due 10/10/2017 (16)		1,333	1,333	1,333
			26,333	**26,748**
First American Payment Systems, LP	Diversified support services			
Second Lien Term Loan, LIBOR+9.5% (1.25% floor) cash due 4/12/2019 (16)		25,000	25,000	25,130
First Lien Revolver, LIBOR+4.5% (1.25% floor) cash due 10/12/2017 (16)			—	—
			25,000	**25,130**
Dexter Axle Company	Auto parts & equipment			
Subordinated Term Loan, 11.25% cash 2% PIK due 11/1/2019		30,561	30,561	31,009
1,500 Common Shares in Dexter Axle Holding Company			1,500	1,795
			32,061	**32,804**
IG Investments Holdings, LLC	IT consulting & other services			
Second Lien Term Loan, LIBOR+9% (1.25% floor) cash due 10/31/2020 (16)		10,000	10,000	10,059
			10,000	**10,059**

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Schedule of Investments
(dollar amounts in thousands)
September 30, 2013

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
SumTotal Systems, LLC	Internet software & services			
Second Lien Term Loan, LIBOR+9% (1.25% floor) cash due 5/16/2019 (16)		$ 20,000	$ 20,000	$ 20,015
			20,000	**20,015**
Comprehensive Pharmacy Services, LLC	Pharmaceuticals			
Subordinated Term Loan, 11.25% cash 1.5% PIK due 11/30/2019		14,148	14,148	14,401
20,000 Common Shares in MCP CPS Group Holdings, Inc. (6)			2,000	2,036
			16,148	**16,437**
Reliance Communications, LLC	Internet software & services			
First Lien Term Loan A, LIBOR+7% (1% floor) cash due 12/18/2017 (15)		21,774	21,769	21,898
First Lien Term Loan B, LIBOR+11.5% (1% floor) cash due 12/18/2017 (15)		11,333	11,331	11,398
First Lien Revolver, LIBOR+7% (1% floor) cash due 12/18/2017 (15)		2,250	2,249	2,250
			35,349	**35,546**
Garretson Firm Resolution Group, Inc.	Diversified support services			
First Lien Term Loan, LIBOR+5% (1.25% floor) cash due 12/20/2018 (16)		7,264	7,264	7,283
Subordinated Term Loan, 11% cash 1.5% PIK due 6/20/2019		5,019	5,019	5,025
First Lien Revolver, LIBOR+5% (1.25% floor) cash due 12/20/2017 (16)		1,250	1,250	1,250
4,950,000 Preferred Units in GRG Holdings, LP			495	489
50,000 Common Units in GRG Holdings, LP			5	—
			14,033	**14,047**
Teaching Strategies, LLC	Education services			
First Lien Term Loan A, LIBOR+6% (1.25% floor) cash due 12/21/2017 (19)		36,662	36,656	37,173
First Lien Term Loan B, LIBOR+8.35% (1.25% floor) cash 3.15% PIK due 12/21/2017 (19)		19,605	19,603	19,888
First Lien Revolver, LIBOR+6% (1.25% floor) cash due 12/21/2017 (10)(19)			(1)	—
			56,258	**57,061**
Omniplex World Services Corporation	Security & alarm services			
Subordinated Term Loan, 12.25% cash 1.25% PIK due 12/21/2018		12,624	12,624	12,627
500 Class A Common Units in Omniplex Holdings Corp.			500	477
			13,124	**13,104**
Dominion Diagnostics, LLC	Healthcare services			
Subordinated Term Loan, 11% cash 2% PIK due 12/21/2018		15,746	15,746	16,016
			15,746	**16,016**
Affordable Care, Inc.	Healthcare services			
Second Lien Term Loan, LIBOR+9.25% (1.25% floor) cash due 12/26/2019 (16)		21,500	21,500	21,957
			21,500	**21,957**
Aderant North America, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+8.75% (1.25% floor) cash due 6/20/2019 (16)		7,000	7,000	7,067
			7,000	**7,067**
AdVenture Interactive, Corp.	Advertising			
First Lien Term Loan, LIBOR+6.75% (1.25% floor) cash due 3/22/2018 (17)		112,575	112,555	112,760
First Lien Revolver, LIBOR+6.75% (1.25% floor) cash due 3/22/2018 (10)(17)			(1)	—
2,000 Preferred Units of AVI Holdings, L.P. (6)			2,000	2,123
			114,554	**114,883**

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Schedule of Investments
(dollar amounts in thousands)
September 30, 2013

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
CoAdvantage Corporation	Human resources & employment services			
Subordinated Term Loan, 11.5% cash 1.25% PIK due 12/31/2018		$ 10,094	$ 10,094	$ 10,229
50,000 Class A Units in CIP CoAdvantage Investments LLC			500	400
			10,594	**10,629**
EducationDynamics, LLC	Education services			
Subordinated Term Loan, 12% cash 6% PIK due 1/16/2017		11,062	11,062	10,961
			11,062	**10,961**
Vestcom International, Inc.	Data processing & outsourced services			
First Lien Term Loan, LIBOR+5.75% (1.25% floor) cash due 12/26/2018 (16)		9,950	9,950	10,010
			9,950	**10,010**
Sterling Capital Partners IV, L.P.	Multi-sector holdings			
0.20% limited partnership interest (6)(12)			472	517
			472	**517**
Devicor Medical Products, Inc.	Healthcare equipment			
First Lien Term Loan, LIBOR+5% (2% floor) cash due 7/8/2015 (16)		9,619	9,619	9,618
			9,619	**9,618**
RP Crown Parent, LLC	Application software			
First Lien Revolver, LIBOR+5.5% (1.25% floor) cash due 12/21/2017 (16)		1,000	379	1,000
			379	**1,000**
SESAC Holdco II LLC	Diversified support services			
Second Lien Term Loan, LIBOR+8.75% (1.25% floor) cash due 6/28/2019 (16)		4,000	4,000	4,097
			4,000	**4,097**
Advanced Pain Management Holdings, Inc.	Healthcare services			
First Lien Term Loan, LIBOR+8.5% (1.25% floor) cash due 2/26/2018 (16)		24,000	24,000	24,454
			24,000	**24,454**
Rocket Software, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+8.75% (1.5% floor) cash due 2/8/2019 (16)		10,475	10,435	10,482
			10,435	**10,482**
TravelClick, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+8.5% (1.25% floor) cash due 3/26/2018 (16)		15,000	15,000	15,106
			15,000	**15,106**
ISG Services, LLC	Diversified support services			
First Lien Term Loan, LIBOR+8% (1% floor) cash due 3/28/2018 (16)		95,000	94,972	95,111
First Lien Revolver, LIBOR+8% (1% floor) cash due 3/28/2018 (16)		4,000	3,997	4,000
			98,969	**99,111**
Joerns Healthcare, LLC	Healthcare services			
Second Lien Term Loan, LIBOR+8.75% (1.25% floor) cash due 9/28/2018 (16)		20,000	20,000	19,965
			20,000	**19,965**
Pingora MSR Opportunity Fund I, LP	Thrift & mortgage finance			
1.90% limited partnership interest (12)			208	139
			208	**139**
Chicago Growth Partners III, LP	Multi-sector holdings			
0.50% limited partnership interest (11)(12)			—	—
			—	—
Credit Infonet, Inc.	Data processing & outsourced services			
Subordinated Term Loan, 12.25% cash due 10/26/2018		13,250	13,250	13,285
			13,250	**13,285**

See notes to Consolidated Financial Statements.

Consolidated Schedule of Investments
(dollar amounts in thousands)
September 30, 2013

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Harden Healthcare, LLC	Healthcare services			
First Lien Term Loan, LIBOR+5.5% (1.25% floor) cash due 5/1/2018 (16)		$ 8,888	$ 8,888	$ 8,929
			8,888	**8,929**
H.D. Vest, Inc.	Specialized finance			
Second Lien Term Loan, LIBOR+8% (1.25% floor) cash due 6/18/2019 (17)		8,750	8,750	8,757
			8,750	**8,757**
2Checkout.com, Inc.	Diversified support services			
First Lien Revolver, LIBOR+5% cash due 6/26/2016 (18)		150	148	150
			148	**150**
Meritas Schools Holdings, LLC	Education services			
First Lien Term Loan, LIBOR+5.75% (1.25% floor) cash due 6/25/2019 (16)		12,968	12,968	12,973
			12,968	**12,973**
Personable Holdings, Inc.	Other diversified financial services			
First Lien Term Loan, LIBOR+6% (1.25% floor) cash due 5/16/2018 (16)		11,109	11,109	11,109
First Lien Revolver, LIBOR+6% (1.25% floor) cash due 5/16/2018 (16)			—	—
			11,109	11,109
Ikaria Acquisition, Inc.	Healthcare services			
First Lien Term Loan B, LIBOR+6% (1.25% floor) cash due 7/3/2018 (16)		9,875	9,875	9,875
Second Lien Term Loan, LIBOR+9.75% (1.25% floor) cash due 7/3/2019 (16)		8,000	8,000	8,000
			17,875	**17,875**
Blue Coat Systems, Inc.	Internet software & services			
Second Lien Term Loan, LIBOR+8.5% (1% floor) cash due 6/28/2020 (16)		10,000	10,000	10,000
			10,000	**10,000**
Royal Adhesives and Sealants, LLC	Specialty chemicals			
Second Lien Term Loan, LIBOR+8.5% (1.25% floor) cash due 1/31/2019 (16)		20,000	20,000	20,000
			20,000	**20,000**
Bracket Holding Corp.	Healthcare services			
Second Lien Term Loan, LIBOR+8.25% (1% floor) cash due 2/15/2020 (16)		32,000	32,000	32,000
50,000 Common Units in AB Group Holdings, LP			500	500
			32,500	**32,500**
Digital Insight Corporation	Other diversified financial services			
First Lien Term Loan, LIBOR+4.25% (1.25% floor) cash due 8/1/2019 (16)		5,000	5,000	5,000
Second Lien Term Loan, LIBOR+8.25% (1.25% floor) cash due 8/1/2020 (16)		20,000	20,000	20,000
			25,000	**25,000**
Salus CLO 2012-1, Ltd.	Asset management & custody banks			
Class F Deferrable Notes - A, LIBOR+11.5% cash due 3/5/2021 (12)(20)		7,500	7,500	7,500
Class F Deferrable Notes - B, LIBOR+10.85% cash due 3/5/2021 (12)(20)		22,000	22,000	22,000
			29,500	**29,500**
HealthEdge Software, Inc.	Application software			
Second Lien Term Loan, 12% cash due 9/30/2018		12,500	12,500	12,500
			12,500	**12,500**
Total Non-Control/Non-Affiliate Investments (120.2% of net assets)			**$ 1,622,326**	**$ 1,645,612**
Total Portfolio Investments (138.3% of net assets)			**$ 1,859,651**	**$ 1,893,046**

See notes to Consolidated Financial Statements.

(dollar amounts in thousands)

(1) All debt investments are income producing unless otherwise noted. 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 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 tier pricing arrangements or 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
Phoenix Brands Merger Sub LLC	July 31, 2013	+ 2.25% on Senior Term Loan + 2.25% on Revolver + 0.75% on Subordinated Term Loan		Per loan agreement
GSE Environmental, Inc.	July 30, 2013	+ 2.0% on Term Loan		Per loan amendment
Miche Bag, LLC	July 26, 2013	- 3.0% on Term Loan B	- 1.0% on Term Loan B	Per loan amendment
Ansira Partners, Inc.	June 30, 2013	- 0.5% on Term Loan & Revolver		Tier pricing per loan agreement
Drugtest, Inc.	June 27, 2013	- 1.5% on Term Loan A - 0.75% on Term Loan B - 0.25% on Revolver	- 0.5% on Term Loan B	Per loan amendment
The MedTech Group, Inc.	June 21, 2013	- 0.50% on Term Loan		Per loan amendment
Physicians Pharmacy Alliance, Inc.	April 1, 2013	+ 3.0% on Term Loan & Revolver	+ 1.0% on Term Loan	Per loan agreement
Discovery Practice Management, Inc.	April 1, 2013	- 1.0% on Term Loan A - 1.0% on Revolver	- 1.0% on Term Loan B	Tier pricing per loan agreement
Deltek, Inc.	February 1, 2013	- 1.0% on Revolver		Per loan amendment
HealthDrive Corporation	January 1, 2013	+ 2.0% on Term Loan A	+ 1.0% on Term Loan B	Per loan amendment
JTC Education, Inc.	January 1, 2013	+ 0.25% on Term Loan		Per loan amendment
Mansell Group, Inc.	January 1, 2013	+ 2.0% on Term Loan A, Term Loan B & Revolver		Per loan agreement
Saddleback Fence & Vinyl Products, Inc.	December 1, 2012	+ 4.0% on Term Loan + 4.0% on Revolver		Per loan amendment
Capital Equipment Group, Inc.	November 30, 2012		- 1.25% on Term Loan	Per loan amendment
CCCG, LLC	November 15, 2012	+ 0.5% on Term Loan	+ 1.0% on Term Loan	Per loan amendment
Yeti Acquisition, LLC	October 1, 2012	- 1.0% on Term Loan A, Term Loan B & Revolver		Tier pricing per loan agreement
Ambath/Rebath Holdings, Inc.	April 1, 2012	- 2.0% on Term Loan A - 4.5% on Term Loan B	+ 2.0% on Term Loan A + 4.5% on Term Loan B	Per loan amendment

(10) Investment has undrawn commitments and a negative cost basis as a result of unamortized fees. Unamortized fees are classified as unearned income which reduces cost basis.

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

(12) Investment is not a "qualifying asset" as defined under Section 55(a) of the 1940 Act, in whole or in part.

(13) Eagle Hospital Physicians, LLC, is the successor entity to Eagle Hospital Physicians, Inc. and was formed as part of the restructuring process.

(14) Prior to fiscal year end, the Company closed on a $33.4 million incremental investment in Refac Optical Group that had not yet settled as of September 30, 2013. As such, this amount was recorded in "Payables from unsettled transactions" in the Statement of Assets and Liabilities.

(15) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 90-day LIBOR.

(16) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 30-day, 60-day, 90-day or 180-day LIBOR, at the borrower's option.

(17) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 30-day, 60-day or 90-day LIBOR, at the borrower's option.

(18) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 30-day LIBOR.

(19) The principal balance outstanding for this debt investment, in whole or in part, is indexed to 30-day or 60-day LIBOR, at the borrower's option.

(20) The principal balance outstanding for this debt investment, in whole or in part, is indexed to180-day LIBOR.

(21) Each of the Company's investments are pledged as collateral under one or more of its credit facilities. A single investment may be divided into parts that are individually pledged as collateral to separate credit facilities.

(22) The Company, through its investments in HFG Holdings LLC, acquired a majority equity interest in Healthcare Finance Group, LLC, which provides financing to healthcare companies. The fair value of the Company’s debt and equity investments in HFG Holdings approximates the fair value of HFG Holdings’ equity investment in Healthcare Finance Group, LLC.

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

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 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 Company is managed by the Investment Adviser. Prior to January 2, 2008, references to the Company are to the Partnership.

The Company also has certain wholly-owned subsidiaries, including subsidiaries that are not consolidated for income tax purposes, which hold certain portfolio investments of the Company. The subsidiaries are consolidated with the Company for accounting purposes, 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 November 28, 2011, the Company transferred the listing of its common stock from the New York Stock Exchange to the NASDAQ Global Select Market, where it continues to trade under the symbol “FSC.” The following table reflects common stock offerings that occurred from inception through June 30, 2014:

Date	Transaction	Shares	Offering price		Gross proceeds
June 17, 2008	Initial public offering	10,000,000	$ 14.12		141.2 million
July 21, 2009	Follow-on public offering (including underwriters’ exercise of over-allotment option)	9,487,500	9.25		87.8 million
September 25, 2009	Follow-on public offering (including underwriters’ exercise of over-allotment option)	5,520,000	10.5		58.0 million
January 27, 2010	Follow-on public offering	7,000,000	11.2		78.4 million
February 25, 2010	Underwriters’ partial exercise of over-allotment option	300,500	11.2		3.4 million
June 21, 2010	Follow-on public offering (including underwriters’ exercise of over-allotment option)	9,200,000	11.5		105.8 million
December 2010	At-the-Market offering	429,110	11.87	(1)	5.1 million
February 4, 2011	Follow-on public offering (including underwriters’ exercise of over-allotment option)	11,500,000	12.65		145.5 million
June 24, 2011	Follow-on public offering (including underwriters’ partial exercise of over-allotment option)	5,558,469	11.72		65.1 million
January 26, 2012	Follow-on public offering	10,000,000	10.07		100.7 million
September 14, 2012	Follow-on public offering (including underwriters’ partial exercise of over-allotment option)	8,451,486	10.79		91.2 million
December 7, 2012	Follow-on public offering	14,000,000	10.68		149.5 million
December 14, 2012	Underwriters’ partial exercise of over-allotment option	725,000	10.68		7.7 million
April 15, 2013	Follow-on public offering	13,500,000	10.85		146.5 million
April 26, 2013	Underwriters’ partial exercise of over-allotment option	935,253	10.85		10.1 million
September 26, 2013	Follow-on public offering (including underwriters’ partial exercise of over-allotment option)	17,643,000	10.31		181.9 million

(1) Average offering price

On February 3, 2010, the Company’s consolidated wholly-owned subsidiary, Fifth Street Mezzanine Partners IV, L.P. (“FSMP IV”), 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. On May 15, 2012, the Company’s consolidated wholly-owned subsidiary, Fifth Street Mezzanine Partners V, L.P. (“FSMP V”), received a license, effective May 10, 2012, from the SBA to operate as an SBIC. 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.

The SBIC licenses allow the Company’s SBIC subsidiaries to obtain leverage by issuing SBA-guaranteed debentures, subject to the satisfaction of certain customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a 10-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 of SBA-guaranteed debentures that an SBIC may issue to $150 million when it has at least $75 million in regulatory capital. Affiliated SBICs are permitted to issue up to a combined maximum amount of $225 million when they have at least $112.5 million in regulatory capital. As of June 30, 2014, FSMP IV had $75 million in regulatory capital and $150 million in SBA-guaranteed debentures outstanding, which had a fair value of $136.2 million. These debentures bear interest at a weighted average interest rate of 3.567% (excluding the SBA annual charge), as follows:

Rate Fix Date	Debenture Amount	Fixed Interest Rate	SBA Annual Charge
September 2010	$ 73,000	3.215%	0.285%
March 2011	65,300	4.084	0.285
September 2011	11,700	2.877	0.285

As of June 30, 2014, FSMP V had $37.5 million in regulatory capital and $75.0 million in SBA-guaranteed debentures outstanding, which had a fair value of $64.3 million. These debentures bear interest at a weighted average interest rate of 2.835% (excluding the SBA annual charge), as follows:

Rate Fix Date	Debenture Amount	Fixed Interest Rate	SBA Annual Charge
March 2013	$ 31,750	2.351%	0.804%
March 2014	43,250	3.191	0.804

As a result, the $225.0 million of SBA-guaranteed debentures held by the Company’s SBIC subsidiaries carry a weighted average interest rate of 3.323% as of June 30, 2014.

For the three and nine months ended June 30, 2014, the Company recorded interest expense of $2.3 million and $6.3 million, respectively, related to the SBA-guaranteed debentures of both SBIC subsidiaries.

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 subsidiaries may also be limited in their ability to make distributions to the Company if they do not have sufficient capital, in accordance with SBA regulations.

The Company’s SBIC subsidiaries are 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 subsidiaries will receive SBA-guaranteed debenture funding and is further dependent upon the SBIC subsidiaries continuing to be in compliance with SBA regulations and policies.

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

The Company has received exemptive relief from the Securities and Exchange Commission (“SEC”) to permit it to exclude the debt of the SBIC subsidiaries guaranteed by the SBA from the definition of senior securities in the Company’s 200% asset coverage test under the 1940 Act. This allows the Company increased flexibility under the 200% asset coverage test by permitting it to borrow up to $225 million more than it would otherwise be able to under the 1940 Act absent the receipt of this exemptive relief.

Note 2. Significant Accounting Policies

Basis of Presentation:

The Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“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 have been made. The financial results of the Company’s portfolio investments are not consolidated in the Company’s Consolidated Financial Statements.

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 estimates inherent in the preparation of the Company's Consolidated Financial Statements are the valuation of investments and revenue recognition.

The Consolidated Financial Statements include portfolio investments at fair value of $2.63 billion and $1.89 billion at June 30, 2014 and September 30, 2013, respectively. The portfolio investments represent 194.5% and 138.3% of net assets at June 30, 2014 and September 30, 2013, 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 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:

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820 *Fair Value Measurements and Disclosures* ("ASC 820") defines fair value as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

Assets and liabilities recorded at fair value in the Company's Consolidated Financial Statements 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 bond yield, market and income approaches as appropriate. In general, the Company utilizes the bond yield method in determining the fair value of its debt investments, as long as it is appropriate. If, in the Company's judgment, the bond yield approach is not appropriate, it may use the market or income approach in determining the fair value of the Company's investment in the portfolio company. Investments for which market quotations are readily available may be valued at such market quotations. In order to validate market quotations, the Company looks at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. In certain instances, the Company may use alternative methodologies, including an asset liquidation, expected recovery model or other alternative approaches.

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.

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 (earnings before interest, taxes, depreciation, and amortization), cash flows, net income or revenues. 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. The Company determines the fair value of its limited partnership interests based on the most recently available net asset value of the partnership.

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.

The Company's Board of Directors undertakes a multi-step valuation process each quarter in connection with determining the fair value of the Company's investments:

- The quarterly valuation process begins with each portfolio company or investment being initially valued by the Company's finance department;
- Preliminary valuations are then reviewed and discussed with principals of the Investment Adviser;
- Separately, independent valuation firms are engaged by the Board of Directors to prepare preliminary valuations on a selected basis and submit the reports to the Company;
- The finance department compares and contrasts its preliminary valuations to the preliminary valuations of the independent valuation firms;
- The finance department prepares a valuation report for the Audit Committee of the Board of Directors;
- The Audit Committee of the Board of Directors is apprised of the preliminary valuations of the independent valuation firms;
- The Audit Committee of the Board of Directors reviews the preliminary valuations with the portfolio managers of the Investment Adviser, and the finance department responds and supplements the preliminary valuations to reflect any comments provided by the Audit Committee;
- The Audit Committee of the Board of Directors makes a recommendation to the Board of Directors regarding the fair value of the investments in the Company's portfolio; 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 each of the Company's investments at June 30, 2014 and September 30, 2013 was determined by the Board of Directors. The Board of Directors has authorized the engagement of independent valuation firms to provide valuation assistance. The Company will continue to engage independent valuation firms to provide assistance regarding the determination of the fair value of selected portfolio securities each quarter; however, the Board of Directors is ultimately and 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.

