

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

(Mark One)

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

For the fiscal year ended September 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**  
(State or jurisdiction of incorporation or organization)

**26-1219283**  
(I.R.S. Employer Identification No.)

777 West Putnam Avenue, 3rd Floor  
Greenwich, CT  
(Address of principal executive office)

**06830**  
(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	The NASDAQ Global Select Market
5.875% Unsecured Notes due 2024	The New York Stock Exchange
6.125% Unsecured Notes due 2028	The NASDAQ Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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  Smaller reporting company

(Do not check if a 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 aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of March 31, 2014 is \$1,294,452,393. The registrant had 153,340,371 shares of common stock outstanding as of November 28, 2014.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement relating to the registrant's 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year, are incorporated by reference in Part III of this Annual Report on Form 10-K as indicated herein.

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## PART I

### Item 1. Business

#### General

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. We define small and mid-sized companies as those with annual revenues between \$25 million and \$250 million. Our investment objective is to maximize our portfolio's total return by generating current income from our debt investments and capital appreciation from our equity investments. We are externally managed and advised by Fifth Street Management LLC, which we also refer to as our "investment adviser."

From inception through September 30, 2014, we originated approximately \$5.0 billion of funded debt and equity investments. Our portfolio totaled \$2.5 billion at fair value at September 30, 2014 and was comprised of 124 investments, 104 of which were in operating companies, one of which was in a senior loan fund vehicle and 19 of which were in private equity funds. The 19 investments in private equity funds represented less than 1% of the fair value of our assets at September 30, 2014. The 97 debt investments in our portfolio as of September 30, 2014 had a weighted average debt to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiple of 4.75x calculated at the time of origination of the investment. The weighted average annual yield of our debt investments as of September 30, 2014 was approximately 11.1%, of which 9.9% represented cash payments and 1.2% represented payment-in-kind, or PIK, interest and other non-cash items. As of September 30, 2014, there was one investment on which we had stopped accruing interest.

Our investments generally range in size from \$10 million to \$100 million and are principally in the form of first lien, second lien (collectively, "senior secured") and subordinated debt investments, which may also include an equity component. Although our focus could change, we are currently focusing our origination efforts on a prudent mix of first lien, second lien and subordinated loans which we believe will provide superior risk-adjusted returns while maintaining adequate credit protection. As of September 30, 2014, 79.0% of our portfolio at fair value consisted of debt investments that were secured by first or second priority liens on the assets of our portfolio companies. Moreover, we held equity investments consisting of common stock, preferred stock or other equity interests in 69 of our 124 portfolio companies as of September 30, 2014.

We generally invest in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Below investment grade securities, which are often referred to as "high yield" or "junk," have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. As of September 30, 2014, 57.3% of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, a substantial portion of our debt investments have variable interest rates that reset periodically based on benchmarks such as the London-Interbank Offered Rate, or LIBOR and prime rate. As a result, significant increases in such benchmarks in the future would make it more difficult for these borrowers to service their obligations under the debt investments that we hold. Further, certain of our investments bear PIK interest. PIK interest represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term and recorded as interest income on an accrual basis to the extent such amounts are expected to be collected. Instruments bearing PIK interest typically carry higher interest rates as a result of their payment deferral and increased credit risk. When we recognize income in connection with PIK interest, there is a risk that such income may become uncollectible if the borrower defaults. For additional information regarding PIK interest and related risks, 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 are a closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the "1940 Act." As a business development company, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to continue to, finance our investments through borrowings. However, as a business development company, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing, 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. As of September 30, 2014, we had a debt to equity ratio (excluding debentures issued by our small business investment company, or SBIC, subsidiaries) of 0.63x (i.e., one dollar of equity for each \$0.63 of non-SBIC debt outstanding). See "Business Development Company Regulations."

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

As a business development company, we were substantially limited in our ability to co-invest in privately negotiated transactions with affiliated funds until we obtained an exemptive order from the Securities and Exchange Commission, or SEC, on September 9, 2014. The exemptive relief permits us to participate in negotiated co-investment transactions, subject to the conditions of the relief granted by the SEC, with certain affiliates, each of whose investment adviser is Fifth Street Management, or an investment adviser controlling, controlled by or under common control with Fifth Street Management, in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, and pursuant to the conditions to the exemptive relief.