A portion of the Company's portfolio is valued by independent third parties on a quarterly basis, with a substantial portion being valued over the course of each fiscal year. In certain cases, an independent valuation firm may perform a portfolio company valuation which is reviewed and, where appropriate, relied upon by the Company's Board of Directors in determining the fair value of such investment.

Investment Income:

Interest income, adjusted for accretion of original issue discount or "OID," 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. 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, or otherwise purchasing a security at a discount, is accreted into interest income over the life of the loan.

For the Company's secured borrowings, the interest earned on the entire loan balance is recorded within interest income and the interest earned by the buyer in the partial loan sales is recorded within interest expense in the Consolidated Statements of Operations.

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 payment-in-kind (“PIK”) interest provisions. 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 servicing fees, advisory fees, structuring fees and prepayment fees that the Company receives in connection with its debt investments. These fees are recognized as earned.

The Company has also structured exit fees across certain of its portfolio investments to be received upon the future exit of those investments. Exit fees are fees which are payable upon the exit of a debt security. These fees are to 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. The receipt of such fees is contingent upon the occurrence of one of the events listed above for each of the investments. A percentage of these fees is included in net investment income over the life of the loan.

Gain on Extinguishment of Convertible Notes:

The Company may repurchase its convertible notes (“Convertible Notes”) in accordance with the 1940 Act and the rules promulgated thereunder and may surrender these Convertible Notes to Deutsche Bank Trust Company Americas (the “Trustee”), as trustee, for cancellation. If the repurchase occurs at a purchase price below par value, a gain on the extinguishment of these Convertible Notes is recorded. The amount of the gain recorded is the difference between the reacquisition price and the net carrying amount of the Convertible Notes, net of the proportionate amount of unamortized debt issuance costs.

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. Included in cash and cash equivalents is $3.2 million that was held at U.S. Bank, National Association in connection with the Company’s Sumitomo facility (as defined in Note 6 — Lines of Credit). The Company is restricted in terms of access to this cash until such time as the Company submits its required monthly reporting schedules and Sumitomo Mitsui Banking Corporation verifies the Company’s compliance per the terms of the credit agreement with the Company. Additionally, the Company has $5.8 million that was held at Wells Fargo Bank, National Association ("Wells Fargo") which represents collateral for standby letters of credit issued to portfolio companies under the Wells Fargo facility (as defined in Note 6 — Lines of Credit) which was terminated on February 21, 2014.

Deferred Financing Costs:

Deferred financing costs consist of fees and expenses paid in connection with the closing or amending of credit facilities and debt offerings, and are capitalized at the time of payment. Deferred financing costs are amortized using the straight line method over the terms of the respective credit facilities and debt securities. This amortization expense is included in interest expense in the Company’s Consolidated Statements of Operations. Upon early termination of a credit facility, the remaining balance of unamortized fees related to such facility is accelerated into interest expense.

Offering Costs:

Offering costs consist of fees and expenses incurred in connection with the public offer and sale of the Company’s common stock, including legal, accounting and printing fees. There were no offering costs charged to capital during the nine months ended June 30, 2014.

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 intends to distribute 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 4% federal excise tax based on distribution requirements of its taxable income on a calendar year basis. 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 2010. The Company did not incur a federal excise tax for calendar years 2012 and 2013 and does not expect to incur a federal excise tax for calendar year 2014. 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, would be 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.

ASC 740 *Accounting for Uncertainty in Income Taxes* ("ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the Company's 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. 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. The Company recognizes the tax benefits of uncertain tax positions only where the position is "more-likely-than-not" to be sustained assuming examination by tax authorities. Management has analyzed the Company's tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for open tax years 2011, 2012 or 2013. The Company identifies its major tax jurisdictions as U.S. Federal and New York State, and the Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months.

Secured Borrowings:

The Company follows the guidance in ASC 860 *Transfers and Servicing* when accounting for loan participations and other partial loan sales. Such guidance provides accounting and reporting standards for transfers and servicing of financial assets and requires a participation or other partial loan sale to meet the definition of a "participating interest," as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain on the Company's Consolidated Statement of Assets and Liabilities and the proceeds are recorded as a secured borrowing until the definition is met. Secured borrowings are carried at fair value to correspond with the related investments, which are carried at fair value. See Note 15 for additional information.

Fair Value Option:

The Company adopted ASC 825-10-25-1 *Financial Instruments – Fair Value Option* as of February 19, 2014, and elected the fair value option for its secured borrowings which have a cost basis of $45.8 million in the aggregate. The Company believes that by electing the fair value option for these financial instruments, it provides consistent measurement of the assets and liabilities which relate to the partial loan sales mentioned above.

Recent Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08 "Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements," which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act will be automatically deemed an investment company under the new GAAP definition. As such, the

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

Company anticipates no impact from adopting this standard on the Company's consolidated financial results. The Company is currently assessing the additional disclosure requirements. ASU 2013-08 will be effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013.

Note 3. Portfolio Investments

At June 30, 2014, 194.5% of net assets or $2.63 billion was invested in 125 portfolio investments and 5.5% of net assets or $74.7 million was invested in cash and cash equivalents. In comparison, at September 30, 2013, 138.3% of net assets or $1.89 billion was invested in 99 portfolio investments and 10.8% of net assets or $147.4 million was invested in cash and cash equivalents. As of June 30, 2014, 82.3% of the Company's portfolio at fair value consisted of senior secured debt investments that were secured by 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, limited partnership interests, limited liability company interests or warrants. These equity instruments generally do not produce a current return but are held for potential investment appreciation and capital gain.

During the three and nine months ended June 30, 2014, the Company recorded net realized gains (losses) of $(0.6) million and $1.0 million, respectively. During the three and nine months ended June 30, 2013, the Company recorded net realized losses of $17.5 million and $17.0 million, respectively. During the three and nine months ended June 30, 2014, the Company recorded net unrealized depreciation of $13.7 million and $22.0 million, respectively. During the three and nine months ended June 30, 2013, the Company recorded net unrealized appreciation of $13.1 million and $6.4 million, respectively.

The composition of the Company's investments as of June 30, 2014 and September 30, 2013 at cost and fair value was as follows:

	June 30, 2014		September 30, 2013	
	Cost	Fair Value	Cost	Fair Value
Investments in debt securities	$ 2,499,381	$ 2,485,312	$ 1,779,201	$ 1,793,463
Investments in equity securities	117,028	142,505	80,450	99,583
Total	**$ 2,616,409**	**$ 2,627,817**	**$ 1,859,651**	**$ 1,893,046**

The composition of the Company's debt investments as of June 30, 2014 and September 30, 2013 at fixed rates and floating rates was as follows:

	June 30, 2014		September 30, 2013	
	Fair Value	% of Debt Portfolio	Fair Value	% of Debt Portfolio
Fixed rate debt securities	$ 686,061	27.60%	$ 584,876	32.61%
Floating rate debt securities	1,799,251	72.40	1,208,587	67.39
Total	**$ 2,485,312**	**100.00%**	**$ 1,793,463**	**100.00%**

The following table presents the financial instruments carried at fair value as of June 30, 2014, by caption on the Company's Consolidated Statements of Assets and Liabilities for each of the three levels of hierarchy established by ASC 820:

	Level 1	Level 2	Level 3	Total
Investments in debt securities (senior secured)	$ —	$ —	$ 2,161,621	$ 2,161,621
Investments in debt securities (subordinated)	—	—	294,191	294,191
Investments in debt securities (collateralized loan obligation, or CLO)	—	—	29,500	29,500
Investments in equity securities (preferred)	—	—	26,550	26,550
Investments in equity securities (common and other)	—	—	115,955	115,955
Total investments at fair value	**$ —**	**$ —**	**$ 2,627,817**	**$ 2,627,817**
Secured borrowings relating to senior secured debt investments	—	—	$ 45,805	$ 45,805
Total liabilities at fair value	**$ —**	**$ —**	**$ 45,805**	**$ 45,805**

The following table presents the financial instruments carried at fair value as of September 30, 2013, by caption on the Company's Consolidated Statements of Assets and Liabilities for each of the three levels of hierarchy established by ASC 820:

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

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	Level 1	Level 2	Level 3	Total
Investments in debt securities (senior secured)	$ —	$ —	$ 1,467,665	$ 1,467,665
Investments in debt securities (subordinated)	—	—	296,298	296,298
Investments in debt securities (CLO)	—	—	29,500	29,500
Investments in equity securities (preferred)	—	—	25,648	25,648
Investments in equity securities (common and other)	—	—	73,935	73,935
Total investments at fair value	**$ —**	**$ —**	**$ 1,893,046**	**$ 1,893,046**

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 includes 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 March 31, 2014 to June 30, 2014, for all investments and secured borrowings for which the Company determines fair value using unobservable (Level 3) factors:

	Investments						Liabilities
	Senior Secured Debt	Subordinated Debt	CLO Debt	Preferred Equity	Common and Other Equity	Total	Secured Borrowings
Fair value as of March 31, 2014	$ 2,234,355	$ 287,516	$ 29,500	$ 25,852	$ 107,075	$ 2,684,298	$ 47,760
New investments & net revolver activity	185,457	7,100	—	1,404	3,862	197,823	—
Proceeds from secured borrowings	—	—	—	—	—	—	—
Redemptions/repayments	(246,376)	—	—	—	—	(246,376)	(2,000)
Net accrual of PIK interest income	2,817	2,330	—	422	—	5,569	—
Accretion of original issue discount	178	—	—	—	—	178	—
Net change in unearned income	592	65	—	—	—	657	—
Net unrealized appreciation (depreciation) on investments	(14,756)	(2,820)	—	(1,128)	5,018	(13,686)	—
Net unrealized appreciation on secured borrowings	—	—	—	—	—	—	45
Unrealized adjustments due to deal exits	(646)	—	—	—	—	(646)	—
Transfer into (out of) Level 3	—	—	—	—	—	—	
Fair value as of June 30, 2014	**$ 2,161,621**	**$ 294,191**	**$ 29,500**	**$ 26,550**	**$ 115,955**	**$ 2,627,817**	**$ 45,805**
Net unrealized appreciation (depreciation) relating to Level 3 assets and liabilities still held at June 30, 2014 and reported within net unrealized appreciation (depreciation) in the Consolidated Statement of Operations for the three months ended June 30, 2014	$ (14,816)	$ (2,820)	$ —	$ (1,128)	$ 5,018	$ (13,746)	$ 45

The following table provides a roll-forward in the changes in fair value from March 31, 2013 to June 30, 2013 for all investments for which the Company determines fair value using unobservable (Level 3) factors:

	Senior Secured Debt	Subordinated Debt	CLO Debt	Preferred Equity	Common and Other Equity	Total
Fair value as of March 31, 2013	$ 1,374,553	$ 311,341	$ —	$ 24,575	$ 38,426	$ 1,748,895
New investments & net revolver activity	207,864	17,250	—	3,033	21,998	250,145
Redemptions/repayments	(166,010)	(35,016)	—	(111)	—	(201,137)
Net accrual of PIK interest income	1,799	969	—	382	—	3,150
Accretion of original issue discount	164	—	—	—	—	164
Net change in unearned income	1,706	341	—	—	—	2,047
Net unrealized appreciation (depreciation)	11,065	(1,669)	—	(782)	4,448	13,062
Unrealized adjustments due to deal exits	(12,263)	1,166	—	—	(3,128)	(14,225)
Transfer into (out of) Level 3	—	—	—	—	—	—
Fair value as of June 30, 2013	**$ 1,418,878**	**$ 294,382**	**$ —**	**$ 27,097**	**$ 61,744**	**$ 1,802,101**
Net unrealized appreciation (depreciation) relating to Level 3 assets still held at June 30, 2013 and reported within net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations for the three months ended June 30, 2013	$ (1,198)	$ (503)	$ —	$ (782)	$ 1,320	$ (1,163)

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(in thousands, except share and per share amounts, percentages and as otherwise indicated)

The following table provides a roll-forward in the changes in fair value from September 30, 2013 to June 30, 2014, for all investments and secured borrowings for which the Company determines fair value using unobservable (Level 3) factors:

	Investments						Liabilities
	Senior Secured Debt	Subordinated Debt	CLO Debt	Preferred Equity	Common and Other Equity	Total	Secured Borrowings
Fair value as of September 30, 2013	$ 1,467,665	$ 296,298	$ 29,500	$ 25,648	$ 73,935	$ 1,893,046	$ —
New investments & net revolver activity	1,227,027	42,937	—	4,521	31,656	1,306,141	—
Proceeds from secured borrowings	—	—	—	—	—	—	47,750
Redemptions/repayments	(516,204)	(43,756)	—	(339)	(2,695)	(562,994)	(2,000)
Net accrual of PIK interest income	7,230	2,473	—	1,236	—	10,939	—
Accretion of original issue discount	566	—	—	—	—	566	—
Net change in unearned income	801	285	—	—	—	1,086	—
Net unrealized appreciation (depreciation) on investments	(24,128)	(4,202)	—	(4,516)	10,859	(21,987)	—
Net unrealized appreciation on secured borrowings	—	—	—	—		—	55
Unrealized adjustments due to deal exits	(1,336)	156	—	—	2,200	1,020	—
Transfer into (out of) Level 3	—	—	—	—	—	—	
Fair value as of June 30, 2014	**$ 2,161,621**	**$ 294,191**	**$ 29,500**	**$ 26,550**	**$ 115,955**	**$ 2,627,817**	**$ 45,805**
Net unrealized appreciation (depreciation) relating to Level 3 assets and liabilities still held at June 30, 2014 and reported within net unrealized appreciation (depreciation) in the Consolidated Statement of Operations for the nine months ended June 30, 2014	$ (24,412)	$ (4,046)	$ —	$ (4,516)	$ 13,059	$ (19,915)	$ 55

The following table provides a roll-forward in the changes in fair value from September 30, 2012 to June 30, 2013 for all investments for which the Company determines fair value using unobservable (Level 3) factors:

	Senior Secured Debt	Subordinated Debt	Preferred Equity	Common and Other Equity	Total
Fair value as of September 30, 2012	$ 1,035,750	$ 205,447	$ 24,240	$ 22,671	$ 1,288,108
New investments & net revolver activity	833,175	119,093	5,705	27,703	985,676
Redemptions/repayments	(440,791)	(35,016)	(2,422)	—	(478,229)
Net accrual of PIK interest income	3,066	3,542	(289)	—	6,319
Accretion of original issue discount	448	—	—	—	448
Net change in unearned income	4,772	512	—	—	5,284
Net unrealized appreciation (depreciation)	(7,909)	(361)	(17)	14,689	6,402
Unrealized adjustments due to deal exits	(9,633)	1,165	(120)	(3,319)	(11,907)
Transfer into (out of) Level 3	—	—	—	—	—
Fair value as of June 30, 2013	**$ 1,418,878**	**$ 294,382**	**$ 27,097**	**$ 61,744**	**$ 1,802,101**
Net unrealized appreciation (depreciation) relating to Level 3 assets still held at June 30, 2013 and reported within net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations for the nine months ended June 30, 2013	$ (17,542)	$ 804	$ (137)	$ 11,370	$ (5,505)

The Company generally utilizes a bond yield model to estimate the fair value of its debt investments when there is not a readily available market value (Level 3) which model is based on the present value of expected cash flows from the debt investments. The significant observable inputs into the model are market interest rates for debt with similar characteristics, which are adjusted 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. These factors are incorporated into the calculation of the capital structure premium, tranche specific risk premium/(discount), size premium and industry premium/(discount), which are significant unobservable inputs into the model.

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

Significant Unobservable Inputs for Level 3 Investments

The following table provides quantitative information related to the significant unobservable inputs for Level 3 investments and secured borrowings, which are carried at fair value as of June 30, 2014:

Asset	Fair Value	Valuation Technique	Unobservable Input		Range			Weighted Average (c)
Senior secured debt	$ 2,144,070	Bond yield approach	Capital structure premium	(a)	0.0%	-	2.0%	0.7%
			Tranche specific risk premium/(discount)	(a)	(4.0)%	-	7.5%	1.4%
			Size premium	(a)	0.5%	-	2.0%	1.2%
			Industry premium/(discount)	(a)	(0.9)%	-	1.3%	0.3%
	17,551	Market and income approach	Weighted average cost of capital		24.0%	-	27.0%	25.9%
			Company specific risk premium	(a)	10.0%	-	10.0%	10.0%
			Revenue growth rate		(29.5)%	-	(29.1)%	(29.3)%
Subordinated debt	294,191	Bond yield approach	Capital structure premium	(a)	2.0%	-	2.0%	2.0%
			Tranche specific risk premium	(a)	1.0%	-	11.5%	4.7%
			Size premium	(a)	0.5%	-	2.0%	1.2%
			Industry premium/(discount)	(a)	(0.6)%	-	1.3%	0.3%
CLO debt	29,500	Bond yield approach	Market yield		11.1%	-	11.7%	11.4%
Preferred, common and other equity	142,505	Market and income approach	Weighted average cost of capital		13.0%	-	31.0%	17.8%
			Company specific risk premium	(a)	1.0%	-	15.0%	2.9%
			Revenue growth rate		(17.2)%	-	78.3%	13.3%
			EBITDA multiple	(b)	1.7x	-	13.1x	9.5x
			Revenue multiple	(b)	4.1x	-	5.3x	4.7x
			Book value multiple	(b)	0.9x	-	1.1x	1.0x
Total	**$ 2,627,817**							

Liability	Fair Value	Valuation Technique	Unobservable Input		Range			Weighted Average (c)
Secured borrowings	$ 45,805	Bond yield approach	Capital structure premium	(a)	0.0%	-	0.0%	0.0%
			Tranche specific risk premium/(discount)	(a)	(3.8)%	-	(3.6)%	(3.6)%
			Size premium	(a)	0.5%	-	2.0%	0.9%
			Industry premium/(discount)	(a)	0.3%	-	1.1%	0.9%
Total	**$ 45,805**							

(a) Used when market participant would take into account this premium or discount when pricing the investment or secured borrowing.
(b) Used when market participant would use such multiples when pricing the investment.
(c) Weighted averages are calculated based on fair value of investments or secured borrowings.

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

The following table provides quantitative information related to the significant unobservable inputs for Level 3 investments, which are carried at fair value as of September 30, 2013:

Asset	Fair Value		Valuation Technique	Unobservable Input		Range			Weighted Average (d)
Senior secured debt	$ 1,467,665		Bond yield approach	Capital structure premium	**(a)**	0.0%	-	2.0%	0.5%
				Tranche specific risk premium/(discount)	**(a)**	(4.0)%	-	13.0%	2.0%
				Size premium	**(a)**	0.5%	-	2.0%	1.1%
				Industry premium/(discount)	**(a)**	(1.1)%	-	3.3%	0.3%
Subordinated debt	296,298		Bond yield approach	Capital structure premium	**(a)**	2.0%	-	2.0%	2.0%
				Tranche specific risk premium	**(a)**	1.0%	-	11.0%	4.7%
				Size premium	**(a)**	0.5%	-	2.0%	1.1%
				Industry premium/(discount)	**(a)**	(1.0)%	-	1.4%	0.0%
CLO debt	29,500	**(c)**	Recent market transaction	Market yield		11.4%		11.4%	11.4%
Preferred, common and other equity	99,583		Market and income approach	Weighted average cost of capital		11.0%	-	31.0%	17.4%
				Company specific risk premium	**(a)**	1.0%	-	15.0%	2.4%
				Revenue growth rate		0.6%	-	81.9%	8.4%
				EBITDA multiple	**(b)**	5.4x	-	15.3x	7.4x
				Revenue multiple	**(b)**	4.1x	-	5.3x	4.7x
				Book value multiple	**(b)**	0.9x	-	1.1x	1.0x
Total	**$ 1,893,046**								

(a) Used when market participant would take into account this premium or discount when pricing the investment.
(b) Used when market participant would use such multiples when pricing the investment.
(c) The Company's $29.5 million CLO debt investment in Salus CLO 2012-1, Ltd. was valued at its acquisition price as it closed near fiscal year end.
(d) Weighted averages are calculated based on fair value of investments.

Under the bond yield approach, the significant unobservable inputs used in the fair value measurement of the Company’s investments in debt securities are capital structure premium, tranche specific risk premium/(discount), size premium and industry premium/(discount). Significant increases or decreases in any of those inputs in isolation may result in a significantly lower or higher fair value measurement, respectively.

Under the market and income approaches, the significant unobservable inputs used in the fair value measurement of the Company’s investments in debt or equity securities are the weighted average cost of capital, company specific risk premium, revenue growth rate and EBITDA multiple. Significant increases or decreases in a portfolio company’s weighted average cost of capital or company specific risk premium in isolation may result in a significantly lower or higher fair value measurement, respectively. Significant increases or decreases in the revenue growth rate or valuation multiples in isolation may result in a significantly higher or lower fair value measurement, respectively.

Financial Instruments Disclosed, But Not Carried, At Fair Value

The following table presents the carrying value and fair value of the Company’s financial liabilities disclosed, but not carried, at fair value as of June 30, 2014 and the level of each financial liability within the fair value hierarchy:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Credit facilities payable	$ 535,181	$ 535,181	$ —	$ —	$ 535,181
SBA debentures payable	225,000	200,560	—	—	200,560
Unsecured convertible notes payable	115,000	121,613	—	—	121,613
Unsecured notes payable	409,878	420,530	—	160,380	260,150
Total	**$ 1,285,059**	**$ 1,277,884**	**$ —**	**$ 160,380**	**$ 1,117,504**

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

The following table presents the carrying value and fair value of the Company's financial liabilities disclosed, but not carried, at fair value as of September 30, 2013 and the level of each financial liability within the fair value hierarchy:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Credit facilities payable	$ 188,000	$ 188,000	$ —	$ —	$ 188,000
SBA debentures payable	181,750	156,073	—	—	156,073
Unsecured convertible notes payable	115,000	122,331	—	—	122,331
Unsecured notes payable	161,250	151,008	—	151,008	—
Total	**$ 646,000**	**$ 617,412**	**$ —**	**$ 151,008**	**$ 466,404**

The carrying values of credit facilities payable approximates their fair values and are included in Level 3 of the hierarchy.

The Company utilizes the bond yield approach to estimate the fair values of its SBA debentures payable, which are included in Level 3 of the hierarchy. Under the bond yield approach, the Company uses bond yield models to determine the present value of the future cash flows streams for the debentures. The Company reviews various sources of data involving investments with similar characteristics and assesses the information in the valuation process.

The Company uses the non-binding indicative quoted price as of the valuation date to estimate the fair value of its unsecured notes payable and its 4.875% unsecured notes due 2019, which are included in Level 3 of the hierarchy.

The Company uses the unadjusted quoted price as of the valuation date to calculate the fair value of its 5.875% unsecured notes due 2024 and its 6.125% unsecured notes due 2028, which trade under the symbol “FSCE” on the New York Stock Exchange and the symbol "FSCFL" on the NASDAQ Stock Exchange, respectively. As such, these securities are included in Level 2 of the hierarchy.

Off-Balance Sheet Arrangements

The Company's off-balance sheet arrangements consisted of $212.3 million and $149.5 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of June 30, 2014 and September 30, 2013, respectively. Such commitments are subject to the portfolio companies' satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Company's Consolidated Statement of Assets and Liabilities and are not reflected in the Company's Consolidated Statements of Assets and Liabilities.

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A summary of the composition of the unfunded commitments (consisting of revolvers, term loans and limited partnership interests) as of June 30, 2014 and September 30, 2013 is shown in the table below:

	June 30, 2014	September 30, 2013
Lift Brands Holdings, Inc.	$ 18,000	$ —
BMC Software Finance, Inc.	15,000	—
Yeti Acquisition, LLC	12,000	7,500
Desert NDT, LLC	11,134	—
Drugtest, Inc.	10,900	20,000
RP Crown Parent, LLC	10,000	9,000
P2 Upstream Acquisition Co.	10,000	—
First Choice ER, LLC (1)	9,181	—
InMotion Entertainment Group, LLC	7,669	—
Pingora MSR Opportunity Fund I, LP (limited partnership interest)	7,528	9,792
Thing5, LLC	6,000	—
Med-Data, Incorporated	6,000	—
Integrated Petroleum Technologies, Inc.	5,397	—
I Drive Safely, LLC	5,000	5,000
First American Payment Systems, LP	4,933	5,000
Adventure Interactive, Corp.	4,846	5,000
World 50, Inc.	4,000	4,000
Charter Brokerage, LLC	4,000	4,000
Enhanced Recovery Company, LLC	4,000	3,500
OnCourse Learning Corporation	4,000	—
Discovery Practice Management, Inc.	3,732	1,000
Refac Optical Group	3,600	8,000
Teaching Strategies, LLC	3,500	5,000
All Web Leads, Inc.	3,500	—
Deltek, Inc.	3,213	8,667
OmniSYS Acquisition Corporation	2,500	—
Eagle Hospital Physicians, Inc.	2,287	1,867
Chicago Growth Partners, LP (limited partnership interest)	2,000	2,000
Personable Holdings, Inc.	1,824	3,409
CPASS Acquisition Company	1,750	2,500
Olson + Co., Inc.	1,673	2,105
Tailwind Capital Partners II, LP (limited partnership interest)	1,612	—
Beecken Petty O'Keefe Fund IV, LP (limited partnership interest)	1,609	2,000
Riverside Fund V, LP (limited partnership interest)	1,582	1,712
SPC Partners V, LP (limited partnership interest)	1,571	—
CCCG, LLC	1,520	1,520
Sterling Capital Partners IV, LP (limited partnership interest)	1,380	1,528
Phoenix Brands Merger Sub LLC	1,286	3,429
Moelis Capital Partners Opportunity Fund I-B, LP (limited partnership interest)	1,285	—
Ansira Partners, Inc.	1,190	1,190
Psilos Group Partners IV, LP (limited partnership interest)	1,000	1,000
RCP Direct II, LP (limited partnership interest)	1,000	—
Milestone Partners IV, LP (limited partnership interest)	869	1,414
Total Military Management, Inc.	857	—
2Checkout, Inc.	850	2,850
Genoa Healthcare Holdings, LLC	833	1,000
HealthDrive Corporation	734	734
Garretson Firm Resolution Group, Inc.	663	—
Bunker Hill Capital II (QP), LP (limited partnership interest)	632	786
ACON Equity Partners III, LP (limited partnership interest)	587	671
Riverlake Equity Partners II, LP (limited partnership interest)	564	638
American Cadastre, LLC	530	—

Riverside Fund IV, LP (limited partnership interest)	322	287

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

RCP Direct, LP (limited partnership interest)	260	524
TransTrade Operators, Inc.	255	—
Baird Capital Partners V, LP (limited partnership interest)	174	351
ISG Services, LLC	—	6,000
HealthEdge Software, Inc.	—	5,000
Reliance Communications, LLC	—	2,750
Mansell Group, Inc.	—	2,000
Physicians Pharmacy Alliance, Inc.	—	2,000
Miche Bag, LLC	—	1,500
BMC Acquisition, Inc.	—	1,250
Total	**$ 212,332**	**$ 149,474**

(1) In addition to its revolving commitment, the Company has extended a $175.0 million delayed draw term loan facility to First Choice ER, LLC. Specific amounts are made available to the borrower as certain financial requirements are satisfied. As of June 30, 2014, the total amount available to the borrower under this delayed draw facility was $1.5 million, and the facility was drawn $25.0 million as of this date.

Portfolio Composition

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:

	June 30, 2014		September 30, 2013	
Cost:				
Senior secured debt	$ 2,174,795	83.12%	$ 1,456,710	78.33%
Subordinated debt	295,086	11.28	292,991	15.76
CLO debt	29,500	1.13	29,500	1.59
Purchased equity	101,593	3.88	71,835	3.86
Equity grants	5,409	0.21	4,316	0.23
Limited partnership interests	10,026	0.38	4,299	0.23
Total	**$ 2,616,409**	**100.00%**	**$ 1,859,651**	**100.00%**
Fair Value:				
Senior secured debt	$ 2,161,621	82.26%	$ 1,467,665	77.53%
Subordinated debt	294,191	11.20	296,298	15.65
CLO debt	29,500	1.12	29,500	1.56
Purchased equity	126,121	4.80	89,688	4.74
Equity grants	6,650	0.25	5,599	0.30
Limited partnership interests	9,734	0.37	4,296	0.22
Total	**$ 2,627,817**	**100.00%**	**$ 1,893,046**	**100.00%**

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

The Company primarily invests in portfolio companies located in North America. 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. The following tables show the portfolio composition by geographic region at cost and fair value as a percentage of total investments:

	June 30, 2014		September 30, 2013	
Cost:				
Northeast U.S.	$ 754,331	28.83%	$ 744,582	40.04%
Southwest U.S.	592,593	22.65	279,369	15.02
Midwest U.S.	446,733	17.07	314,653	16.92
Southeast U.S.	405,585	15.50	277,342	14.91
West U.S.	324,063	12.39	242,705	13.05
International	93,103	3.56	1,000	0.06
Total	**$ 2,616,409**	**100.00%**	**$ 1,859,651**	**100.00%**
Fair Value:				
Northeast U.S.	$ 766,158	29.16%	$ 753,263	39.79%
Southwest U.S.	585,015	22.26	280,247	14.80
Midwest U.S.	448,256	17.06	317,958	16.80
Southeast U.S.	413,073	15.72	285,648	15.09
West U.S.	321,293	12.23	252,730	13.35
International	94,022	3.57	3,200	0.17
Total	**$ 2,627,817**	**100.00%**	**$ 1,893,046**	**100.00%**

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The composition of the Company's portfolio by industry at cost and fair value as of June 30, 2014 and September 30, 2013 were as follows:

	June 30, 2014		September 30, 2013	
Cost:				
Healthcare services	$ 393,867	15.05 %	$ 266,823	14.35 %
Education services	264,019	10.09	166,750	8.97
Oil & gas equipment services	243,371	9.30	75,426	4.06
Internet software & services	189,297	7.23	109,170	5.87
Advertising	164,202	6.28	154,026	8.28
Diversified support services	128,231	4.90	170,174	9.15
Specialized finance	126,985	4.85	124,232	6.68
IT consulting & other services	102,635	3.92	82,440	4.43
Airlines	100,070	3.82	24,475	1.32
Pharmaceuticals	81,263	3.11	51,538	2.77
Healthcare equipment	80,856	3.09	70,494	3.79
Specialty stores	63,756	2.44	68,386	3.68
Leisure facilities	63,001	2.41	43	—
Human resources & employment services	62,841	2.40	64,944	3.49
Data processing & outsourced services	60,238	2.30	23,200	1.25
Industrial machinery	53,234	2.03	16,883	0.91
Apparel, accessories & luxury goods	43,976	1.68	28,385	1.53
Household products	36,687	1.40	29,677	1.60
Air freight and logistics	35,045	1.34	16,693	0.90
Construction and engineering	34,165	1.31	32,577	1.75
Leisure products	34,043	1.30	47,222	2.54
Asset management & custody banks	29,500	1.13	29,500	1.59
Consumer electronics	29,227	1.12	—	—
Home improvement retail	28,318	1.08	28,726	1.54
Cable & satellite	27,000	1.03	—	—
Application software	22,024	0.84	12,879	0.69
Food distributors	17,514	0.67	18,435	0.99
Integrated telecommunication services	16,591	0.63	—	—
Research & consulting services	14,970	0.57	17,521	0.94
Specialty chemicals	13,500	0.52	20,000	1.08
Security & alarm services	13,244	0.51	13,124	0.71
Healthcare technology	12,975	0.50	—	—
Other diversified financial services	12,773	0.49	41,888	2.25
Multi-sector holdings	7,554	0.29	4,091	0.20
Systems software	5,464	0.21	—	—
Thrift & mortgage finance	2,472	0.09	208	0.01
Auto parts & equipment	1,500	0.07	33,061	1.78
Environmental & facilities services	—	—	8,755	0.47
Construction materials	—	—	7,170	0.39
Building products	—	—	735	0.04
Total	**$ 2,616,409**	**100.00 %**	**$ 1,859,651**	**100.00 %**

FIFTH STREET FINANCE CORP.

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(in thousands, except share and per share amounts, percentages and as otherwise indicated)

	June 30, 2014		September 30, 2013	
Fair Value:				
Healthcare services	$ 398,952	15.18 %	$ 273,880	14.47 %
Education services	263,247	10.02	168,492	8.90
Oil & gas equipment services	242,890	9.24	76,454	4.04
Internet software & services	192,567	7.33	114,077	6.03
Advertising	163,895	6.24	154,777	8.18
Specialized finance	135,138	5.14	124,400	6.57
Diversified support services	127,659	4.86	171,078	9.04
Airlines	104,517	3.98	24,475	1.29
IT consulting & other services	103,540	3.94	83,916	4.43
Pharmaceuticals	82,849	3.15	52,787	2.79
Healthcare equipment	81,404	3.10	70,866	3.74
Leisure facilities	63,606	2.42	190	0.01
Human resources & employment services	63,451	2.41	65,391	3.45
Specialty stores	61,611	2.34	69,024	3.65
Data processing & outsourced services	61,336	2.33	23,295	1.23
Industrial machinery	54,339	2.07	18,197	0.96
Construction and engineering	42,598	1.62	40,919	2.16
Leisure products	36,748	1.40	49,952	2.64
Household products	35,383	1.35	29,264	1.55
Apparel, accessories & luxury goods	31,006	1.18	27,724	1.46
Asset management & custody banks	29,500	1.12	29,500	1.56
Consumer electronics	29,121	1.11	—	—
Home improvement retail	28,572	1.09	28,677	1.51
Cable & satellite	27,000	1.03	—	—
Air freight and logistics	24,629	0.94	14,063	0.74
Application software	22,680	0.86	13,500	0.71
Food distributors	17,684	0.67	18,732	0.99
Integrated telecommunication services	16,600	0.63	—	—
Research & consulting services	14,971	0.57	17,912	0.95
Specialty chemicals	13,524	0.51	20,000	1.06
Security & alarm services	13,314	0.51	13,104	0.69
Healthcare technology	13,050	0.50	—	—
Other diversified financial services	12,911	0.49	41,954	2.22
Multi-sector holdings	7,357	0.28	4,158	0.21
Systems software	5,470	0.21	—	—
Thrift & mortgage finance	2,377	0.09	139	0.01
Auto parts & equipment	2,321	0.09	36,004	1.90
Environmental & facilities services	—	—	8,113	0.43
Construction materials	—	—	7,297	0.39
Building products	—	—	735	0.04
Total	**$ 2,627,817**	**100.00 %**	**$ 1,893,046**	**100.00 %**

The Company's investments are generally in small and mid-sized companies in a variety of industries. At June 30, 2014 and September 30, 2013, the Company had no single investment that represented 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, can fluctuate upon repayment or sale of an investment and in any given year can be highly concentrated among several investments. For the three and nine months ended June 30, 2014 and June 30, 2013, 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 including servicing, advisory, structuring and prepayments fees, which are classified as fee income and recognized as they are earned. The ending unearned fee income balances as of June 30, 2014 and September 30, 2013 were $3.9 million and $5.0 million, respectively.

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

As of June 30, 2014, the Company had structured $4.5 million in aggregate exit fees across six portfolio investments upon the future exit of those investments. Exit fees are fees which are payable upon the exit of a debt investment. These fees are to 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. The receipt of such fees is contingent upon the occurrence of one of the events listed above for each of the investments. A percentage of these fees is included in net investment income over the life of the loan.

Note 5. Share Data

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 $129.5 million after deducting underwriting commissions of $9.9 million and offering costs of $1.8 million.

On April 20, 2010, at the Company's 2010 Annual Meeting, the Company's 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 19, 2013, the Company amended its Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 150,000,000 shares to 250,000,000 shares.

The following table sets forth the computation of basic and diluted earnings per share, pursuant to ASC 260-10 *Earnings per Share*, for the three and nine months ended June 30, 2014 and June 30, 2013:

	Three months ended June 30, 2014	Three months ended June 30, 2013	Nine months ended June 30, 2014	Nine months ended June 30, 2013
Earnings per common share — basic:				
Net increase in net assets resulting from operations	$ 20,287	$ 26,006	$ 84,093	$ 75,684
Weighted average common shares outstanding — basic	139,138	118,271	139,134	106,353
Earnings per common share — basic	**$ 0.15**	**$ 0.22**	**$ 0.60**	**$ 0.71**
Earnings per common share — diluted:				
Net increase in net assets resulting from operations, before adjustments	$ 20,287	$ 26,006	$ 84,093	$ 75,684
Adjustments for interest on convertible notes, base management fees and incentive fees	1,362	1,365	4,089	4,079
Net increase in net assets resulting from operations, as adjusted	21,649	27,371	88,182	79,763
Weighted average common shares outstanding — basic	139,138	118,271	139,134	106,353
Adjustments for dilutive effect of convertible notes	7,790	7,790	7,790	7,790
Weighted average common shares outstanding — diluted	146,928	126,061	146,924	114,143
Earnings per common share — diluted	**$ 0.15**	**$ 0.22**	**$ 0.60**	**$ 0.70**

The following table reflects the distributions per share that the Company has paid, including shares issued under the dividend reinvestment plan ("DRIP"), on its common stock from October 1, 2012 to June 30, 2014:

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

Date Declared	Record Date	Payment Date	Amount per Share	Cash Distribution	DRIP Shares Issued		DRIP Shares Value
August 6, 2012	October 15, 2012	October 31, 2012	$ 0.0958	$ 8.2 million	51,754		$ 0.5 million
August 6, 2012	November 15, 2012	November 30, 2012	0.0958	8.2 million	53,335		0.5 million
August 6, 2012	December 14, 2012	December 28, 2012	0.0958	9.5 million	64,680		0.6 million
August 6, 2012	January 15, 2013	January 31, 2013	0.0958	9.5 million	61,782		0.6 million
August 6, 2012	February 15, 2013	February 28, 2013	0.0958	9.1 million	103,356		1.0 million
January 14, 2013	March 15, 2013	March 29, 2013	0.0958	9.1 million	100,802		1.1 million
January 14, 2013	April 15, 2013	April 30, 2013	0.0958	10.3 million	111,167		1.2 million
January 14, 2013	May 15, 2013	May 31, 2013	0.0958	10.3 million	127,152		1.3 million
May 6, 2013	June 14, 2013	June 28, 2013	0.0958	10.5 million	112,821		1.1 million
May 6, 2013	July 15, 2013	July 31, 2013	0.0958	10.2 million	130,944		1.3 million
May 6, 2013	August 15, 2013	August 30, 2013	0.0958	10.3 million	136,052		1.3 million
August 5, 2013	September 13, 2013	September 30, 2013	0.0958	10.3 million	135,027		1.3 million
August 5, 2013	October 15, 2013	October 31, 2013	0.0958	11.9 million	142,320		1.4 million
August 5, 2013	November 15, 2013	November 29, 2013	0.0958	12.0 million	145,063	(1)	1.4 million
November 21, 2013	December 13, 2013	December 30, 2013	0.05	6.3 million	69,291	(1)	0.6 million
November 21, 2013	January 15, 2014	January 31, 2014	0.0833	10.5 million	114,033	(1)	1.1 million
November 21, 2013	February 14, 2014	February 28, 2014	0.0833	10.5 million	110,486	(1)	1.1 million
November 21, 2013	March 14, 2014	March 31, 2014	0.0833	11.0 million	64,748	(1)	0.6 million
November 21, 2013	April 15, 2014	April 30, 2014	0.0833	10.5 million	120,604	(1)	1.1 million
November 21, 2013	May 15, 2014	May 30, 2014	0.0833	11.1 million	58,003	(1)	0.5 million
February 6, 2014	June 16, 2014	June 30, 2014	0.0833	11.1 million	51,692		0.5 million

(1) Shares were purchased on the open market and distributed.

On November 21, 2013, the Company's Board of Directors terminated the Company's previous $50 million stock repurchase program and approved a new $100 million stock repurchase program. Any stock repurchases under this program would be made through the open market at times and in such amounts as the Company's management would deem appropriate, provided they are below the most recently published net asset value per share. Unless extended by the Company's Board of Directors, the stock repurchase program will expire on November 21, 2014 and may be limited or terminated at any time without prior notice.

In December 2013, the Company repurchased 45,104 shares at the weighted average price of $8.978 per share, resulting in $0.4 million of cash paid during the nine months ended June 30, 2014.

Note 6. Lines of Credit

Wells Fargo Facility

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 (“Wells Agreement”), with respect to a revolving credit facility, as subsequently amended, (the “Wells Fargo facility”) with Wells Fargo, as successor to Wachovia 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.

The Wells Fargo facility permitted up to $150 million of borrowings (subject to collateral requirements) with an accordion feature allowing for future expansion of the facility up to a total of $250 million, and borrowings under the facility bore interest at a rate equal to LIBOR (1-month) plus 2.50% per annum, with no LIBOR floor. The maturity date of the Wells Fargo facility was April 25, 2016.

The Wells Fargo facility provided for the issuance from time to time of letters of credit for the benefit of the Company's portfolio companies. The letters of credit were subject to certain restrictions, including a borrowing base limitation and an aggregate sublimit of $15.0 million.

In connection with the Wells Fargo facility, the Company concurrently entered into (i) a Purchase and Sale Agreement with Funding, pursuant to which the Company had sold to Funding certain loan assets it had originated or acquired, and (ii) a Pledge

Agreement with Wells Fargo, pursuant to which the Company pledged all of its equity interests in Funding as security for the payment of Funding's obligations under the Wells Agreement and other documents entered into in connection with the Wells Fargo facility. Funding was formed for the sole purpose of entering into the Wells Fargo facility and had no other operations.

The Wells Agreement and related agreements that governed the Wells Fargo 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, including a prepayment penalty in certain cases. The Wells Fargo facility agreements 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 Wells Agreement and related agreements governing the facility, which, if not complied with, could have accelerated repayment under the facility.

The Wells Fargo facility was secured by all of the assets of Funding, and all of the Company's equity interest in Funding. The Company used the Wells Fargo facility to fund a portion of its loan origination activities and for general corporate purposes. Each loan origination under the facility was subject to the satisfaction of certain conditions. The Company's borrowings under the Wells Fargo facility bore interest at a weighted average interest rate of 2.6857% for the nine months ended June 30, 2014. For the nine months ended June 30, 2014, the Company recorded interest expense $1.8 million related to the Wells Fargo facility.

Effective February 21, 2014, the Company and Funding terminated the Wells Fargo facility. In connection therewith, the Amended and Restated Loan and Servicing Agreement and other related documents governing the Wells Fargo facility were also terminated. As such, the Company has no borrowing capacity under the Wells Fargo facility as of June 30, 2014. Upon termination of the Wells Fargo facility, the Company accelerated the $0.7 million remaining unamortized fee balance into interest expense.

ING Facility

On May 27, 2010, the Company entered into a secured syndicated revolving credit facility (as subsequently amended, the "ING facility") pursuant to a Senior Secured Revolving Credit Agreement ("ING Credit Agreement") with certain lenders party thereto from time to time and ING Capital LLC, as administrative agent. The ING facility allows the Company to request letters of credit from ING Capital LLC, as the issuing bank.

As of June 30, 2014, the ING facility permitted up to $670 million of borrowings with an accordion feature allowing for future expansion of the facility up to a total of $800 million, and borrowings under the facility bore interest at a rate equal to LIBOR (1-, 2-, 3- or 6-month, at the Company's option) plus 2.25% per annum, with no LIBOR floor. Unless extended, the period during which the Company may make and reinvest borrowings under the facility will expire on August 6, 2017 and the maturity date of the facility is August 6, 2018.