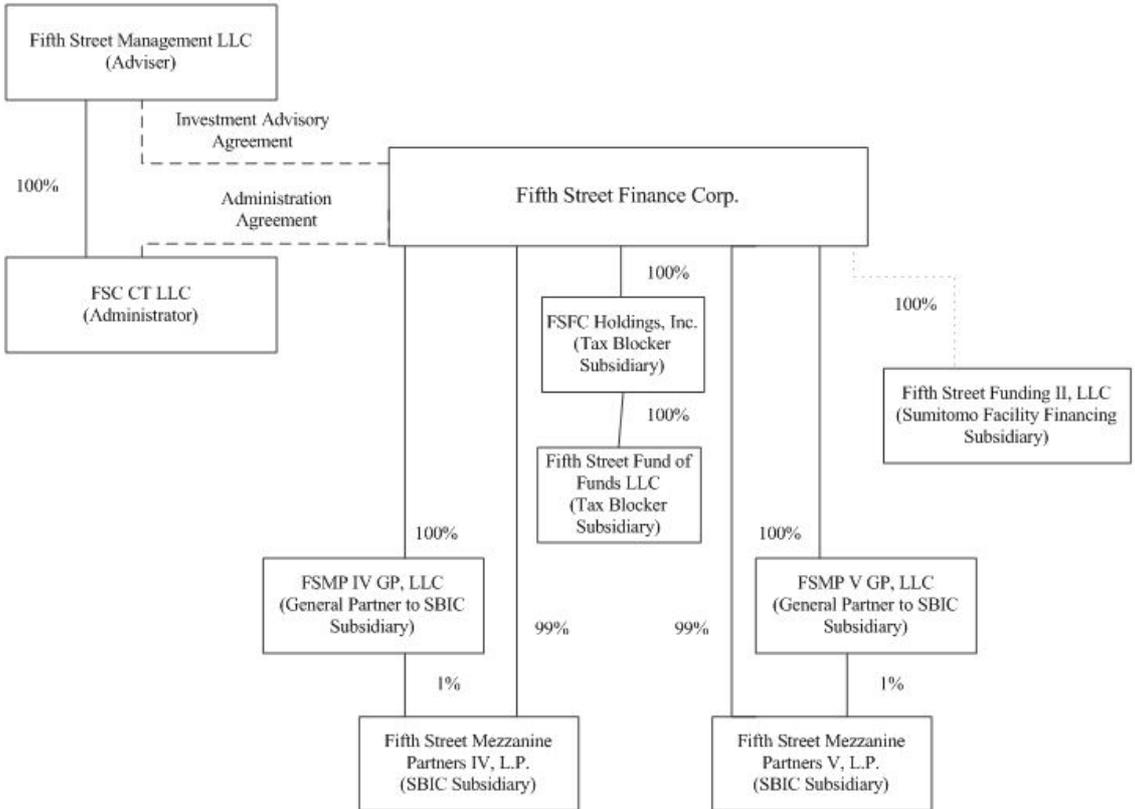
In addition, we maintain wholly-owned subsidiaries that are licensed as SBICs and regulated by the Small Business Administration, or the SBA. See "Regulation - Small Business Investment Company Regulations." The SBIC licenses allow us, through our wholly-owned subsidiaries, to issue SBA-guaranteed debentures. We have also 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 ratio we are required to maintain under the 1940 Act. Pursuant to the 200% asset coverage ratio limitation, we are permitted to borrow one dollar for every dollar we have in assets less all liabilities and indebtedness not represented by debt securities issued by us or loans obtained by us. For example, as of September 30, 2014, we had approximately \$2.4 billion in assets less all liabilities and indebtedness not represented by debt securities issued by us or loans obtained by us, which would permit us to borrow up to approximately \$2.4 billion, notwithstanding other limitations on our borrowings pursuant to our credit facilities.

As a result of our receipt of exemptive relief from the SEC for our SBA debt, we have increased capacity to fund up to \$225 million (the maximum amount of SBA-guaranteed debentures our SBICs may currently have outstanding once certain conditions have been met) of investments with SBA-guaranteed debentures in addition to being able to fund investments with borrowings up to the maximum amount of debt that the 200% asset coverage ratio limitation would allow us to incur. As a result, we, in effect, are permitted to have a lower asset coverage ratio than the 200% asset coverage ratio limitation under the 1940 Act and, therefore, we can have more debt outstanding than assets to cover such debt. For example, we are able to borrow up to \$225 million more than the approximately \$2.4 billion permitted under the 200% asset coverage ratio limit as of September 30, 2013. For additional information on SBA regulations that affect our access to SBA-guaranteed debentures, see "Risk Factors - Risks Relating to Our Business and Structure - Any failure to comply with SBA regulations could have a material adverse effect on our SBIC subsidiaries' operations."

Our SBIC subsidiaries held approximately \$348.8 million, or 13.1%, of our total assets at September 30, 2014.