The ING facility is secured by substantially all of the Company's assets, as well as the assets of the Company's wholly-owned subsidiary, FSFC Holdings, Inc. ("Holdings"), and its indirect wholly-owned subsidiary, Fifth Street Fund of Funds LLC ("Fund of Funds"), subject to certain exclusions for, among other things, equity interests in the Company's SBIC subsidiaries, and equity interests in Funding and Funding II (which is defined and discussed below) as further set forth in a Guarantee, Pledge and Security Agreement ("ING Security Agreement") entered into in connection with the ING Credit Agreement, among FSFC Holdings, Inc., ING Capital LLC, as collateral agent, and the Company. Fifth Street Fund of Funds LLC and FSFC Holdings, Inc. were formed to hold certain of the Company's portfolio companies for tax purposes and have no other operations. None of the Company's SBIC subsidiaries, Funding or Funding II is party to the ING facility and their respective assets have not been pledged in connection therewith. The ING facility provides that the Company 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 ING Security Agreement, Holdings and Fund of Funds guaranteed the obligations under the ING Security Agreement, including the Company's obligations to the lenders and the administrative agent under the ING Credit Agreement. Additionally, the Company pledged its entire equity interest in Holdings and Holdings pledged its entire equity interest in Fund of Funds to the collateral agent pursuant to the terms of the ING Security Agreement.

The ING Credit Agreement and related agreements governing the ING facility required Holdings, Fund of Funds and the Company to, among other things (i) make representations and warranties regarding the collateral as well as each of the Company's 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 the

Company to materially perform under the ING Credit 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. The Company is currently in compliance with all financial covenants under the ING facility.

Each loan or letter of credit originated under the ING facility is subject to the satisfaction of certain conditions. The Company cannot be assured that it will be able to borrow funds under the ING facility at any particular time or at all.

As of June 30, 2014, the Company had $483.3 million of borrowings outstanding under the ING facility, which had a fair value of $483.3 million. The Company's borrowings under the ING facility bore interest at a weighted average interest rate of 2.6545% for the nine months ended June 30, 2014. For the three and nine months ended June 30, 2014, the Company recorded interest expense of $4.0 million and $10.3 million, respectively, related to the ING facility.

Sumitomo Facility

On September 16, 2011, Fifth Street Funding II, LLC, a consolidated wholly-owned bankruptcy remote, special purpose subsidiary ("Funding II"), entered into a Loan and Servicing Agreement ("Sumitomo Agreement") with respect to a seven-year credit facility ("Sumitomo facility") with Sumitomo Mitsui Banking Corporation ("SMBC"), an affiliate of Sumitomo Mitsui Financial Group, Inc., as administrative agent, and each of the lenders from time to time party thereto, in the amount of $200 million.

As of June 30, 2014, the Sumitomo facility permitted up to $125 million of borrowings (subject to collateral requirements), and borrowings under the facility bore interest at a rate of LIBOR (1-month) plus 2.25% per annum, with no LIBOR floor. Unless extended, the period during which the Company may make and reinvest borrowings under the facility will expire on September 16, 2016 and the maturity date of the facility is September 16, 2020, with an option for a one-year extension.

In connection with the Sumitomo facility, the Company concurrently entered into a Purchase and Sale Agreement with Funding II, pursuant to which it has sold and will continue to sell to Funding II certain loan assets the Company has originated or acquired, or will originate or acquire.

The Sumitomo Agreement and related agreements governing the Sumitomo facility required both Funding II and the Company to, among other things (i) make representations and warranties regarding the collateral as well as each of its 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, including a prepayment penalty in certain cases. The Sumitomo 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 II, and the failure by Funding II or the Company to materially perform under the Sumitomo Agreement and related agreements governing the Sumitomo 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. Funding II was formed for the sole purpose of entering into the Sumitomo facility and has no other operations.

The Sumitomo facility is secured by all of the assets of Funding II. Each loan origination under the facility is subject to the satisfaction of certain conditions. There is no assurance that Funding II will be able to borrow funds under the Sumitomo facility at any particular time or at all. As of June 30, 2014, the Company had $51.9 million of borrowings outstanding under the Sumitomo facility, which had a fair value of $51.9 million. The Company's borrowings under the Sumitomo facility bore interest at a weighted average interest rate of 2.4939% for the nine months ended June 30, 2014. For the three and nine months ended June 30, 2014, the Company recorded interest expense of $0.5 million and $1.6 million, respectively, related to the Sumitomo facility.

As of June 30, 2014, except for assets that were funded through the Company's SBIC subsidiaries, substantially all of the Company's assets were pledged as collateral under the ING facility or the Sumitomo facility. With respect to the assets funded through the Company's SBIC subsidiaries, the SBA, as a creditor, will have a superior claim to the SBIC subsidiaries' assets over the Company's stockholders.

Total interest expense for the three and nine months ended June 30, 2014 was $14.7 million and $37.8 million, respectively. Total interest expense for the three and nine months ended June 30, 2013 was $9.2 million and $24.1 million, respectively.

Note 7. Interest and Dividend Income

Interest income is recorded on an 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 collectability. 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.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts, percentages and as otherwise indicated)

The Company holds debt in its portfolio that contains PIK interest provisions. 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 nine months ended June 30, 2014 and June 30, 2013 was as follows:

	Nine months ended June 30, 2014	Nine months ended June 30, 2013
PIK balance at beginning of period	$ 23,934	$ 18,431
Gross PIK interest accrued	17,470	12,556
PIK income reserves(1)	(90)	(745)
PIK interest received in cash	(6,441)	(5,492)
Loan exits and other PIK adjustments	(421)	(2,769)
PIK balance at end of period	**$ 34,452**	**$ 21,981**

(1) PIK income is generally reserved for when a loan is placed on PIK non-accrual status.

As of June 30, 2014, there was one investment on which the Company had stopped accruing cash and or/PIK and OID income. As of September 30, 2013 and June 30, 2013, there were no investments on which the Company had stopped accruing cash and/or PIK interest and OID income.

The percentages of the Company's debt investments at cost and fair value by accrual status as of June 30, 2014, September 30, 2013 and June 30, 2013 were as follows:

	June 30, 2014				September 30, 2013				June 30, 2013			
	Cost	% of Debt Portfolio	Fair Value	% of Debt Portfolio	Cost	% of Debt Portfolio	Fair Value	% of Debt Portfolio	Cost	% of Debt Portfolio	Fair Value	% of Debt Portfolio
Accrual	$ 2,482,129	99.31%	$ 2,479,084	99.75%	$ 1,779,201	100.00%	$ 1,793,463	100.00%	$ 1,706,821	100.00%	$ 1,713,260	100.00%
PIK non-accrual	17,252	0.69	6,228	0.25	—	—	—	—	—	—	—	—
Cash non-accrual (1)	—	—	—	—	—	—	—	—	—	—	—	—
Total	**$ 2,499,381**	**100.00%**	**$ 2,485,312**	**100.00%**	**$ 1,779,201**	**100.00%**	**$ 1,793,463**	**100.00%**	**$ 1,706,821**	**100.00%**	**$ 1,713,260**	**100.00%**

(1) Cash non-accrual status is inclusive of PIK and other noncash income, where applicable.

The non-accrual status of the Company's portfolio investments as of June 30, 2014, September 30, 2013 and June 30, 2013 was as follows:

	June 30, 2014	September 30, 2013	June 30, 2013
Miche Bag, LLC	PIK non-accrual	—	—

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

Income non-accrual amounts for the three and nine months ended June 30, 2014 and June 30, 2013 were as follows:

	Three months ended June 30, 2014	Three months ended June 30, 2013	Nine months ended June 30, 2014	Nine months ended June 30, 2013
Cash interest income	$ —	$ (721) (1)	$ —	$ 288
PIK interest income	90	130	90	745
OID income	125	0	125	—
Total	**$ 215**	**$ (591)**	**$ 215**	**$ 1,033**

(1) Represents the recapture of Eagle Hospital Physicians, Inc. cash interest income that was not accrued for the quarter ended March 31, 2013, but was subsequently collected during the quarter ended June 30, 2013.

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 and exit fees received in connection with investments in portfolio companies; (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, 2013, the Company has net loss carryforwards of $107.4 million to offset net capital gains, to the extent provided by federal tax law. Of the capital loss carryforwards, $1.5 million will expire on September 30, 2017, $10.3 million will expire on September 30, 2019, and $95.6 million will not expire. During the year ended September 30, 2013, the Company realized capital losses from the sale of investments after October 31, 2012 and prior to year end (“post-October capital losses”) of $21.3 million, which for tax purposes are treated as arising on the first day of the following year.

Listed below is a reconciliation of “net increase in net assets resulting from operations” to taxable income for the three and nine months ended June 30, 2014.

	Three months ended June 30, 2014	Nine months ended June 30, 2014
Net increase in net assets resulting from operations	$ 20,287	$ 84,093
Net unrealized depreciation on investments and secured borrowings	13,731	22,042
Book/tax difference due to deferred loan fees	(2,784)	(4,065)
Book/tax difference due to organizational and deferred offering costs	(22)	(44)
Book/tax difference due to capital losses not recognized	646	(1,020)
Other book/tax differences	(194)	(471)
Taxable/Distributable Income (1)	**$ 31,664**	**$ 100,535**

(1) The Company’s taxable income for 2014 is an estimate and will not be finally determined until the Company files its tax return for the fiscal year ended September 30, 2014. Therefore, the final taxable income may be different than the estimate.

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.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the “Act”) was enacted, which changed various technical rules governing the tax treatment of RICs. The changes are generally effective for taxable years beginning after the date of enactment. Under the Act, the Company is permitted to carry forward any net capital losses, if any, incurred in taxable years beginning after the date of enactment for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment net loss carryforwards may be more likely to expire unused.

Distributions to stockholders are recorded on the record date. The Company is required to distribute annually to its stockholders at least 90% of its net taxable 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 and is based on management's estimate of the Company's annual taxable income. The Company maintains an "opt out" dividend reinvestment plan for its stockholders.

For income tax purposes, the Company estimates that its distributions for the calendar year 2014 will be composed primarily of ordinary income, and will be reflected as such on the Form 1099-DIV for the calendar year 2014.

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. The Company did not incur a federal excise tax for calendar years 2012 and 2013 and does not expect to incur a federal excise tax for calendar year 2014.

Note 9. Realized Gains or Losses and Net Unrealized Appreciation or Depreciation on 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. Realized losses may also be recorded in connection with the Company's determination that certain investments are considered worthless securities and/or meet the conditions for loss recognition per the applicable tax rules.

Net unrealized appreciation or depreciation 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.

During the nine months ended June 30, 2014, the Company recorded investment realization events, including the following:

- In October and December 2013, the Company received payments of $3.2 million from Stackpole Powertrain International Holding, L.P. related to the sale of its equity investment. A realized gain of $2.2 million was recorded on this transaction;
- In October 2013, the Company received a payment of $8.9 million from Harden Healthcare, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on the transaction;
- In October 2013, the Company received a payment of $4.0 million from Capital Equipment Group, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on the transaction. The Company also received an additional $0.9 million in connection with the sale of its common equity investment, realizing a gain of $0.6 million;
- In November 2013, the Company received a payment of $10.0 million from IG Investments Holdings, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In November 2013, the Company received a payment of $15.7 million from CTM Group, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In December 2013, the Company received a payment of $0.4 million in connection with the exit of its debt investment in Saddleback Fence and Vinyl Products, Inc. A realized loss of $0.3 million was recorded on this transaction;
- In December 2013, the Company received a payment of $7.2 million from Western Emulsions, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;

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- In January 2014, the Company received a payment of $5.1 million from BMC Acquisition, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on the transaction;
- In February 2014, the Company received a payment of $17.8 million from Ikaria Acquisition, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In February 2014, the Company received a payment of $30.8 million from Dexter Axle Company in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In March 2014, the Company received a payment of $9.9 million from Vestcom International, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on the transaction;
- In April 2014, the Company received a payment of $16.0 million from Renaissance Learning, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In April 2014, the Company received a payment of $32.4 million from Reliance Communications, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on the transaction;
- In May 2014, the Company received a payment of $15.0 million from TravelClick, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In May 2014, the Company received a payment of $20.0 million from Joerns Healthcare, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In May 2014, the Company received a payment of $97.2 million from ISG Services, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction; and
- During the nine months ended June 30, 2014, the Company received payments of $279.5 million in connection with syndications of debt investments to other investors and sales of debt investments in the open market and recorded a net realized loss of $1.5 million.

During the nine months ended June 30, 2013, the Company recorded investment realization events, including the following:

- In October 2012, the Company received a payment of $4.2 million from Rail Acquisition Corp. in full satisfaction of all obligations related to the revolving loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In October 2012, the Company received a payment of $5.4 million from Bojangles in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In October 2012, the Company received a payment of $21.9 million from Blue Coat Systems, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In October 2012, the Company received a payment of $9.9 million from Insight Pharmaceuticals LLC in full satisfaction of all obligations related to the first lien loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In November 2012, the Company received a payment of $8.5 million from SolutionSet, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;

- In January 2013, the Company received a cash payment of $30.2 million from NDSSI Holdings, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction. The Company also received an additional $3.0 million in connection with the sale of its preferred equity investment (including accumulated PIK of $0.9 million), realizing a gain or $0.1 million;
- In January 2013, the Company received a cash payment of $44.6 million from Welocalize, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In February 2013, the Company received a cash payment of $14.6 million from Edmentum, Inc. in full satisfaction of all obligations under the first lien loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In February 2013, the Company received a cash payment of $7.1 million from Advanced Pain Management Holdings, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In March 2013, the Company received a cash payment of $10.0 million from eResearch Technology, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In March 2013, the Company received a cash payment of $15.0 million from AdVenture Interactive Corp. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In March 2013, the Company received a cash payment of $19.5 million from idX Corporation in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In April 2013, the Company realized a loss in the amount of $11.2 million after the senior-most creditors foreclosed on the assets of Coll Materials Group, LLC. The Company maintains a $1.0 million receivable related to a financial guarantee related to the transaction;
- In April 2013, the Company received a cash payment of $14.1 million from Huddle House, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In April 2013, the Company received a cash payment of $20.4 million from Slate Pharmaceuticals Acquisition Corp. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In April 2013, the Company received a cash payment of $12.5 million from Securus Technologies Holdings, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In May 2013, the Company received a cash payment of $9.6 million from ConvergeOne Holdings Corp. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In May 2013, the Company received a cash payment of $30.9 million from CompuCom Systems, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In May 2013, the Company received a cash payment of $31.1 million from Cardon Healthcare Network, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In May 2013, the Company restructured its investment in Trans-Trade Brokers, Inc. As part of the restructuring, the Company exchanged cash and its debt and equity securities for debt and equity securities in the restructured entity, TransTrade Operators, Inc., and recorded a realized loss in the amount of $6.1 million on this transaction;

- In June 2013, the Company received a cash payment of $33.6 million from U.S. Retirement Partners, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In June 2013, the Company received a cash payment of $14.6 million from Traffic Solutions Holdings, Inc. in full satisfaction of all obligations related to the Term Loan A and Revolver under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction; and
- During the nine months ended June 30, 2013, the Company received cash payments of $54.0 million in connection with partial sales of debt investments in the open market and recorded a net realized gain of $0.5 million.

During the nine months ended June 30, 2014, the Company recorded net unrealized depreciation of $22.0 million. This consisted of $28.0 million of net unrealized depreciation on debt investments and $2.5 million of net reclassifications to realized gains (resulting in unrealized depreciation), offset by $8.5 million of net unrealized appreciation on equity investments. During the nine months ended June 30, 2013, the Company recorded net unrealized appreciation of $6.4 million. This consisted of $11.2 million of net unrealized appreciation on equity investments, $11.7 million of net reclassifications to realized losses on debt and equity investments (resulting in unrealized appreciation), offset by $16.5 million of net unrealized depreciation on debt investments.

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. The Company limits its exposure to credit loss by depositing its cash with high credit quality financial institutions and monitoring their financial stability.

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 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 but excludes any cash and cash equivalents held at the end of each quarter. The base management fee is payable quarterly in arrears and the fee for any partial month or quarter is appropriately prorated.

For the three and nine months ended June 30, 2014, the Investment Adviser voluntarily agreed to waive the portion of the base management fee attributable to assets funded with proceeds from secured borrowings, which resulted in a waiver of $0.2 million and $0.5 million, respectively. For the three and nine months ended June 30, 2013, the Investment Adviser voluntarily agreed to waive the portion of the base management fee attributable to certain new investments that closed prior to quarter end, which resulted in a waiver of $1.0 million and $2.3 million, respectively.

For the three and nine months ended June 30, 2014, base management fees were $13.1 million and $38.7 million, respectively. For the three and nine months ended June 30, 2013, base management fees were $8.2 million and $23.8 million, respectively. At June 30, 2014, the Company had a liability on its Consolidated Statements of Assets and Liabilities in the amount of $13.1 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 ("Part I Incentive Fee") 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, 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; and
- 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 ("Part II 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 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.

GAAP requires the Company to accrue for the theoretical capital gains incentive fee that would be payable after giving effect to the net realized and unrealized capital appreciation. It should be noted that a fee so calculated and accrued would not necessarily be payable under the investment advisory agreement, and may never be paid based upon the computation of capital gains incentive fees in subsequent periods. Amounts ultimately paid under the investment advisory agreement will be consistent with the formula reflected in the investment advisory agreement. The Company does not currently accrue for capital gains incentive fees due to the accumulated realized losses in the portfolio.

For the three and nine months ended June 30, 2014, incentive fees were $8.6 million and $26.2 million, respectively. For the three and nine months ended June 30, 2013, incentive fees were $7.3 million and $21.0 million, respectively. At June 30, 2014, the Company had a liability on its Consolidated Statements of Assets and Liabilities in the amount of $8.6 million reflecting the unpaid portion of the incentive fee payable to the Investment Adviser.

Advances received from portfolio companies

For the purpose of efficient cash management, the Company has received advances from First Star Aviation, LLC, First Star Speir Aviation I Limited and First Star Bermuda Aviation Limited (collectively, "First Star") in the aggregate amount of $7.2 million. The advances will be used from time to time to fund operating and financing activities of First Star, including the payment of interest and management fees to the Company and operating expenses. These amounts are recorded when cash is received from First Star.

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, any 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

On January 1, 2014, the Company entered into an administration agreement with a new administrator, FSC CT, Inc., under substantially similar terms as its prior administration agreement with FSC, Inc. Under the administration agreement with FSC CT, Inc., administrative services are provided to the Company, including office facilities and equipment, and clerical, bookkeeping and recordkeeping services at such facilities. Under the administration agreement, FSC CT, 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 CT, 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 provides reimbursement for the allocable portion of overhead and other expenses incurred in connection with payments of 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 staffs. Such reimbursement is at cost with no profit to, or markup by, FSC CT, Inc. FSC CT, 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 nine months ended June 30, 2014, the Company accrued administrative expenses of $1.2 million, including $0.5 million of general and administrative expenses and $4.4 million, including $2.3 million of general and administrative expenses, respectively. At June 30, 2014, $2.2 million was included in Due to FSC CT, Inc. in the Consolidated Statement of Assets and Liabilities.

(in thousands, except share and per share amounts, percentages and as otherwise indicated)

Note 12. Financial Highlights

	Three months ended June 30, 2014	Three months ended June 30, 2013	Nine months ended June 30, 2014	Nine months ended June 30, 2013
Net asset value at beginning of period	$9.81	$9.90	$9.85	$9.92
Net investment income (5)	0.25	0.26	0.76	0.81
Net unrealized appreciation (depreciation) on investments and secured borrowings (5)	(0.10)	0.11	(0.17)	0.06
Net realized gains (losses) on investments (5)	0.00	(0.15)	0.01	(0.16)
Distributions of ordinary income (5)	(0.25)	(0.29)	(0.74)	(0.87)
Issuance of common stock (5)	—	0.07	—	0.14
Net asset value at end of period	**$9.71**	**$9.90**	**$9.71**	**$9.90**
Per share market value at beginning of period	$9.46	$11.02	$10.29	$10.98
Per share market value at end of period	$9.83	$10.45	$9.83	$10.45
Total return (1)	6.68%	(2.45)%	3.21%	3.52%
Common shares outstanding at beginning of period	139,138	106,209	139,041	91,048
Common shares outstanding at end of period	139,189	120,996	139,189	120,996
Net assets at beginning of period	$1,365,297	$1,050,961	$1,368,872	$903,570
Net assets at end of period	$1,351,321	$1,197,268	$1,351,321	$1,197,268
Average net assets (2)	$1,363,835	$1,180,475	$1,369,987	$1,058,174
Ratio of net investment income to average net assets(3)	10.19%	10.33%	10.26%	10.90%
Ratio of total expenses to average net assets (excluding base management fee waiver) (3)	11.72%	9.74%	11.01%	10.18%
Base management fee waiver effect (3)	(0.07)%	(0.35)%	(0.03)%	(0.29)%
Ratio of net expenses to average net assets (3)	11.65%	9.39%	10.98%	9.89%
Ratio of portfolio turnover to average investments at fair value	6.94%	9.57%	13.67%	25.63%
Weighted average outstanding debt (4)	$1,357,445	$621,178	$1,102,730	$558,850
Average debt per share (5)	$9.76	$5.25	$7.93	$5.25

(1) 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 DRIP. Total return is not annualized during interim periods.

(2) Calculated based upon the weighted average net assets for the period.

(3) Interim periods are annualized.

(4) Calculated based upon the weighted average of loans payable for the period.

(5) Calculated based upon weighted average shares outstanding for the period.

Note 13. Convertible Notes

On April 12, 2011, the Company issued $152.0 million unsecured convertible notes, including $2 million issued to Leonard M. Tannenbaum, the Company’s Chief Executive Officer. The Convertible Notes were issued pursuant to an Indenture, dated April 12, 2011 (the “Indenture”), between the Company and the Trustee.

The Convertible Notes mature on April 1, 2016 (the “Maturity Date”), unless previously converted or repurchased in accordance with their terms. The Convertible Notes bear interest at a rate of 5.375% per annum payable semiannually in arrears on April 1 and October 1 of each year. The Convertible Notes are the Company’s unsecured obligations and rank senior in right of payment to the Company’s existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to the Company’s existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company’s secured indebtedness (including existing unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries or financing vehicles.

Prior to the close of business on the business day immediately preceding January 1, 2016, holders may convert their Convertible Notes only under certain circumstances set forth in the Indenture, such as during specified periods when the Company’s shares of common stock trade at more than 110% of the then applicable conversion price or the Convertible Notes trade at less than 98% of their conversion value. On or after January 1, 2016 until the close of business on the business day immediately preceding the Maturity Date, holders may convert their Convertible Notes at any time. Upon conversion, the Company will deliver shares of its common stock. The conversion rate was initially, and currently is, 67.7415 shares of common stock per $1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately $14.76 per share of common stock). The conversion rate is subject to customary anti-dilution adjustments, including for any cash dividends or distributions paid on shares of the Company’s common stock in excess of a monthly dividend of $0.1066 per share, but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders. Based on the current conversion rate, the maximum number of shares of common stock that would be issued upon conversion of the $115 million convertible debt outstanding at June 30, 2014 is 7,790,273. If the Company delivers shares of common stock upon a conversion at the time that net asset value per share exceeds the conversion price in effect at such time, the Company’s stockholders may incur dilution. In addition, the Company’s stockholders will experience dilution in their ownership percentage of common stock upon the issuance of common stock in connection with the conversion of the Company’s convertible notes and any dividends paid on common stock will also be paid on shares issued in connection with such conversion after such issuance. The shares of common stock issued upon a conversion are not subject to registration rights.

The Company may not redeem the Convertible Notes prior to maturity. No sinking fund is provided for the Convertible Notes. In addition, if certain corporate events occur in respect of the Company, holders of the Convertible Notes may require the Company to repurchase for cash all or part of their Convertible Notes at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The Indenture contains certain covenants, including covenants requiring the Company to provide financial information to the holders of the Convertible Notes, and the Trustee if the Company ceases to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the Indenture.

For the three and nine months ended June 30, 2014, the Company recorded interest expense of $1.7 million and $5.1 million, respectively, related to the Convertible Notes.

The Company may repurchase the Convertible Notes in accordance with the 1940 Act and the rules promulgated thereunder. Any Convertible Notes repurchased by the Company may, at the Company’s option, be surrendered to the Trustee for cancellation, but may not be reissued or resold by the Company. Any Convertible Notes surrendered for cancellation will be promptly canceled and no longer outstanding under the indenture. The Company did not repurchase Convertible Notes during the nine months ended June 30, 2014 or June 30, 2013.

As of June 30, 2014, there were $115.0 million of Convertible Notes outstanding, which had a fair value of $121.6 million.

Note 14. Unsecured Notes

2019 Notes

On February 26, 2014, the Company issued $250.0 million in aggregate principal amount of its 4.875% unsecured notes due 2019 (the “2019 Notes”) for net proceeds of $244.6 million after deducting original issue discount of $1.4 million, underwriting commissions and discounts of $3.7 million and offering costs of $0.3 million.

The 2019 Notes were issued pursuant to an indenture, dated April 30, 2012, as supplemented by the first supplemental indenture, dated February 26, 2014 (collectively, the “2019 Notes Indenture”), between the Company and the Trustee. The 2019 Notes are the Company’s general unsecured obligations that rank senior in right of payment to all of the Company’s existing and future indebtedness that is expressly subordinated in right of payment to the 2019 Notes. The 2019 Notes will rank equally in right of payment with all of the Company’s existing and future liabilities that are not so subordinated. The 2019 Notes will effectively rank junior to any of the Company’s secured indebtedness (including unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness. The 2019 Notes will rank structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries, financing vehicles or similar facilities.

Interest on the 2019 Notes is paid semi-annually on March 1 and September 1, at a rate of 4.875% per annum. The 2019 Notes mature on March 1, 2019 and may be redeemed in whole or in part at any time or from time to time at the Company’s option prior to maturity.

The 2019 Notes Indenture contains certain covenants, including covenants requiring the Company’s compliance with (regardless of whether the Company is subject to) the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, as well as covenants requiring the Company to provide financial information to the holders of the 2019 Notes and the Trustee if the Company ceases to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the 2019 Notes Indenture. The Company may repurchase the 2019 Notes in accordance with the 1940 Act and the rules promulgated thereunder. In addition, holders of the 2019 Notes can require the Company to repurchase the 2019 Notes at 100% of their principal amount upon the occurrence of a certain change of control events as described in the 2019 Notes Indenture. The 2019 Notes are issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. During the nine months ended June 30, 2014, the Company did not repurchase any of the 2019 Notes in the open market.

For the three and nine months ended June 30, 2014, the Company recorded interest expense of $3.2 million and $4.4 million related to the 2019 Notes.

As of June 30, 2014, there were $250.0 million of 2019 Notes outstanding, which had a fair value of $260.2 million.

2024 Notes

On October 18, 2012, the Company issued $75.0 million in aggregate principal amount of its 5.875% unsecured notes due 2024 (the “2024 Notes”) for net proceeds of $72.5 million after deducting underwriting commissions of $2.2 million and offering costs of $0.3 million.

The 2024 Notes were issued pursuant to an indenture, dated April 30, 2012, as supplemented by the first supplemental indenture, dated October 18, 2012 (collectively, the “2024 Notes Indenture”), between the Company and the Trustee. The 2024 Notes are the Company’s unsecured obligations and rank senior in right of payment to the Company’s existing and future indebtedness that is expressly subordinated in right of payment to the 2024 Notes; equal in right of payment to the Company’s existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company’s secured indebtedness (including existing unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries or financing vehicles.

Interest on the 2024 Notes is paid quarterly in arrears on January 30, April 30, July 30 and October 30, at a rate of 5.875% per annum. The 2024 Notes mature on October 30, 2024 and may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after October 30, 2017. The 2024 Notes are listed on the New York Stock Exchange under the trading symbol “FSCE” with a par value of $25.00 per share.

The 2024 Notes Indenture contains certain covenants, including covenants requiring the Company’s compliance with (regardless of whether the Company is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act and with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, as well as covenants requiring the Company to provide financial information to the holders of the 2024 Notes and the Trustee if the Company ceases to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the 2024 Notes Indenture. The Company may repurchase the 2024 Notes in accordance with the 1940 Act and the rules promulgated thereunder. Any 2024 Notes repurchased by the Company may, at the Company’s option, be surrendered to the Trustee for cancellation, but may not be reissued or resold by the Company. Any 2024 Notes surrendered for cancellation will be promptly canceled and no longer outstanding under the 2024 Notes Indenture. During the nine months ended June 30, 2014, the Company did not repurchase any of the 2024 Notes in the open market.

For the three and nine months ended June 30, 2014, the Company recorded interest expense of $1.2 million and $3.5 million, respectively, related to the 2024 Notes.

As of June 30, 2014, there were $75.0 million 2024 Notes outstanding, which had a fair value of $74.8 million.

2028 Notes

In April and May 2013, the Company issued $86.3 million in aggregate principal amount of its 6.125% unsecured notes due 2028 (the "2028 Notes") for net proceeds of $83.4 million after deducting underwriting commissions of $2.6 million and offering costs of $0.3 million. The proceeds included the underwriters’ full exercise of their overallotment option.

The 2028 Notes were issued pursuant to an indenture, dated April 30, 2012, as supplemented by the second supplemental indenture, dated April 4, 2013 (collectively, the “2028 Notes Indenture”), between the Company and the Trustee. The 2028 Notes are the Company's unsecured obligations and rank senior in right of payment to the Company's existing and future indebtedness that is expressly subordinated in right of payment to the 2028 Notes; equal in right of payment to the Company's existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company's secured indebtedness (including existing unsecured indebtedness that it later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company's subsidiaries or financing vehicles. Interest on the 2028 Notes is paid quarterly in arrears on January 30, April 30, July 30 and October 30, at a rate of 6.125% per annum. The 2028 Notes mature on April 30, 2028 and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after April 30, 2018. The 2028 Notes are listed on the NASDAQ Global Select Market under the trading symbol “FSCFL” with a par value of $25.00 per share.

The 2028 Notes Indenture contains certain covenants, including covenants requiring the Company's compliance with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act, as well as covenants requiring the Company to provide financial information to the holders of the 2028 Notes and the Trustee if it ceases to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the 2028 Notes Indenture. The Company may repurchase the 2028 Notes in accordance with the 1940 Act and the rules promulgated thereunder. Any 2028 Notes repurchased by the Company may, at its option, be surrendered to the Trustee for cancellation, but may not be reissued or resold by the Company. Any 2028 Notes surrendered for cancellation will be promptly canceled and no longer outstanding under the 2028 Notes Indenture. During the nine months ended June 30, 2014, the Company did not repurchase any of the 2028 Notes in the open market.

For the three and nine months ended June 30, 2014, the Company recorded interest expense of $1.4 million and $4.1 million, respectively, related to the 2028 Notes.

As of June 30, 2014, there were $86.3 million of 2028 Notes outstanding, which had a fair value of $85.6 million.

Note 15. Secured Borrowings

The Company follows the guidance in ASC 860 when accounting for loan participations and other partial loan sales. Such guidance requires a participation or other partial loan sale to meet the definition of a “participating interest,” as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain on the Company’s Consolidated Statement of Assets and Liabilities and the proceeds are recorded as a secured borrowing until the definition is met. Secured borrowings are carried at fair value to correspond with the related investments, which are carried at fair value.

As of June 30, 2014, secured borrowings at fair value totaled $45.8 million and the fair value of the investments that are associated with these secured borrowings was $135.3 million. These secured borrowings were the result of the Company’s completion of partial loan sales of two senior secured debt investments totaling $47.8 million during the nine months ended June 30, 2014 that did not meet the definition of a participating interest. As a result, sale treatment was not allowed and these partial loan sales were treated as secured borrowings. During the nine months ended June 30, 2014, there were $2.0 million of repayments on secured borrowings.

As of June 30, 2014, there were $45.8 million of secured borrowings outstanding, which had a fair value of $45.8 million.

For the three and nine months ended June 30, 2014, the Company recorded interest expense of $0.6 million and $0.8 million related its secured borrowings, respectively.

Note 16. Subsequent Events

The Company’s management evaluated subsequent events through the date of issuance of the Consolidated Financial Statements. There have been no subsequent events that occurred during such period that would require disclosure in, or would be required to be recognized in, the Consolidated Financial Statements as of and for the nine months ended June 30, 2014, except as discussed below:

On July 15, 2014, the Company completed a follow-on public offering of 13,250,000 shares of its common stock at the public offering price of $9.95. The net proceeds totaled $129.7 million after deducting underwriting commissions of $1.9 million and offering costs of $0.3 million.

In July 2014, the Company invested $51.7 million in SLF JV I Funding, LLC ("JV") to facilitate the acquisition of $171.1 million in principal amount of senior secured loans, a portion of which were purchased from the Company. The JV has drawn $104.7 million under its $200.0 million revolving credit facility with Deutsche Bank AG, New York Branch. These transactions were in connection with the Company's agreement in May 2014 with Kemper Corporation to provide $100.0 million of subordinated notes and equity to the JV, with the Company providing $87.5 million and Kemper providing $12.5 million. The JV invests in middle market and other corporate debt securities. In future reporting periods, the Company's debt and equity investment in the JV will be accounted for as a control investment within the Consolidated Schedule of Investments.

Fifth Street Finance Corp.
Schedule of Investments in and Advances to Affiliates
(in thousands, except share and per share amounts, percentages and as otherwise indicated)
Nine months ended June 30, 2014

Portfolio Company/Type of Investment(1)	Amount of Interest, Fees or Dividends Credited in Income(2)	Fair Value at October 1, 2013	Gross Additions(3)	Gross Reductions(4)	Fair Value at June 30, 2014
Control Investments					
Traffic Solutions Holdings, Inc.					
Second Lien Term Loan, 12% cash 3% PIK due 12/31/2016	$ 1,993	$ 14,499	$ 699	$ (344)	$ 14,854
LC Facility, 8.5% cash due 12/31/2016	163	—	5	(5)	—
746,114 Series A Preferred Units	1,236	15,891	1,236	—	17,127
746,114 Common Stock Units	—	10,529	761	(673)	10,617
TransTrade Operators, Inc.					
First Lien Term Loan, 11% cash 3% PIK due 5/31/2016	1,549	13,524	1,551	(3,752)	11,323
First Lien Revolver, 8% cash due 5/31/2016	11	—	—	—	—
596.67 Series A Common Units in TransTrade Holding LLC	—	—	—	—	—
1,403,922 Series A Preferred Units in TransTrade Holding LLC	—	—	1,404	(1,404)	—
5,200,000 Series B Preferred Units in TransTrade Holding LLC	—	539	2,167	(2,706)	—
HFG Holdings, LLC					
First Lien Term Loan, 6% cash 4% PIK due 6/10/2019	7,379	93,297	3,536	(313)	96,520
860,000 Class A Units	—	22,346	7,449	—	29,795
First Star Aviation, LLC					
First Lien Term Loan, 9% cash 3% PIK due 1/9/2018	3,417	19,211	16,061	(1,712)	33,560
10,104,401 Common Units	—	5,264	8,672	—	13,936
First Star Speir Aviation 1 Limited					
First Lien Term Loan, 9% cash due 7/30/2018	2,745	—	40,099	(2,074)	38,025
1,087,445 Common Units	—	—	2,300	—	2,300
First Star Bermuda Aviation Limited					
First Lien Term Loan, 9% cash 3% PIK due 8/19/2018	1,412	—	12,838	(1,027)	11,811
4,256,042 Common Units	—	—	4,885	—	4,885
Eagle Hospital Physicians, LLC					
First Lien Term Loan A, 8% PIK due 8/1/2016	694	11,149	697	(82)	11,764
First Lien Term Loan B, 8.1% PIK due 8/1/2016	192	3,050	192	(24)	3,218
First Lien Revolver, 8% cash due 8/1/2016	146	—	2,441	(61)	2,380
4,100,000 Class A Common Units	—	6,203	87	(98)	6,192
Total Control Investments	**$ 20,937**	**$ 215,502**	**$ 107,080**	**$ (14,275)**	**$ 308,307**
Affiliate Investments					
Caregiver Services, Inc.					
Second Lien Term Loan, 10% cash 2% PIK due 6/30/2019	748	—	9,263	(266)	8,997
1,080,399 shares of Series A Preferred Stock	—	3,256	448	—	3,704
AmBath/ReBath Holdings, Inc.					
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2016	203	3,272	33	(1,120)	2,185
First Lien Term Loan B, 12.5% cash 2.5% PIK due 4/30/2016	2,966	25,317	868	(305)	25,880
4,668,788 shares of Preferred Stock	—	87	505	(84)	508
Total Affiliate Investments	**$ 3,917**	**$ 31,932**	**$ 11,117**	**$ (1,775)**	**$ 41,274**
Total Control & Affiliate Investments	**$ 24,854**	**$ 247,434**	**$ 118,197**	**$ (16,050)**	**$ 349,581**

This schedule should be read in connection with the Company's Consolidated Financial Statements, including the Consolidated 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.

Fifth Street Finance Corp.
Schedule of Investments in and Advances to Affiliates
(in thousands, except share and per share amounts, percentages and as otherwise indicated)
Nine months ended June 30, 2013

Portfolio Company/Type of Investment(1)	Amount of Interest, Fees or Dividends Credited in Income(2)	Fair Value at October 1, 2012	Gross Additions(3)	Gross Reductions(4)	Fair Value at June 30, 2013
Control Investments					
Coll Materials Group LLC					
Second Lien Term Loan A, 12% cash due 11/1/2014	$ 230	$ 1,238	$ 7,096	$ (8,334)	$ —
Second Lien Term Loan B, 14% PIK due 11/1/2014	58	1,999	1,000	(2,999)	—
50% interest in CD Holdco, LLC	—	—	—	—	—
Traffic Solutions Holdings, Inc.					
First Lien Term Loan A, LIBOR+8.5% (1.25% floor) cash due 8/10/2015	1,323	15,023	318	(15,341)	—
Second Lien Term Loan, 12% cash 3% PIK due 12/31/2016	1,634	14,068	400	(49)	14,419
First Lien Revolver, LIBOR+8.5% (1.25% floor) cash due 8/10/2015	35	—	6	(6)	—
LC Facility, 8.5% cash due 12/31/2016	255	—	12	(12)	—
746,114 Series A Preferred Units	382	14,377	1,118	—	15,495
746,114 Common Stock Units	—	6,535	4,919	—	11,454
TransTrade Operators, Inc.					
First Lien Term Loan, 11% cash 3% PIK due 5/31/2016	163	—	13,556	(49)	13,507
First Lien Revolver, 8% cash due 5/31/2016	—	—	—	—	—
596.67 Series A Common Units in TransTrade Holding LLC	—	—	3,033	(425)	2,608
1,403,922 Series A Preferred Units in TransTrade Holding LLC	—	—	—	—	—
5,200,000 Series B Preferred Units in TransTrade Holding LLC	—	—	—	—	—
HFG Holdings, LLC					
First Lien Term Loan, 6% cash 4% PIK due 6/10/2019	3,485	—	92,194	—	92,194
860,000 Class A Units	—	—	21,941	—	21,941
Total Control Investments	**$ 7,565**	**$ 53,240**	**$ 145,593**	**$ (27,215)**	**$ 171,618**
Affiliate Investments					
Caregiver Services, Inc.					
1,080,399 shares of Series A Preferred Stock	—	2,924	129	(18)	3,035
AmBath/ReBath Holdings, Inc.					
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2016	338	4,268	79	(64)	4,283
First Lien Term Loan B, 12.5% cash 2.5% PIK due 4/30/2016	2,828	23,995	1,298	(261)	25,032
4,668,788 shares of Preferred Stock	—	—	—	—	—
Total Affiliate Investments	**$ 3,166**	**$ 31,187**	**$ 1,506**	**$ (343)**	**$ 32,350**
Total Control & Affiliate Investments	**$ 10,731**	**$ 84,427**	**$ 147,099**	**$ (27,558)**	**$ 203,968**

This schedule should be read in connection with the Company's Consolidated Financial Statements, including the Consolidated Schedules of Investments and Notes to the Consolidated Financial Statements.

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(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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in connection with our Consolidated Financial Statements and the notes thereto included elsewhere in this quarterly report on Form 10-Q.

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this quarterly report on Form 10-Q 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," "project", "seek," "plan," "should," "estimate" and "intend" indicate forward-looking statements, although not all forward-looking statements include these words. The forward-looking statements contained in this quarterly report on Form 10-Q 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" in our annual report on Form 10-K for the year ended September 30, 2013 and elsewhere in this quarterly report on Form 10-Q for the quarter ended June 30, 2014. Other factors that could cause actual results to differ materially include:

- changes in the economy and the financial markets;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters;
- 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, SBICs or RICs; and
- other considerations that may be disclosed from time to time in our publicly disseminated documents and filings.

We have based the forward-looking statements included in this quarterly report on Form 10-Q on information available to us on the date of this quarterly report, and we assume no obligation to update any such forward-looking statements. 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 Securities and Exchange Commission, or the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

Except as otherwise specified, references to the "Company," "we," "us," and "our" refer to Fifth Street Finance Corp.

All amounts are in thousands, except share and per share amounts, percentages and as otherwise indicated.

Overview

We are a specialty finance company that lends to and invests in small and mid-sized companies, primarily 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.

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 stock was listed on the New York Stock Exchange until November 28, 2011 when we transferred the listing to the NASDAQ Global Select Market, where it continues to trade under the symbol "FSC."

Market Conditions

The global economy has experienced economic uncertainty in recent years. Economic uncertainty impacts our business in many ways, including changing spreads, structures and purchase multiples as well as the overall supply of investment capital. See "Risk Factors — Risks Relating to Economic Conditions" in our annual report on Form 10-K for the year ended September 30, 2013.

Despite the economic uncertainty, we believe 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 we believe are consistent with our disciplined philosophy of pursuing superior risk-adjusted returns.

We expect to grow the investment portfolio by strategically investing in small and mid-sized companies when and where appropriate, as evidenced by our recent investment activities. 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. In this regard, because our common stock has at times traded at a price below our then 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.

Critical Accounting Policies

Basis of Presentation

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In accordance with authoritative accounting guidance, we perform detailed valuations of our debt and equity investments on an individual basis, using bond yield, market and income approaches as appropriate. In general, we utilize a bond yield method for the majority of our investments, as long as it is appropriate. If, in our judgment, the bond yield approach is not appropriate, we may use the market approach, income approach, or, in certain cases, an alternative methodology potentially including market quotations, asset liquidation model, expected recovery model or other alternative approaches.

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.

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 or revenues. 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.

Our 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 our finance department;
- Preliminary valuations are then reviewed and discussed with principals of the investment adviser;
- Separately, independent valuation firms are engaged by our Board of Directors to prepare preliminary valuations on a selected basis and submit the reports to us;
- Our finance department compares and contrasts its preliminary valuations to the preliminary valuations of the independent valuation firms;
- Our finance department prepares a valuation report for the Audit Committee of our Board of Directors;
- The Audit Committee of our Board of Directors is apprised of the preliminary valuations of the independent valuation firms;

- The Audit Committee of our Board of Directors reviews the preliminary valuations with the portfolio managers of the investment adviser, and our finance department responds and supplements the preliminary valuations to reflect any comments provided by the Audit Committee;
- The Audit Committee of our Board of Directors makes a recommendation to the Board of Directors regarding the fair value of the investments in our portfolio; and
- Our Board of Directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith.

The fair value of all of our investments at June 30, 2014, and September 30, 2013, was determined by our Board of Directors. Our Board of Directors has authorized the engagement of independent valuation firms to provide us with valuation assistance. We will continue to engage independent valuation firms 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 the valuation of our portfolio investments at fair value as determined in good faith pursuant to our valuation policy and a consistently applied valuation process.

We intend to have a portion of the portfolio valued by an independent third party on a quarterly basis, with a substantial portion being valued over the course of each fiscal year. In certain cases, an independent valuation firm may perform a portfolio company valuation which is reviewed and, where appropriate, relied upon by our Board of Directors in determining the fair value of such investment.

The percentages of our portfolio, at fair value, valued by independent valuation firms each period during the current and two preceding fiscal years were as follows:

For the quarter ended December 31, 2011	89.1%
For the quarter ended March 31, 2012	87.3%
For the quarter ended June 30, 2012	84.3%
For the quarter ended September 30, 2012	79.6%
For the quarter ended December 31, 2012	79.5%
For the quarter ended March 31, 2013	73.8%
For the quarter ended June 30, 2013	76.4%
For the quarter ended September 30, 2013	86.5%
For the quarter ended December 31, 2013	78.9%
For the quarter ended March 31, 2014	80.7%
For the quarter ended June 30, 2014	68.5%

As of June 30, 2014 and September 30, 2013, approximately 95.8% and 91.3%, respectively, of our total assets represented investments in portfolio companies valued at fair value.