We and Trinity Universal Insurance Company, a subsidiary of Kemper Corporation ("Kemper"), also co-invest through an unconsolidated Delaware limited liability company, Senior Loan Fund JV I, LLC ("SLF JV I"). SLF JV I was formed in May 2014 to invest in middle-market and other corporate debt securities. As of September 30, 2014, SLF JV I had commitments of \$200.0 million, \$175.0 million of which was from us and the remaining \$25.0 million from Kemper. At September 30, 2014, we had funded approximately \$60.0 million of our commitment. Additionally, SLF JV I had a senior revolving credit facility with Deutsche Bank AG, New York Branch ("Deutsche Bank facility") with a stated maturity date of July 1, 2019, which permitted up to \$200.0 million of borrowings. SLF JV I is managed by a four person board of directors, two of whom are selected by us and two of whom are selected by Kemper. SLF JV I is generally capitalized as transactions are completed and all portfolio decisions must be approved by its investment committee consisting of one representative of us and one representative of Kemper (with approval of each required). As of September 30, 2014, our investment in SLF JV I was approximately \$59.6 million at fair value (including unrealized depreciation of \$0.3 million which represented 0.01% of our total portfolio at fair value).

The following diagram depicts our organizational structure at November 28, 2014:



Our principal executive office is located at 777 West Putnam Avenue, 3rd Floor, Greenwich, Connecticut 06830 and our telephone number is (203) 681-3600.

## The Investment Adviser

We are externally managed and advised by Fifth Street Management, a registered investment adviser under the Investment Advisers Act of 1940, or the Advisers Act, that is partially and indirectly owned by Fifth Street Asset Management Inc. ("FSAM"), a publicly traded asset manager with approximately \$5 billion of assets under management as of September 30, 2014. Our administrator, FSC CT, Inc., which has since converted into FSC CT LLC ("FSC CT"), is a wholly-owned subsidiary of Fifth Street Management and provides the administrative services necessary for us to operate. Our investment adviser serves pursuant to the investment advisory agreement in accordance with the Advisers Act, under which it receives from us a percentage of our gross assets as a management fee and a percentage of our ordinary income and capital gains as an incentive fee.

Leonard M. Tannenbaum, our chief executive officer and the chief executive officer of our investment adviser, has led the investment of over \$6 billion in small and mid-sized companies and the origination of over 180 investment transactions since 1998. Our investment adviser also currently serves as the investment adviser to Fifth Street Senior Floating Rate Corp. ("FSFR") in addition to various other private fund vehicles. FSFR is a business development company focused on making senior loans to middle market companies that bear interest on the basis of a floating base lending rate as compared to our more general primary investment focus on debt and equity investments in small and mid-sized companies in addition to various privately held funds. However, there may be overlap in terms of our targeted investments. See "— Material Conflicts of Interest."

The key principals and members of senior management of our investment adviser are Leonard M. Tannenbaum, our chief executive officer and our investment adviser's chief executive officer, Bernard D. Berman, our chairman and our investment adviser's co-president, Ivelin M. Dimitrov, our chief investment officer and the chief investment officer of our investment adviser, Alexander C. Frank, the chief operating officer and chief financial officer of our investment adviser, Todd G. Owens, our president and our investment adviser's co-president, and Richard A. Petrocelli, our chief financial officer.

## Business Strategy

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

- *Capitalize on our investment adviser's strong relationships with private equity sponsors.* Our investment adviser has developed an extensive network of relationships with private equity sponsors that invest in small and mid-sized companies. We believe that the strength of these relationships is due to a common investment philosophy, a consistent market focus, a rigorous approach to diligence and a reputation for delivering on commitments. In addition to being our principal source of originations, we believe that private equity sponsors provide significant benefits including incremental due diligence, additional monitoring capabilities and a potential source of capital and operational expertise for our portfolio companies.
- *Focus on established small and mid-sized companies.* We believe that there are fewer finance companies focused on transactions involving small and mid-sized companies than larger companies, and that this is one factor that allows us to negotiate favorable investment terms. Such favorable terms include higher debt yields and lower leverage levels, more significant covenant protection and greater equity grants than typical of transactions involving larger companies. We generally invest in companies with established market positions, seasoned management teams, proven products and services and strong regional or national operations. We believe that these companies possess better risk-adjusted return profiles than newer companies that are in the early stages of building management teams and/or a revenue base.
- *Continue our growth of direct originations.* Over the course of almost a decade, the principals of our investment adviser have developed an origination strategy that allows us to directly originate a significant portion of our investments. We believe that the benefits of direct originations include, among other things, our ability to control the structuring of investment protections and to generate origination and exit fees.
- *Employ disciplined underwriting policies and rigorous portfolio management.* Our investment adviser has developed an extensive underwriting process, which includes a review of the prospects, competitive position, financial performance and industry dynamics of each potential portfolio company. In addition, we perform substantial diligence on potential investments, and seek to invest alongside private equity sponsors who have proven capabilities in building value. As part of the monitoring process, our investment adviser will analyze monthly and quarterly financial statements versus the previous periods and year, review financial projections, compliance certificates and covenants, meet with management and attend board meetings.
- *Structure our debt investments to minimize risk of loss and achieve attractive risk-adjusted returns.* We structure our debt investments on a conservative basis with high cash yields, cash advisory fees, low leverage levels and strong