Revenue Recognition

Interest and Dividend Income

Interest income, adjusted for accretion of original issue discount, or OID, 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 dividend income when the distribution is received.

Fee Income

We receive a variety of fees in the ordinary course of business including servicing, advisory, structuring and prepayment fees, which are classified as fee income and recognized as they are earned.

We have also structured exit fees across certain of our portfolio investments to be received upon the future exit of those investments. Exit fees are payable upon the exit of a debt security. These fees are to 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. The receipt of such fees is contingent upon the occurrence of one of the events listed above for each of the investments. A percentage of these fees is included in net investment income over the life of the loan. As of June 30, 2014, we had structured $4.5 million in aggregate exit fees across six portfolio investments upon the future exit of those investments.

Payment-in-Kind (PIK) Interest

Our loans typically contain contractual PIK interest provisions. 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.

For a discussion of risks we are subject to as a result of our use of PIK interest in connection with our investments, see "Risk Factors — Risks Relating to Our Business and Structure — We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income," "— 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 "— Our incentive fee may induce our investment adviser to make speculative investments" in our annual report on Form 10-K for the year ended September 30, 2013. 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. The accrual of PIK interest on our debt investments increases the recorded cost basis of these investments in our consolidated financial statements and, as a result, increases the cost basis of these investments for purposes of computing the capital gains incentive fee payable by us to our investment adviser.

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 $34.5 million and represented 1.3% of the fair value of our portfolio of investments as of June 30, 2014 and $23.9 million or 1.3% as of September 30, 2013. The net increases in loan balances as a result of contractual 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 a first, second or subordinated lien on the assets of the portfolio company and generally have terms of up to six years (but an expected average life of between three and four years). We are currently focusing our origination efforts on a prudent mix of senior secured and subordinated loans which we believe will provide superior risk-adjusted returns while maintaining adequate credit protection. The mix may change over time based on market conditions and management's view of where the best risk adjusted returns are available.

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:

	June 30, 2014	September 30, 2013
Cost:		
Senior secured debt	83.12%	78.33%
Subordinated debt	11.28	15.76
Collateralized loan obligation ("CLO") debt	1.13	1.59
Purchased equity	3.88	3.86
Equity grants	0.21	0.23
Limited partnership interests	0.38	0.23
Total	**100.00%**	**100.00%**
Fair Value:		
Senior secured debt	82.26%	77.53%
Subordinated debt	11.20	15.65
CLO debt	1.12	1.56
Purchased equity	4.80	4.74
Equity grants	0.25	0.30
Limited partnership interests	0.37	0.22
Total	**100.00%**	**100.00%**

The industry composition of our portfolio at cost and fair value as a percentage of total investments was as follows:

	June 30, 2014		September 30, 2013	
Cost:				
Healthcare services	15.05	%	14.35	%
Education services	10.09		8.97	
Oil & gas equipment services	9.30		4.06	
Internet software & services	7.23		5.87	
Advertising	6.28		8.28	
Diversified support services	4.90		9.15	
Specialized finance	4.85		6.68	
IT consulting & other services	3.92		4.43	
Airlines	3.82		1.32	
Pharmaceuticals	3.11		2.77	
Healthcare equipment	3.09		3.79	
Specialty stores	2.44		3.68	
Leisure facilities	2.41		0.00	
Human resources & employment services	2.40		3.49	
Data processing & outsourced services	2.30		1.25	
Industrial machinery	2.03		0.91	
Apparel, accessories & luxury goods	1.68		1.53	
Household products	1.40		1.6	
Air freight and logistics	1.34		0.90	
Construction and engineering	1.31		1.75	
Leisure products	1.30		2.54	
Asset management & custody banks	1.13		1.59	
Consumer electronics	1.12		0.00	
Home improvement retail	1.08		1.54	
Cable & satellite	1.03		—	
Application software	0.84		0.69	
Food distributors	0.67		0.99	
Integrated telecommunication services	0.63		0.00	
Research & consulting services	0.57		0.94	
Specialty chemicals	0.52		1.08	
Security & alarm services	0.51		0.71	
Healthcare technology	0.50		0.00	
Other diversified financial services	0.49		2.25	
Multi-sector holdings	0.29		0.20	
Systems software	0.21		0.00	
Thrift & mortgage finance	0.09		0.01	
Auto parts & equipment	0.07		1.78	
Environmental & facilities services	—		0.47	
Total	**100.00**	**%**	**100.00**	**%**

	June 30, 2014		September 30, 2013	
Fair Value:				
Healthcare services	15.18	%	14.47	%
Education services	10.02		8.90	
Oil & gas equipment services	9.24		4.04	
Internet software & services	7.33		6.03	
Advertising	6.24		8.18	
Specialized finance	5.14		6.57	
Diversified support services	4.86		9.04	
Airlines	3.98		1.29	
IT consulting & other services	3.94		4.43	
Pharmaceuticals	3.15		2.79	
Healthcare equipment	3.10		3.74	
Leisure facilities	2.42		0.01	
Human resources & employment services	2.41		3.45	
Specialty stores	2.34		3.65	
Data processing & outsourced services	2.33		1.23	
Industrial machinery	2.07		0.96	
Construction and engineering	1.62		2.16	
Leisure products	1.40		2.64	
Household products	1.35		1.55	
Apparel, accessories & luxury goods	1.18		1.46	
Asset management & custody banks	1.12		1.56	
Consumer electronics	1.11		0.00	
Home improvement retail	1.09		1.51	
Cable & satellite	1.03		0.00	
Air freight and logistics	0.94		0.74	
Application software	0.86		0.71	
Food distributors	0.67		0.99	
Research & consulting services	0.57		0.95	
Specialty chemicals	0.51		1.06	
Security & alarm services	0.51		0.69	
Healthcare technology	0.50		—	
Other diversified financial services	0.49		2.22	
Multi-sector holdings	0.28		0.21	
Systems software	0.21		0.00	
Thrift & mortgage finance	0.09		0.01	
Auto parts & equipment	0.09		1.90	
Construction materials	—		0.39	
Building products	—		0.04	
Total	**100.00**	%	**100.00**	%

Portfolio Asset Quality

We employ a ranking system to assess and monitor the credit risk of our investment portfolio. We rank all investments on a scale from 1 to 4. 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. We have determined that there should be an individual ranking assigned to each tranche of securities in the same portfolio company where appropriate. This may arise when the perceived risk of loss on the investment varies significantly between tranches due to their respective seniority in the capital structure.

- Investment Ranking 1 is used for investments that are performing above expectations and/or capital gains are expected.

- Investment Ranking 2 is used for investments that are performing substantially within our expectations, and whose risks remain materially consistent with the potential risks at the time of the original or restructured investment. All new investments are initially ranked 2.

- Investment Ranking 3 is used for investments that are performing below our expectations and for which risk has materially increased since the original or restructured investment. The portfolio company may be out of compliance with debt covenants and may require closer monitoring. To the extent that the underlying agreement has a PIK interest provision, investments with a ranking of 3 are generally those on which we are not accruing PIK interest.

- Investment Ranking 4 is used for investments that are performing substantially below our expectations and for which risk has increased substantially since the original or restructured investment. Investments with a ranking of 4 are those for which some loss of principal is expected and are generally those on which we are not accruing cash interest.

The following table shows the distribution of our investments on the 1 to 4 investment ranking scale at fair value as of June 30, 2014 and September 30, 2013:

	June 30, 2014			September 30, 2013		
Investment Ranking	**Fair Value**	**% of Portfolio**	**Leverage Ratio**	**Fair Value**	**% of Portfolio**	**Leverage Ratio**
1	$ 113,271	4.31%	2.24	$ 122,769	6.49%	2.67
2	2,508,318	95.45	4.70	1,770,277	93.51	4.70
3	6,228	0.24	NM (1)	—	—	—
4	—	—	—	—	—	—
Total	**$ 2,627,817**	**100.00%**	**4.58**	**$ 1,893,046**	**100.00%**	**4.57**

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

We may from time to time modify the payment terms of our investments, either in response to current economic conditions and their impact on certain of our portfolio companies or in accordance with tier pricing provisions in certain loan agreements. As of June 30, 2014, we had modified the payment terms of our investments in 16 portfolio companies. Such modified terms may include increased PIK interest provisions and reduced cash interest rates. These modifications, and any future modifications to our loan agreements, 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

As of June 30, 2014, there was one investment on which we had stopped accruing cash and or/PIK and OID income. As of September 30, 2013 and June 30, 2013, there were no investments on which we had stopped accruing cash and/or PIK interest and OID income.

The percentages of our debt investments at cost and fair value by accrual status for the periods ended June 30, 2014, September 30, 2013 and June 30, 2013 were as follows:

	June 30, 2014				September 30, 2013				June 30, 2013			
	Cost	**% of Debt Portfolio**	**Fair Value**	**% of Debt Portfolio**	**Cost**	**% of Debt Portfolio**	**Fair Value**	**% of Debt Portfolio**	**Cost**	**% of Debt Portfolio**	**Fair Value**	**% of Debt Portfolio**
Accrual	$ 2,482,129	99.31%	$ 2,479,084	99.75%	$ 1,779,201	100.00%	$ 1,793,463	100.00%	$ 1,706,821	100.00%	$ 1,713,260	100.00%
PIK non-accrual	17,252	0.69	6,228	0.25	—	—	—	—	—	—	—	—
Cash non-accrual (1)	—	—	—	—	—	—	—	—	—	—	—	—
Total	**$ 2,499,381**	**100.00%**	**$ 2,485,312**	**100.00%**	**$ 1,779,201**	**100.00%**	**$ 1,793,463**	**100.00%**	**$ 1,706,821**	**100.00%**	**$ 1,713,260**	**100.00%**

(1) Cash non-accrual status is inclusive of PIK and other noncash income, where applicable.

The non-accrual status of our portfolio investments as of June 30, 2014, September 30, 2013 and June 30, 2013 was as follows:

	June 30, 2014	**September 30, 2013**	**June 30, 2013**
Miche Bag, LLC	PIK non-accrual	—	—

Income non-accrual amounts for the three and nine months ended June 30, 2014 and June 30, 2013 were as follows:

	Three months ended June 30, 2014	**Three months ended June 30, 2013**	**Nine months ended June 30, 2014**	**Nine months ended June 30, 2013**
Cash interest income	$ —	$ (721)	$ —	$ 288
PIK interest income	90	130	90	745
OID income	125	—	125	—
Total	**$ 215**	**$ (591)**	**$ 215**	**$ 1,033**

Discussion and Analysis of Results and Operations

Results of Operations

The principal measure of our financial performance is the net increase (decrease) in net assets resulting from operations, 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) is the net change in the fair value of our investment portfolio.

Comparison of the three and nine months ended June 30, 2014 and June 30, 2013

Total Investment Income

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

Total investment income for the three months ended June 30, 2014 and June 30, 2013 was $74.3 million and $58.1 million, respectively. For the three months ended June 30, 2014, this amount primarily consisted of $64.4 million of interest income from portfolio investments (which included $6.3 million of PIK interest) and $9.7 million of fee income. For the three months ended June 30, 2013, this amount primarily consisted of $46.4 million of interest income from portfolio investments (which included $4.0 million of PIK interest) and $11.0 million of fee income.

Total investment income for the nine months ended June 30, 2014 and June 30, 2013 was $217.7 million and $164.5 million, respectively. For the nine months ended June 30, 2014, this amount primarily consisted of $178.0 million of interest income from portfolio investments (which included $17.4 million of PIK interest) and $39.3 million of fee income. For the nine months ended June 30, 2013, this amount primarily consisted of $126.7 million of interest income from portfolio investments (which included $11.8 million of PIK interest) and $35.8 million of fee income.

The increase in our total investment income for the three and nine months ended June 30, 2014, as compared to the three and nine months ended June 30, 2013, was primarily attributable to higher average levels of outstanding debt investments, which was principally due to a net increase of 23 debt investments in our portfolio and fee income related to investment activity, partially offset by amortization payments received on our debt investments and a decrease in the weighted average yield of our debt investments from 11.4% to 10.8% during the year-over-year period.

Expenses

Expenses for the three months ended June 30, 2014 and June 30, 2013 were $39.6 million and $27.7 million, respectively. Expenses increased for the three months ended June 30, 2014, as compared to the three months ended June 30, 2013 by $12.0 million. This was due primarily to increases in:

- Base management fee, which was attributable to a 45.8% increase in the fair value of the investment portfolio due to an increase in net investment fundings in the year-over-year period;
- Part I incentive fee, which was attributable to a 14.7% increase in pre-incentive fee net investment income for the year-over-year period; and
- Interest expense, which was attributable to a 118.5% increase in the weighted average debt outstanding for the year-over-year period.

Expenses for the nine months ended June 30, 2014 and June 30, 2013 were $112.6 million and $78.3 million, respectively. Expenses increased for the nine months ended June 30, 2014 as compared to the nine months ended June 30, 2013 by $34.4 million. This was due primarily to increases in:

- Base management fee, which was attributable to the increase in the fair value of the investment portfolio discussed above;
- Part I incentive fee, which was attributable to a 22.4% increase in pre-incentive fee net investment income for the year-over-year period; and
- Interest expense, which was attributable to a 97.3% increase in the weighted average debt outstanding for the year-over-year period.

Gain on Extinguishment of Convertible Notes

During the nine months ended June 30, 2014 and June 30, 2013, we did not repurchase any of our unsecured convertible notes (“Convertible Notes”) in the open market. In previous periods, we recognized a gain on repurchasing Convertible Notes at a discount.

Because this net gain was included in the amount that must be distributed to our stockholders in order for us to maintain our RIC status and is classified as a component of net investment income in our Consolidated Statements of Operations, such net gain was included in “Pre-Incentive Fee Net Investment Income” for purposes of the payment of the Part I incentive fee to the investment adviser under our investment advisory agreement. Paying a Part I incentive fee on this type of net gain is permissible under our investment advisory agreement, but because such a fee was not specifically detailed in the investment advisory agreement, we obtained the approval of our Board of Directors to pay such fees. This type of net gain, and corresponding Part I incentive fee, may occur again in the future. Any repurchase of our 2019 Notes, 2024 Notes or 2028 Notes (as each is defined below) at a discount will be treated in a similar manner.

Net Investment Income

As a result of the $16.2 million increase in total investment income and the $12.0 million increase in total expenses, net investment income for the three months ended June 30, 2014 reflected a $4.3 million, or 14.1%, increase compared to the three months ended June 30, 2013.

As a result of the $53.2 million increase in total investment income and the $34.4 million increase in total expenses, net investment income for the nine months ended June 30, 2014 reflected a $18.9 million, or 21.9%, increase compared to the nine months ended June 30, 2013.

Realized Gain (Loss) on Investments

Realized gain (loss) 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 our determination that certain investments are considered worthless securities and/or meet the conditions for loss recognition per the applicable tax rules.

During the nine months ended June 30, 2014, we recorded investment realization events, including the following:

- In October and December 2013, we received payments of $3.2 million from Stackpole Powertrain International Holding, L.P. related to the sale of our equity investment. A realized gain of $2.2 million was recorded on this transaction;
- In October 2013, we received a payment of $8.9 million from Harden Healthcare, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on the transaction;
- In October 2013, we received a payment of $4.0 million from Capital Equipment Group, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on the transaction. We also received an additional $0.9 million in connection with the sale of our common equity investment, realizing a gain of $0.6 million;
- In November 2013, we received a payment of $10.0 million from IG Investments Holdings, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In November 2013, we received a payment of $15.7 million from CTM Group, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In December 2013, we received a payment of $0.4 million in connection with the exit of our debt investment in Saddleback Fence and Vinyl Products, Inc. A realized loss of $0.3 million was recorded on this transaction;
- In December 2013, we received a payment of $7.2 million from Western Emulsions, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In January 2014, we received a payment of $5.1 million from BMC Acquisition, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on the transaction;
- In February 2014, we received a payment of $17.8 million from Ikaria Acquisition, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;

- In February 2014, we received a payment of $30.8 million from Dexter Axle Company in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In March 2014, we received a payment of $9.9 million from Vestcom International, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on the transaction;
- In April 2014, we received a payment of $16.0 million from Renaissance Learning, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In April 2014, we received a payment of $32.4 million from Reliance Communications, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on the transaction;
- In May 2014, we received a payment of $15.0 million from TravelClick, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In May 2014, we received a payment of $20.0 million from Joerns Healthcare, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction;
- In May 2014, we received a payment of $97.2 million from ISG Services, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on the transaction; and
- During the nine months ended June 30, 2014, the Company received payments of $279.5 million in connection with syndications of debt investments to other investors and sales of debt investments in the open market and recorded a net realized loss of $1.5 million.

During the nine months ended June 30, 2013, we recorded investment realization events, including the following:

- In October 2012, we received a payment of $4.2 million from Rail Acquisition Corp. in full satisfaction of all obligations related to the revolving loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In October 2012, we received a payment of $5.4 million from Bojangles in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In October 2012, we received a payment of $21.9 million from Blue Coat Systems, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In October 2012, we received a payment of $9.9 million from Insight Pharmaceuticals LLC in full satisfaction of all obligations related to the first lien loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In November 2012, we received a payment of $8.5 million from SolutionSet, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In January 2013, we received a cash payment of $30.2 million from NDSSI Holdings, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction. The Company also received an additional $3.0 million in connection with the sale of its preferred equity investment (including accumulated PIK of $0.9 million), realizing a gain or $0.1 million;
- In January 2013, we received a cash payment of $44.6 million from Welocalize, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In February 2013, we received a cash payment of $14.6 million from Edmentum, Inc. in full satisfaction of all obligations under the first lien loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;

- In February 2013, we received a cash payment of $7.1 million from Advanced Pain Management Holdings, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In March 2013, we received a cash payment of $10.0 million from eResearch Technology, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In March 2013, we received a cash payment of $15.0 million from AdVenture Interactive Corp. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In March 2013, we received a cash payment of $19.5 million from idX Corporation in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In April 2013, we realized a loss in the amount of $11.2 million after the senior-most creditors foreclosed on the assets of Coll Materials Group, LLC. We maintain a $1.0 million receivable related to a financial guarantee related to the transaction;
- In April 2013, we received a cash payment of $14.1 million from Huddle House, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In April 2013, we received a cash payment of $20.4 million from Slate Pharmaceuticals Acquisition Corp. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In April 2013, we received a cash payment of $12.5 million from Securus Technologies Holdings, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In May 2013, we received a cash payment of $9.6 million from ConvergeOne Holdings Corp. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In May 2013, we received a cash payment of $30.9 million from CompuCom Systems, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In May 2013, we received a cash payment of $31.1 million from Cardon Healthcare Network, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In May 2013, we restructured our investment in Trans-Trade Brokers, Inc. As part of the restructuring, we exchanged cash and its debt and equity securities for debt and equity securities in the restructured entity, TransTrade Operators, Inc. and recorded a realized loss in the amount of $6.1 million on this transaction;
- In June 2013, we received a cash payment of $33.6 million from U.S. Retirement Partners, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction;
- In June 2013, we received a cash payment of $14.6 million from Traffic Solutions Holdings, Inc. in full satisfaction of all obligations related to the Term Loan A and Revolver under the loan agreement. The debt investment was exited at par (plus additional fees) and no realized gain or loss was recorded on this transaction; and
- During the nine months ended June 30, 2013, we received cash payments of $54.0 million in connection with partial sales of debt investments in the open market and recorded a net realized gain of $0.5 million.

Net Unrealized Appreciation (Depreciation) on Investments

Net unrealized appreciation or depreciation is the net change in the fair value of our investments 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 June 30, 2014, we recorded net unrealized depreciation of $13.7 million. This consisted of $17.6 million of net unrealized depreciation on debt investments, offset by $3.8 million of net unrealized appreciation on equity investments and $0.1 million of net reclassifications to realized losses (resulting in unrealized appreciation). During the three months ended June 30, 2013, we recorded net unrealized appreciation of $13.1 million. This consisted of $0.5 million of net unrealized appreciation on equity investments, $13.9 million of net reclassifications to realized losses on debt and equity investments (resulting in unrealized appreciation), offset by $1.4 million of net unrealized depreciation on debt investments.

During the nine months ended June 30, 2014, we recorded net unrealized depreciation of $22.0 million. This consisted of $28.0 million of net unrealized depreciation on debt investments and $2.5 million of net reclassifications to realized gains (resulting in unrealized depreciation), offset by $8.5 million of net unrealized appreciation on equity investments. During the nine months ended June 30, 2013, we recorded net unrealized appreciation of $6.4 million. This consisted of $11.2 million of net unrealized appreciation on equity investments, $11.7 million of net reclassifications to realized losses on debt and equity investments (resulting in unrealized appreciation), offset by $16.5 million of net unrealized depreciation on debt investments.

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 and funding from operational cash flow. Additionally, we may reduce investment size by syndicating a portion of any given transaction. We intend to fund our future distribution obligations through operating cash flow or with funds obtained through future equity and debt offerings or credit facilities, as we deem appropriate.

For the nine months ended June 30, 2014, we experienced a net decrease in cash and cash equivalents of $72.7 million. During that period, we used $648.9 million of cash in operating activities, primarily for the funding of $1.3 billion of investments and net revolvers, partially offset by $569.4 million of principal payments, PIK payments and sale proceeds received and $105.1 million of net investment income. During the same period, cash provided by financing activities was $576.2 million, primarily consisting of $244.4 million of proceeds from the issuance of our 4.875% unsecured notes due 2019 (the “2019 Notes”), $43.3 million of net borrowings of SBA debentures, $47.8 million of proceeds from secured borrowings and $347.2 million of net borrowings under our credit facilities, partially offset by $94.8 million of cash distributions paid.

For the nine months ended June 30, 2013, we experienced a net decrease in cash and cash equivalents of $14.8 million. During that period, we used $431.2 million of cash in operating activities, primarily for the funding of $972.2 million of investments and net revolvers, partially offset by $465.1 million of principal payments, PIK payments and sale proceeds received and $86.3 million of net investment income. During the same period, cash provided by financing activities was $416.5 million, primarily consisting of $303.5 million of proceeds from issuances of our common stock, $31.8 million of net borrowings of SBA debentures, $14.7 million of net borrowings under our credit facilities and $155.8 million of proceeds from the issuance of unsecured notes, partially offset by $84.7 million of cash distributions paid.

As of June 30, 2014, we had $74.7 million in cash and cash equivalents, portfolio investments (at fair value) of $2.63 billion, $17.5 million of interest and fees receivable, $225.0 million of SBA debentures payable, $535.2 million of borrowings outstanding under our credit facilities, $115.0 million of Convertible Notes payable, $409.9 million of unsecured notes payable, $45.8 million of secured borrowings and unfunded commitments of $212.3 million.

As of September 30, 2013, we had $147.4 million in cash and cash equivalents, portfolio investments (at fair value) of $1.89 billion, $10.4 million of interest and fees receivable, $181.8 million of SBA debentures payable, $188.0 million of borrowings outstanding under our credit facilities, $115.0 million of Convertible Notes payable, $161.3 million of unsecured notes payable and unfunded commitments of $149.5 million.

Other Sources of Liquidity

We intend to continue to generate cash primarily from cash flows from operations, including interest earned, future borrowings (including secured borrowings relating to senior secured debt investments) and future offerings of securities. Our primary use of funds is investments in our targeted asset classes and cash distributions to holders of our common stock. We maintain a universal shelf registration statement that allows for the public offering and sale of our common stock, debt securities and warrants to purchase such securities. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful. 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. We may also from time to time enter into joint ventures with other investors to invest in similar securities.

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 then-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 Internal Revenue Code. See “Regulated Investment Company Status and Dividends” 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. 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.

As a business development company, under the 1940 Act, we generally are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). This requirement limits the amount that we may borrow. As of June 30, 2014, we were in compliance with this requirement. 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, such as the maturity, covenant package and rate structure of the proposed borrowings, our ability to raise funds through the issuance of shares of our common stock and the risks of such borrowings within the context of our investment outlook. Ultimately, we only intend to use leverage if the expected returns from borrowing to make investments will exceed the cost of such borrowing. 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.

Significant Capital Transactions That Have Occurred Since October 1, 2012

The following table reflects the dividend distributions per share that our Board of Directors has declared, including shares issued under our DRIP, on our common stock since October 1, 2012:

Date Declared	Record Date	Payment Date	Amount per Share	Cash Distribution	DRIP Shares Issued		DRIP Shares Value
January 14, 2013	March 15, 2013	March 29, 2013	$ 0.0958	$ 9.1 million	100,802		$ 1.1 million
January 14, 2013	April 15, 2013	April 30, 2013	0.0958	10.3 million	111,167		1.2 million
January 14, 2013	May 15, 2013	May 31, 2013	0.0958	10.3 million	127,152		1.3 million
May 6, 2013	June 14, 2013	June 28, 2013	0.0958	10.5 million	112,821		1.1 million
May 6, 2013	July 15, 2013	July 31, 2013	0.0958	10.2 million	130,944		1.3 million
May 6, 2013	August 15, 2013	August 30, 2013	0.0958	10.3 million	136,052		1.3 million
August 5, 2013	September 13, 2013	September 30, 2013	0.0958	10.3 million	135,027		1.3 million
August 5, 2013	October 15, 2013	October 31, 2013	0.0958	11.9 million	142,320		1.4 million
August 5, 2013	November 15, 2013	November 29, 2013	0.0958	12.0 million	145,063	(1)	1.4 million
November 21, 2013	December 13, 2013	December 30, 2013	0.05	6.3 million	69,291	(1)	0.6 million
November 21, 2013	January 15, 2014	January 31, 2014	0.0833	10.5 million	114,033	(1)	1.1 million
November 21, 2013	February 14, 2014	February 28, 2014	0.0833	10.5 million	110,486	(1)	1.1 million
November 21, 2013	March 14, 2014	March 31, 2014	0.0833	11.0 million	64,748	(1)	0.6 million
November 21, 2013	April 15, 2014	April 30, 2014	0.0833	10.5 million	120,604	(1)	1.1 million
November 21, 2013	May 15, 2014	May 30, 2014	0.0833	11.1 million	58,003	(1)	0.5 million
February 6, 2014	June 16, 2014	June 30, 2014	0.0833	11.1 million	51,692		0.5 million
February 6, 2014	July 15, 2014	July 31, 2014	0.0833				
February 6, 2014	August 15, 2014	August 29, 2014	0.0833				
July 7, 2014	September 15, 2014	September 30, 2014	0.0917				
July 7, 2014	October 15, 2014	October 31, 2014	0.0917				
July 7, 2014	November 14, 2014	November 28, 2014	0.0917				

(1) Shares were purchased on the open market and distributed.

The following table reflects share transactions that occurred from October 1, 2012 through June 30, 2014:

Date	Transaction	Shares	Public Offering Price	Gross Proceeds
December 7, 2012	Public offering (1)	14,725,000	$ 10.68	$157.3 million
April 2013	Public offering (1)	14,435,253	10.85	156.5 million
September 26, 2013	Public offering (1)	17,643,000	10.31	181.9 million

(1) Includes the underwriters' partial exercise of their over-allotment option

Borrowings

SBIC Subsidiaries

Through wholly-owned subsidiaries, we sought and obtained two licenses from the SBA to operate SBIC subsidiaries. Specifically, on February 3, 2010, our wholly-owned subsidiary, Fifth Street Mezzanine Partners IV, L.P. (“FSMP IV”), 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. On May 15, 2012, our wholly-owned subsidiary, Fifth Street Mezzanine Partners V, L.P. (“FSMP V”), received a license, effective May 10, 2012, from the SBA to operate as an SBIC. 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 licenses allow our SBIC subsidiaries 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 an SBIC subsidiary may borrow to a maximum of $150 million when it has at least $75 million in regulatory capital. Affiliated SBICs are permitted to issue up to a combined maximum amount of $225 million when they have at least $112.5 million in regulatory capital. As of June 30, 2014, FSMP IV had $75 million in regulatory capital and $150 million in SBA-guaranteed debentures outstanding, which had a fair value of $136.2 million. These debentures bear interest at a weighted average interest rate of 3.567% (excluding the SBA annual charge), as follows:

Rate Fix Date	Debenture Amount	Fixed Interest Rate	SBA Annual Charge
September 2010	$ 73,000	3.215%	0.285%
March 2011	65,300	4.084	0.285
September 2011	11,700	2.877	0.285

As of June 30, 2014, FSMP V had $37.5 million in regulatory capital and $75.0 million in SBA-guaranteed debentures outstanding, which had a fair value of $64.3 million. These debentures bear interest at a weighted average interest rate of 2.835% (excluding the SBA annual charge), as follows:

Rate Fix Date	Debenture Amount	Fixed Interest Rate	SBA Annual Charge
March 2013	$ 31,750	2.351%	0.804%
March 2014	43,250	3.191	0.804

As a result, the $225.0 million of SBA-guaranteed debentures held by our SBIC subsidiaries carry a weighted average interest rate of 3.323% as of June 30, 2014.

For the three and nine months ended June 30, 2014, we recorded interest expense of $2.3 million and $6.3 million, respectively, related to the SBA-guaranteed debentures of both SBIC subsidiaries.

We have received exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiaries guaranteed by the SBA from the definition of senior securities in the 200% asset coverage test under the 1940 Act. This allows us increased flexibility under the 200% asset coverage test by permitting us to borrow up to $225 million more than we would otherwise be able to absent the receipt of this exemptive relief.

Wells Fargo Facility

On November 16, 2009, we and Fifth Street Funding, LLC, a consolidated wholly-owned bankruptcy remote special purpose subsidiary (“Funding”), entered into a Loan and Servicing Agreement (“Wells Agreement”) with respect to a revolving credit facility (as subsequently amended, the “Wells Fargo facility”) with Wells Fargo Bank, National Association (“Wells Fargo”), as successor to Wachovia Bank, National Association (“Wachovia”), 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.

The Wells Fargo facility permitted up to $150 million of borrowings (subject to collateral requirements) with an accordion feature allowing for future expansion of the facility up to a total of $250 million, and borrowings under the facility bore interest at a rate equal to LIBOR (1-month) plus 2.50% per annum, with no LIBOR floor. The maturity date of the Wells Fargo facility was April 25, 2016.

The Wells Fargo facility provided for the issuance from time to time of letters of credit for the benefit of our portfolio companies. The letters of credit were subject to certain restrictions, including a borrowing base limitation and an aggregate sublimit of $15.0 million.

In connection with the Wells Fargo facility, we concurrently entered into (i) a Purchase and Sale Agreement with Funding, pursuant to which we have sold and will continue to sell to Funding certain loan assets we have originated or acquired, or will originate or acquire and (ii) a Pledge Agreement with Wells Fargo, pursuant to which we pledged all of our equity interests in Funding as security for the payment of Funding’s obligations under the Wells Agreement and other documents entered into in connection with the Wells Fargo facility. Funding was formed for the sole purpose of entering into the Wells Fargo facility and has no other operations.

The Wells 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, including a prepayment penalty in certain cases. The Wells Fargo facility agreements 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 us to materially perform under the Wells Agreement and related agreements governing the facility, which, if not complied with, could have accelerated repayment under the facility.

The Wells Fargo facility was secured by all of the assets of Funding, and all of our equity interest in Funding. We used the Wells Fargo facility to fund a portion of our loan origination activities and for general corporate purposes. Each loan origination under the facility was subject to the satisfaction of certain conditions. Our borrowings under the Wells Fargo facility bore interest at a weighted average interest rate of 2.6857% for the nine months ended June 30, 2014. For the nine months ended June 30, 2014, we recorded interest expense of $1.8 million related to the Wells Fargo facility.

Effective February 21, 2014, we, together with Funding, terminated the Wells Fargo facility. In connection therewith, the Amended and Restated Loan and Servicing Agreement and other related documents governing the Wells Fargo facility were also terminated. As such, we have no borrowing capacity under the Wells Fargo facility as of June 30, 2014. Upon termination of the Wells Fargo facility, we accelerated the $0.7 million remaining unamortized fee balance into interest expense.

ING Facility

On May 27, 2010, we entered into a secured syndicated revolving credit facility (as subsequently amended, the “ING facility”) pursuant to a Senior Secured Revolving Credit Agreement (“ING Credit Agreement”) with certain lenders party thereto from time to time and ING Capital LLC, as administrative agent. The ING facility allows us to request letters of credit from ING Capital LLC, as the issuing bank.

As of June 30, 2014, the ING facility permitted up to $670 million of borrowings with an accordion feature allowing for future expansion of the facility up to a total of $800 million, and borrowings under the facility bore interest at a rate equal to LIBOR (1-, 2-, 3- or 6-month, at our option) plus 2.25% per annum, with no LIBOR floor, assuming we maintain our current credit rating. Unless extended, the period during which we may make and reinvest borrowings under the facility will expire on August 6, 2017 and the maturity date of the facility is August 6, 2018.

The ING facility is secured by substantially all of our assets, as well as the assets of our wholly-owned subsidiary, FSFC Holdings, Inc. ("Holdings"), and our indirect wholly-owned subsidiary, Fifth Street Fund of Funds LLC ("Fund of Funds"), subject to certain exclusions for, among other things, equity interests in any of our SBIC subsidiaries and equity interests in Funding and Fifth Street Funding II, LLC (which is defined and discussed below) as further set forth in a Guarantee, Pledge and Security Agreement (“ING Security Agreement”) entered into in connection with the ING Credit Agreement, among FSFC Holdings, Inc., ING Capital LLC, as collateral agent, and us. None of our SBIC subsidiaries, Funding or Fifth Street Funding II, 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 ING Security Agreement, Holdings and Fund of Funds guaranteed the obligations under the ING Security Agreement, including our obligations to the lenders and the administrative agent under the ING Credit Agreement. Additionally, we pledged our entire equity interest in Holdings and Holdings pledged its entire equity interest in Fund of Funds to the collateral agent pursuant to the terms of the ING Security Agreement.

The ING Credit Agreement and related agreements governing the ING facility required Holdings, Fund of Funds 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 ING 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 be assured that we will be able to borrow funds under the ING facility at any particular time or at all. As of June 30, 2014, we had $483.3 million of borrowings outstanding under the ING facility, which had a fair value of $483.3 million. Our borrowings under the ING facility bore interest at a weighted average interest rate of 2.6545% for the nine months ended June 30, 2014. For the three and nine months ended June 30, 2014, we recorded interest expense of $4.0 million and $10.3 million, respectively, related to the ING facility.

Sumitomo Facility

On September 16, 2011, Fifth Street Funding II, LLC, a consolidated wholly-owned bankruptcy remote, special purpose subsidiary (“Funding II”), entered into a Loan and Servicing Agreement (“Sumitomo Agreement”) with respect to a seven-year credit facility (“Sumitomo facility”) with Sumitomo Mitsui Banking Corporation (“SMBC”), an affiliate of Sumitomo Mitsui Financial Group, Inc., as administrative agent, and each of the lenders from time to time party thereto.

As of June 30, 2014, the Sumitomo facility permitted up to $125 million of borrowings (subject to collateral requirements), and borrowings under the facility bore interest at a rate of LIBOR (1-month) plus 2.25% per annum, with no LIBOR floor. Unless extended, the period during which we may make and reinvest borrowings under the facility will expire on September 16, 2016, and the maturity date of the facility is September 16, 2020, with an option for a one-year extension.

In connection with the Sumitomo facility, we concurrently entered into a Purchase and Sale Agreement with Funding II, pursuant to which we will sell to Funding II certain loan assets we have originated or acquired, or will originate or acquire.

The Sumitomo Agreement and related agreements governing the Sumitomo facility required both Funding II 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, including a prepayment penalty in certain cases. The Sumitomo 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 II, and the failure by Funding II or us to materially perform under the Sumitomo Agreement and related agreements governing the Sumitomo 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. Funding II was formed for the sole purpose of entering into the Sumitomo facility and has no other operations.

The Sumitomo facility is secured by all of the assets of Funding II. Each loan origination under the facility is subject to the satisfaction of certain conditions. We cannot be assured that Funding II will be able to borrow funds under the Sumitomo facility at any particular time or at all. As of June 30, 2014, we had $51.9 million of borrowings outstanding under the Sumitomo facility. Our borrowings under the Sumitomo facility bore interest at a weighted average interest rate of 2.4939% for the nine months ended June 30, 2014. For the three and nine months ended June 30, 2014, we recorded interest expense of $0.5 million and $1.6 million, respectively, related to the Sumitomo facility.

As of June 30, 2014, except for assets that were funded through our SBIC subsidiaries, substantially all of our assets were pledged as collateral under the Wells Fargo facility, ING facility or the Sumitomo facility. With respect to the assets funded through our SBIC subsidiaries, the SBA, as a creditor, will have a superior claim to the SBIC subsidiaries' assets over our stockholders.

The following table describes significant financial covenants with which we must comply under the ING facility on a quarterly basis. The Sumitomo facility does not require us to comply with significant financial covenants:

Financial Covenant	Description	Target Value	Reported Value (1)
Minimum shareholders' equity	Net assets shall not be less than the greater of (a) 40% of total assets; and (b) $825 million plus 50% of the aggregate net proceeds of all sales of equity interests after August 6, 2013	$1,117 million	$1,365 million
Asset coverage ratio	Asset coverage ratio shall not be less than 2.10:1	2.10:1	2.24:1
Interest coverage ratio	Interest coverage ratio shall not be less than 2.50:1	2.50:1	4.81:1

(1) As contractually required, we report financial covenants based on the last filed quarterly or annual report, in this case our Form 10-Q for the quarter ended March 31, 2014. We were also in compliance with all financial covenants under these credit facilities based on the financial information contained in this Form 10-Q for the quarter ended June 30, 2014.

We and our SBIC subsidiaries are also subject to certain regulatory requirements relating to our borrowings. For a discussion of such requirements, see "Item 1. Business — Regulation — Business Development Company Regulations" and "— Small Business Investment Company Regulations" in our Annual Report on Form 10-K for the year ended September 30, 2013.

The following table reflects material credit facility and SBA debenture transactions that have occurred since October 1, 2009. Amounts available and drawn are as of June 30, 2014.

Facility	Date	Transaction	Total Facility Amount	Upfront fee Paid	Total Facility Availability	Amount Drawn	Remaining Availability	Interest Rate
Wells Fargo facility	11/16/2009	Entered into credit facility	50 million	0.8 million				LIBOR + 4.00%
	5/26/2010	Expanded credit facility	100 million	0.9 million				LIBOR + 3.50%
	2/28/2011	Amended credit facility	100 million	0.4 million				LIBOR + 3.00%
	11/30/2011	Amended credit facility	100 million	—				LIBOR + 2.75%
	4/23/2012	Amended credit facility	150 million	1.2 million				LIBOR + 2.75%
	6/20/2013	Amended credit facility	150 million	—				LIBOR (3) + 2.50%
	2/21/2014	Terminated credit facility	—	—	—	—	—	
ING facility	5/27/2010	Entered into credit facility	90 million	0.8 million				LIBOR + 3.50%
	2/22/2011	Expanded credit facility	215 million	1.6 million				LIBOR + 3.50%
	7/8/2011	Expanded credit facility	230 million	0.4 million				LIBOR + 3.00%/3.25%
	2/29/2012	Amended credit facility	230 million	1.5 million				LIBOR + 3.00%/3.25%
	11/30/2012	Amended credit facility	385 million	2.2 million				LIBOR + 2.75%
	1/7/2013	Expanded credit facility	445 million	0.3 million				LIBOR + 2.75%
	8/6/2013	Amended credit facility	480 million	1.8 million				LIBOR + 2.25%
	10/22/2013	Expanded credit facility	605 million	0.7 million				LIBOR + 2.25%
	1/30/2014	Expanded credit facility	650 million	0.1 million				LIBOR + 2.25%
	5/2/2014	Expanded credit facility	670 million	0.2 million	670 million	483 million	187 million	LIBOR (4) + 2.25%
SBA	2/16/2010	Received capital commitment	75 million	0.8 million				
	9/21/2010	Received capital commitment	150 million	0.8 million				
	7/23/2012	Received capital commitment	225 million	0.8 million	225 million	225 million	—	3.323% (2)
Sumitomo facility	9/16/2011	Entered into credit facility	200 million	2.5 million				LIBOR + 2.25%
	10/30/2013	Reduced credit facility	125 million	—	94 million (1)	52 million	42 million	LIBOR (3) + 2.25%

(1) Availability to increase upon our decision to further collateralize the facility
(2) Weighted average interest rate of locked debentures (excludes the SBA annual charge)
(3) 1-month
(4) 1-, 2-, 3- or 6-month, at our option

Convertible Notes

On April 12, 2011, we issued $152 million unsecured convertible notes (“Convertible Notes”), including $2 million issued to Leonard M. Tannenbaum, our Chief Executive Officer. The Convertible Notes were issued pursuant to an Indenture, dated April 12, 2011 (the “Indenture”), between us and Deutsche Bank Trust Company Americas, as trustee (the “Trustee”).

The Convertible Notes mature on April 1, 2016 (the “Maturity Date”), unless previously converted or repurchased in accordance with their terms. The Convertible Notes bear interest at a rate of 5.375% per annum payable semiannually in arrears on April 1 and October 1 of each year. The Convertible Notes are our unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries or financing vehicles.

Prior to the close of business on the business day immediately preceding January 1, 2016, holders may convert their Convertible Notes only under certain circumstances set forth in the Indenture, such as during specified periods when our shares of common stock trade at more than 110% of the then applicable conversion price or the Convertible Notes trade at less than 98% of their conversion value. On or after January 1, 2016 until the close of business on the business day immediately preceding the Maturity Date, holders may convert their Convertible Notes at any time. Upon conversion, we will deliver shares of our common stock. The conversion rate was initially, and currently is, 67.7415 shares of common stock per $1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately $14.76 per share of common stock). The conversion rate is subject to customary anti-dilution adjustments, including for any cash dividends or distributions paid on shares of our common stock in excess of a monthly dividend of $0.1066 per share, but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders. Based on the current conversion rate, the maximum number of shares of common stock that would be issued upon conversion of the $115.0 million Convertible Notes outstanding at June 30, 2014 is 7,790,273. If we deliver shares of common stock upon a conversion at the time our net asset value per share exceeds the conversion price in effect at such time, our stockholders may incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of our common stock upon our issuance of common stock in connection with the conversion of our Convertible Notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance. The shares of common stock issued upon a conversion are not subject to registration rights.

We may not redeem the Convertible Notes prior to maturity. No sinking fund is provided for the Convertible Notes. In addition, if certain corporate events occur in respect to us, holders of the Convertible Notes may require us to repurchase for cash all or part of their Convertible Notes at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The Indenture contains certain covenants, including covenants requiring us to provide financial information to the holders of the Convertible Notes and the Trustee if we cease to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the Indenture. We may repurchase the Convertible Notes in accordance with the 1940 Act and the rules promulgated thereunder. Any Convertible Notes repurchased by us may, at our option, be surrendered to the Trustee for cancellation, but may not be reissued or resold by us. Any Convertible Notes surrendered for cancellation will be promptly canceled and no longer outstanding under the Indenture. During the nine months ended June 30, 2014 or June 30, 2013, we did not repurchase any of the Convertible Notes in the open market.

For the three and nine months ended June 30, 2014, we recorded interest expense of $1.7 million and $5.1 million, respectively, related to the Convertible Notes.

As of June 30, 2014, there were $115.0 million Convertible Notes outstanding, which had a fair value of $121.6 million.

2019 Notes

On February 26, 2014, we issued $250.0 million in aggregate principal amount of our 4.875% unsecured notes due 2019 (the “2019 Notes”) for net proceeds of $244.6 million after deducting original issue discount of $1.4 million, underwriting commissions and discounts of $3.7 million and offering costs of $0.3 million.

The 2019 Notes were issued pursuant to an indenture, dated April 30, 2012, as supplemented by the first supplemental indenture, dated February 26, 2014 (collectively, the “2019 Notes Indenture”), between us and the Trustee. The 2019 Notes are our general unsecured obligations that rank senior in right of payment to all of our existing and future indebtedness that is expressly subordinated in right of payment to the 2019 Notes. The 2019 Notes will rank equally in right of payment with all of our existing and future liabilities that are not so subordinated. The 2019 Notes will effectively rank junior to any of our secured indebtedness (including unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness. The 2019 Notes will rank structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

Interest on the 2019 Notes is paid semi-annually on March 1 and September 1, at a rate of 4.875% per annum. The 2019 Notes mature on March 1, 2019 and may be redeemed in whole or in part at any time or from time to time at our option prior to maturity.

The 2019 Notes Indenture contains certain covenants, including covenants requiring our compliance with (regardless of whether we are subject to) the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, as well as covenants requiring us to provide financial information to the holders of the 2019 Notes and the Trustee if we cease to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the 2019 Notes Indenture. We may repurchase the 2019 Notes in accordance with the 1940 Act and the rules promulgated thereunder. In addition, holders of the 2019 Notes can require us to repurchase the 2019 Notes at 100% of their principal amount upon the occurrence of a certain change of control events as described in the 2019 Notes Indenture. The 2019 Notes are issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. During the nine months ended June 30, 2014, we did not repurchase any of the 2019 Notes in the open market.

For the three and nine months ended June 30, 2014, we recorded interest expense of $3.2 million and $4.4 million, respectively, related to the 2019 Notes.

As of June 30, 2014, there were $250.0 million of 2019 Notes outstanding, which had a fair value of $260.2 million.

2024 Notes

On October 18, 2012, we issued $75.0 million in aggregate principal amount of our 5.875% 2024 Notes (the "2024 Notes") for net proceeds of $72.5 million after deducting underwriting commissions of $2.2 million and offering costs of $0.3 million.

The 2024 Notes were issued pursuant to an indenture, dated April 30, 2012, as supplemented by the first supplemental indenture, dated October 18, 2012 (collectively, the “2024 Notes Indenture”), between us and the Trustee. The 2024 Notes are our unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the 2024 Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries or financing vehicles. Interest on the 2024 Notes is paid quarterly in arrears on January 30, April 30, July 30 and October 30, at a rate of 5.875% per annum. The 2024 Notes mature on October 30, 2024 and may be redeemed in whole or in part at any time or from time to time at our option on or after October 30, 2017. The 2024 Notes are listed on the New York Stock Exchange under the trading symbol “FSCE” with a par value of $25.00 per share.

The 2024 Notes Indenture contains certain covenants, including covenants requiring our compliance with (regardless of whether we are subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act and with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, as well as covenants requiring us to provide financial information to the holders of the 2024 Notes and the Trustee if we cease to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the 2024 Notes Indenture. We may repurchase the 2024 Notes in accordance with the 1940 Act and the rules promulgated thereunder. Any 2024 Notes repurchased by us may, at our option, be surrendered to the Trustee for cancellation, but may not be reissued or resold by us. Any 2024 Notes surrendered for cancellation will be promptly canceled and no longer outstanding under the 2024 Notes Indenture. During the nine months ended June 30, 2014 and June 30, 2013, we did not repurchase any of the 2024 Notes in the open market.

For the three and nine months ended June 30, 2014, we recorded interest expense of $1.2 million and $3.5 million, respectively, related to the 2024 Notes.

As of June 30, 2014, there were $75.0 million 2024 Notes outstanding, which had a fair value of $74.8 million.

2028 Notes

In April and May 2013, we issued $86.3 million in aggregate principal amount of our 6.125% unsecured notes due 2028 (the "2028 Notes") for net proceeds of $83.4 million after deducting underwriting commissions of $2.6 million and offering costs of $0.3 million. The proceeds included the underwriters’ full exercise of their overallotment option.

The 2028 Notes were issued pursuant to an indenture, dated April 30, 2012, as supplemented by the second supplemental indenture, dated April 4, 2013 (collectively, the “2028 Notes Indenture”), between us and the Trustee. The 2028 Notes are our unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the 2028 Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries or financing vehicles. Interest on the 2028 Notes is paid quarterly in arrears on January 30, April 30, July 30 and October 30, at a rate of 6.125% per annum. The 2028 Notes mature on April 30, 2028 and may be redeemed in whole or in part at any time or from time to time at our option on or after April 30, 2018. The 2028 Notes are listed on the NASDAQ Global Select Market under the trading symbol “FSCFL” with a par value of $25.00 per share.

The 2028 Notes Indenture contains certain covenants, including covenants requiring our compliance with (regardless of whether we are subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act, as well as covenants requiring us to provide financial information to the holders of the 2028 Notes and the Trustee if we cease to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the 2028 Notes Indenture. We may repurchase the 2028 Notes in accordance with the 1940 Act and the rules promulgated thereunder. Any 2028 Notes repurchased by us may, at our option, be surrendered to the Trustee for cancellation, but may not be reissued or resold by us. Any 2028 Notes surrendered for cancellation will be promptly canceled and no longer outstanding under the 2028 Notes Indenture. During the nine months ended June 30, 2014, we did not repurchase any of the 2028 Notes in the open market.

For the three and nine months ended June 30, 2014, we recorded interest expense of $1.4 million and $4.1 million, respectively, related to the 2028 Notes.

As of June 30, 2014, there were $86.3 million of 2028 Notes outstanding, which had a fair value of $85.6 million.

Secured Borrowings

We follow the guidance in ASC 860 when accounting for loan participations and other partial loan sales. Such guidance requires a participation or other partial loan sale to meet the definition of a “participating interest,” as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain on our Consolidated Statement of Assets and Liabilities and the proceeds are recorded as a secured borrowing until the definition is met. Secured borrowings are carried at fair value to correspond with the related investments, which are carried at fair value.

As of June 30, 2014, secured borrowings at fair value totaled $45.8 million and the fair value of the loans that are associated with these secured borrowings was $135.3 million. These secured borrowings were the result of the completion of partial loan sales of two senior secured debt investments totaling $47.8 million during the nine months ended June 30, 2014 that did not meet the definition of a participating interest. As a result, sale treatment was not allowed and these partial loan sales were treated as secured borrowings. During the nine months ended June 30, 2014, there were $2.0 million of repayments on secured borrowings.

As of June 30, 2014, there were $45.8 million of secured borrowings outstanding, which had a fair value of $45.8 million.

For the three and nine months ended June 30, 2014, we recorded interest expense of $0.6 million and $0.8 million, respectively, related to the secured borrowings.

Total interest expense for the three and nine months ended June 30, 2014 was $14.7 million and $37.8 million, respectively. Total interest expense for the three and nine months ended June 30, 2013 was $9.2 million and $24.1 million, respectively.

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 June 30, 2014, our only off-balance sheet arrangements consisted of $212.3 million of unfunded commitments, which was comprised of $195.7 million to provide debt financing to certain of our portfolio companies and $24.0 million related to unfunded limited partnership interests. As of September 30, 2013, our only off-balance sheet arrangements consisted of $149.5 million, which was comprised of $126.8 million to provide debt financing to certain of our portfolio companies and $22.7 million related to unfunded limited partnership interests. Such commitments are subject to our portfolio companies' satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in our Consolidated Statement of Assets and Liabilities and are not reflected on our Consolidated Statement of Assets and Liabilities.

A summary of the composition of unfunded commitments (consisting of revolvers, term loans and limited partnership interests) as of June 30, 2014 and September 30, 2013 is shown in the table below:

	June 30, 2014	September 30, 2013
Lift Brands Holdings, Inc.	$ 18,000	$ —
BMC Software Finance, Inc.	15,000	—
Yeti Acquisition, LLC	12,000	7,500
Desert NDT, LLC	11,134	—
Drugtest, Inc.	10,900	20,000
RP Crown Parent, LLC	10,000	9,000
P2 Upstream Acquisition Co.	10,000	—
First Choice ER, LLC (1)	9,181	—
InMotion Entertainment Group, LLC	7,669	—
Pingora MSR Opportunity Fund I, LP (limited partnership interest)	7,528	9,792
Thing5, LLC	6,000	—
Med-Data, Incorporated	6,000	—
Integrated Petroleum Technologies, Inc.	5,397	—
I Drive Safely, LLC	5,000	5,000
First American Payment Systems, LP	4,933	5,000
Adventure Interactive, Corp.	4,846	5,000
World 50, Inc.	4,000	4,000
Charter Brokerage, LLC	4,000	4,000
Enhanced Recovery Company, LLC	4,000	3,500
OnCourse Learning Corporation	4,000	—
Discovery Practice Management, Inc.	3,732	1,000
Refac Optical Group	3,600	8,000
Teaching Strategies, LLC	3,500	5,000
All Web Leads, Inc.	3,500	—
Deltek, Inc.	3,213	8,667
OmniSYS Acquisition Corporation	2,500	—
Eagle Hospital Physicians, Inc.	2,287	1,867
Chicago Growth Partners, LP (limited partnership interest)	2,000	2,000
Personable Holdings, Inc.	1,824	3,409
CPASS Acquisition Company	1,750	2,500
Olson + Co., Inc.	1,673	2,105
Tailwind Capital Partners II, LP (limited partnership interest)	1,612	—
Beecken Petty O'Keefe Fund IV, LP (limited partnership interest)	1,609	2,000
Riverside Fund V, LP (limited partnership interest)	1,582	1,712
SPC Partners V, LP (limited partnership interest)	1,571	—
CCCG, LLC	1,520	1,520
Sterling Capital Partners IV, LP (limited partnership interest)	1,380	1,528
Phoenix Brands Merger Sub LLC	1,286	3,429
Moelis Capital Partners Opportunity Fund I-B, LP (limited partnership interest)	1,285	—
Ansira Partners, Inc.	1,190	1,190
Psilos Group Partners IV, LP (limited partnership interest)	1,000	1,000
RCP Direct II, LP (limited partnership interest)	1,000	—
Milestone Partners IV, LP (limited partnership interest)	869	1,414
Total Military Management, Inc.	857	—
2Checkout, Inc.	850	2,850
Genoa Healthcare Holdings, LLC	833	1,000
HealthDrive Corporation	734	734
Garretson Firm Resolution Group, Inc.	663	—
Bunker Hill Capital II (QP), LP (limited partnership interest)	632	786
ACON Equity Partners III, LP (limited partnership interest)	587	671
Riverlake Equity Partners II, LP (limited partnership interest)	564	638
American Cadastre, LLC	530	—
Riverside Fund IV, LP (limited partnership interest)	322	287
RCP Direct, LP (limited partnership interest)	260	524
TransTrade Operators, Inc.	255	—

Baird Capital Partners V, LP (limited partnership interest)	174	351
ISG Services, LLC	—	6,000
HealthEdge Software, Inc.	—	5,000
Reliance Communications, LLC	—	2,750
Mansell Group, Inc.	—	2,000
Physicians Pharmacy Alliance, Inc.	—	2,000
Miche Bag, LLC	—	1,500
BMC Acquisition, Inc.	**—**	**1,250**
Total	**$ 212,332**	**$ 149,474**

(1) In addition to its revolving commitment, we have extended a $175.0 million delayed draw term loan facility to First Choice ER, LLC. Specific amounts are made available to the borrower as certain financial requirements are satisfied. As of June 30, 2014, the total amount available to the borrower under this delayed draw facility was $1.5 million, and the facility was drawn $25.0 million as of this date.

Contractual Obligations

The following table reflects information pertaining to our debt outstanding under the SBA debentures payable, the Wells Fargo facility, the ING facility, the Sumitomo facility, our Convertible Notes, our 2024 Notes, 2028 Notes, our 2019 Notes and secured borrowings:

	Debt Outstanding as of September 30, 2013	Debt Outstanding as of June 30, 2014	Weighted average debt outstanding for the nine months ended June 30, 2014	Maximum debt outstanding for the nine months ended June 30, 2014
SBA debentures payable	$ 181,750	$ 225,000	$ 210,594	$ 225,000
Wells Fargo facility	20,000	—	23,575	55,072
ING facility	168,000	483,250	398,953	548,250
Sumitomo facility	—	51,931	58,760	83,500
Convertible Notes	115,000	115,000	115,000	115,000
2024 Notes	75,000	75,000	75,000	75,000
2028 Notes	86,250	86,250	86,250	86,250
2019 Notes	—	250,000	113,553	250,000
Secured borrowings	—	45,750	21,045	47,750
Total debt	**$ 646,000**	**$ 1,332,181**	**$ 1,102,730**	**$ 1,385,877**

The following table reflects our contractual obligations arising from the SBA debentures payable, the Wells Fargo facility, the ING facility, the Sumitomo facility, our Convertible Notes, our 2024 Notes, our 2028 Notes, our 2019 Notes and secured borrowings:

	Payments due by period as of June 30, 2014				
	Total	< 1 year	1-3 years	3-5 years	> 5 years
SBA debentures payable	$ 225,000	$ —	$ —	$ —	$ 225,000
Interest due on SBA debentures	68,788	8,744	17,749	17,725	24,570
ING facility	483,250	—	—	483,250	—
Interest due on ING facility	48,279	11,779	23,558	12,942	—
Sumitomo facility	51,931	—	—	51,931	—
Interest due on Sumitomo facility	5,266	1,249	2,498	1,519	—
Convertible Notes	115,000	—	115,000	—	—
Interest due on Convertible Notes	10,855	6,181	4,674	—	—
Secured Borrowings	45,750	—	—	45,750	—
Interest due on secured borrowings	8,576	2,205	4,410	1,961	—
2024 Notes	75,000	—	—	—	75,000
Interest due on 2024 Notes	45,571	4,406	8,813	8,813	23,539
2028 Notes	86,250	—	—	—	86,250
Interest due on 2028 Notes	73,134	5,283	10,566	10,566	46,719
2019 Notes	250,000	—	—	250,000	—
Interest due on 2019 Notes	56,931	12,188	24,375	20,368	—
Total	**$ 1,649,581**	**$ 52,035**	**$ 211,643**	**$ 904,825**	**$ 481,078**

Regulated Investment Company Status and Dividends

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. Dividends declared and paid by us in a year may differ from taxable income for that year as such dividends 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 net 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 distribution requirements of our taxable income on a calendar year basis (e.g., calendar year 2013). We anticipate timely distribution of our taxable income in accordance with tax rules; however, we incurred a de minimis U.S. federal excise tax for calendar year 2010. We did not incur a federal excise tax for calendar years 2012 and 2013 and do not expect to incur a federal excise tax for the calendar year 2014. We may incur a federal excise tax in future years.

We intend to distribute to our stockholders between 90% and 100% of our annual taxable income (which includes our taxable interest and fee income). However, we are partially dependent on our SBIC subsidiaries for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiaries 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 subsidiaries to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. Also, the covenants under the Wells Fargo facility and Sumitomo facility could, under certain circumstances, restrict Funding and Funding II from making distributions to us and, as a result, hinder our ability to satisfy the distribution requirement. Similarly, the covenants contained in the ING facility may prohibit us from making distributions to our stockholders, and, as a result, could 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 dividend 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 and debt instruments. 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.

In accordance with certain applicable Treasury regulations and private letter rulings issued by the Internal Revenue Service, a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 20% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive less than 20% of his or her entire distribution in cash. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock. We have no current intention of paying dividends in shares of our stock in accordance with these Treasury regulations or private letter rulings.

Related Party Transactions

We have entered into an investment advisory agreement with Fifth Street Management LLC, our investment adviser. Fifth Street Management LLC 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 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 excludes cash and cash equivalents, and (b) an incentive fee based on our performance. The incentive fee consists of two parts. The Part I incentive fee 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 ("Part II incentive fee") 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. During the three and nine months ended June 30, 2014, we incurred fees of $21.7 million and $64.8 million, respectively, under the investment advisory agreement. During the three and nine months ended June 30, 2014, the Investment Adviser voluntarily agreed to waive the portion of the base management fee attributable to assets funded with proceeds from secured borrowings, which resulted in a waiver of $0.2 million and $0.5 million, respectively. During the three and nine months ended June 30, 2013, the Investment Adviser voluntarily agreed to waive the portion of the base management fee attributable to certain new investments that closed prior to quarter end, which resulted in a waiver of $1.0 million and $2.3 million, respectively.

Pursuant to the administration agreement entered into as of January 1, 2014 with FSC CT, Inc., which is controlled by Mr. Tannenbaum, we are furnished 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 CT, 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 reimburse our allocable portion of overhead and other expenses incurred in performing the 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 respective staffs. The administration agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. The administration agreement with FSC CT, Inc. has terms substantially similar to the terms of our prior administration agreement with FSC, Inc. During the three and nine months ended June 30, 2014, we have incurred expenses of $1.2 million and $4.4 million, 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.

Recent Developments

In July 2014, we invested $51.7 million in SLF JV I Funding, LLC ("JV") to facilitate the acquisition of $171.1 million principal amount of senior secured loans, a portion of which were purchased from us. To date, the JV has drawn $104.7 million under its $200.0 million revolving credit facility with Deutsche Bank AG, New York Branch. These transactions were in connection with our agreement in May 2014 with Kemper Corporation to provide $100.0 million of subordinated notes and equity to the JV, with us providing $87.5 million and Kemper providing $12.5 million. The JV invests in middle market and other corporate debt securities.

On July 2, 2014, our Board of Directors declared the following dividends:

- $0.0917 per share, payable on September 30, 2014 to stockholders of record on September 15, 2014;
- $0.0917 per share, payable on October 31, 2014 to stockholders of record on October 15, 2014; and
- $0.0917 per share, payable on November 28, 2014 to stockholders of record on November 14, 2014.

Effective July 14, 2014, our principal executive offices are located at 777 West Putnam Avenue, 3rd Floor, Greenwich, CT 06830.

On July 15, 2014, we completed a follow-on public offering of 13,250,000 shares of our common stock at the public offering price of $9.95 per share. The net proceeds totaled $129.7 million after deducting underwriting commissions of $1.9 million and offering costs of $0.3 million.

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.

Item 3. ***Quantitative and Qualitative Disclosures 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 our debt investments include floating interest rates. In addition, our investments are carried at fair value as determined in good faith by our Board of Directors in accordance with the 1940 Act (See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — 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.

As of June 30, 2014, 72.4% of our debt investment portfolio (at cost and fair value) bore interest at floating rates. The composition of our floating rate debt investments by cash interest rate floor (excluding PIK) as of June 30, 2014 and September 30, 2013 was as follows:

	June 30, 2014		September 30, 2013	
	Fair Value	% of Floating Rate Portfolio	Fair Value	% of Floating Rate Portfolio
Under 1%	$ 135,737	7.54%	$ 115,659	9.57%
1% to under 2%	1,589,516	88.35	1,007,366	83.35
2% to under 3%	50,883	2.83	48,649	4.03
3% and over	23,115	1.28	36,913	3.05
Total	**$ 1,799,251**	**100.00%**	**$ 1,208,587**	**100.00%**

Based on our Consolidated Statement of Assets and Liabilities as of June 30, 2014, the following table shows the approximate annualized increase (decrease) in components of net assets resulting from operations of hypothetical base rate changes in interest rates, assuming no changes in our investment and capital structure.

Basis point increase(1)	Interest income	Interest expense	Net increase (decrease)
500	$ 70,600	$ (28,900)	$ 41,700
400	52,500	(23,100)	29,400
300	34,400	(17,200)	17,200
200	16,500	(11,400)	5,100
100	1,700	(5,600)	(3,900)

(1) A decline in interest rates would not have a material impact on our Consolidated Financial Statements.

We regularly measure exposure to interest rate risk. We assess interest rate risk and manage our interest rate exposure on an ongoing basis by comparing our interest rate sensitive assets to our interest rate sensitive liabilities. Based on this review, we determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates. The following table shows a comparison of the interest rate base for our interest-bearing cash and outstanding investments, at principal, and our outstanding borrowings as of June 30, 2014 and September 30, 2013:

	June 30, 2014		September 30, 2013	
	Interest Bearing Cash and Investments	Borrowings	Interest Bearing Cash and Investments	Borrowings
Money market rate	$ 74,661	$ —	$ 147,359	$ —
Prime rate	1,448	—	2,886	—
LIBOR				
1-month	61,662	535,181	57,604	188,000
3-month	1,751,262	45,750	1,143,068	—
Fixed rate	692,175	751,250	582,340	458,000
Total	**$ 2,581,208**	**$ 1,332,181**	**$ 1,933,257**	**$ 646,000**

Item 4. ***Controls and Procedures***

All controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, in timely identifying, recording, processing, summarizing, and reporting any material information relating to us that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934.

There have been no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. ***Legal Proceedings.***

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. Currently, we are party to pending litigation but there are no material claims against us.

Item 1A. ***Risk Factors.***

There have been no material changes during the three months ended June 30, 2014 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2013.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds.***

None.

Item 5. ***Other Information.***

Item 6. ***Exhibits.***

Exhibit Number	Description of Exhibit
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1*	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.2*	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

*Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIFTH STREET FINANCE CORP.

Date: August 7, 2014	By:	/s/ Leonard M. Tannenbaum
		Leonard M. Tannenbaum
		Chairman and Chief Executive Officer
Date: August 7, 2014	By:	/s/ Richard A. Petrocelli
		Richard A. Petrocelli
		Chief Financial Officer

EXHIBIT INDEX

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*Filed herewith

Exhibit 31.1

CERTIFICATION PURSUANT TO

RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,

AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Leonard M. Tannenbaum, Chief Executive Officer of Fifth Street Finance Corp., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2014 of Fifth Street Finance Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's first fiscal quarter in the case of this quarterly report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 7th day of August, 2014.

By: /s/ Leonard M. Tannenbaum

Leonard M. Tannenbaum
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO

RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,

AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard A. Petrocelli, Chief Financial Officer of Fifth Street Finance Corp., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2014 of Fifth Street Finance Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's first fiscal quarter in the case of a quarterly report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 7th day of August, 2014.

By: /s/ Richard A. Petrocelli

Richard A. Petrocelli
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with the quarterly report on Form 10-Q for the quarterly period ended **June 30, 2014** (the “Report”) of Fifth Street Finance Corp. (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, Leonard M. Tannenbaum, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Leonard M. Tannenbaum

Name: Leonard M. Tannenbaum
Title: Chief Executive Officer
Date: August 7, 2014

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with the quarterly report on Form 10-Q for the quarterly period ended **June 30, 2014** (the "Report") of Fifth Street Finance Corp. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Richard A. Petrocelli, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Richard A. Petrocelli

Name: Richard A. Petrocelli
Title: Chief Financial Officer
Date: August 7, 2014