investment protections, including prepayment fees. As of September 30, 2014, the weighted average yield of our debt investments, including the return on SLF JV I, was approximately 11.1%, which includes a cash component of 9.9%. Our debt investments have strong protections, including default penalties, information rights, board observation rights, and affirmative, negative and financial covenants, such as lien protection and prohibitions against change of control. We believe these protections, coupled with the other features of our investments described above, should allow us to reduce our risk of capital loss and achieve attractive risk-adjusted returns; however, there can be no assurance that we will be able to successfully structure our investments to minimize risk of loss and achieve attractive risk-adjusted returns.

- *Benefit from lower, fixed, long-term cost of capital.* The SBIC licenses held by our wholly-owned SBIC subsidiaries allow them to issue SBA-guaranteed debentures. SBA-guaranteed debentures carry long-term fixed rates that are generally lower than rates on comparable bank and other debt. Because lower-cost SBA leverage is a significant part of our capital base, our relative cost of debt capital may be lower than many of our competitors. In addition, SBIC leverage represents a stable, long-term component of our capital structure that should permit the proper matching of duration and cost compared to our portfolio investments.
- *Leverage the skills and experience of our investment adviser.* The principals of our investment adviser have broad investment backgrounds, with prior experience at private investment funds, investment banks and other financial services companies and they also have experience managing distressed companies. We believe that our investment adviser's expertise in valuing, structuring, negotiating and closing transactions provides us with a competitive advantage by allowing us to provide financing solutions that meet the needs of our portfolio companies while adhering to our underwriting standards.

## Investment Criteria

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

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

## Deal Origination

Our deal originating efforts are focused on building relationships with private equity sponsors that are focused on investing in the small and mid-sized companies that we target. We divide the country geographically into Eastern, Central and Western regions and emphasize active, consistent sponsor coverage. The investment professionals of our investment adviser have developed an extensive network of relationships with these private equity sponsors. We estimate that there are

approximately 2,500 of such private equity firms and our investment adviser has active relationships with approximately 300 of them. An active relationship is one through which our investment adviser has received at least one investment opportunity from the private equity sponsor within the last year.

Our investment adviser reviewed over 800 potential investment transactions with private equity sponsors during the year ended September 30, 2014. A significant portion of the investment transactions that we have completed to date were originated through our investment adviser's relationships with private equity sponsors. We believe that our investment adviser has a reputation as a reliable, responsive and efficient source of funding to support private equity investments. We believe that this reputation and the relationships of our investment adviser with private equity sponsors will provide us with significant investment opportunities.

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

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

## **Investment Underwriting**

### ***Investment Underwriting Process and Investment Approval***

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

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

### ***Management Assessment***

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

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

### ***Industry Dynamics***

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

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

#### ***Business Model and Financial Assessment***

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

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

#### ***Private Equity Sponsor***

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

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

### **Investments**

We target debt investments that will yield meaningful current income and also provide the opportunity for capital appreciation through our ownership of equity securities in our portfolio companies. We typically structure our debt investments with the maximum seniority and collateral that we can reasonably obtain while seeking to achieve our total return target. In most cases, our debt investment will be collateralized by a first or second lien on the assets of the portfolio company. As of September 30, 2014, 79.0% of our portfolio at fair value consisted of debt investments that were secured by first or second priority liens on the assets of the portfolio company.

#### ***Debt Investments***

We tailor the terms of our debt investments to the facts and circumstances of the transaction and prospective portfolio company, negotiating a structure that seeks to protect our rights and manage our risk while creating incentives for the portfolio company to achieve its business plan. A substantial source of return is monthly cash interest that we collect on our debt investments. As of September 30, 2014, we had directly originated a majority of our debt investments. We are currently focusing our origination efforts on a prudent mix of first lien, second lien and subordinated loans which we believe will provide superior risk-adjusted returns while maintaining adequate credit protection.

- *First Lien Loans.* Our first lien loans generally have terms of four to six years, provide for a variable or fixed interest rate, contain prepayment penalties and are secured by a first priority security interest in all existing and future assets of the borrower. Our first lien loans may take many forms, including revolving lines of credit, term loans and acquisition lines of credit.

- *Second Lien Loans.* Our second lien loans generally have terms of four to six years, primarily provide for a fixed interest rate, contain prepayment penalties and are secured by a second priority security interest in all existing and future assets of the borrower. Our second lien loans often include payment-in-kind, or PIK, interest, which represents contractual interest accrued and added to the principal that generally becomes due at maturity.
- *Unsecured Loans.* Our unsecured investments generally have terms of five to six years and provide for a fixed interest rate. We may make unsecured investments on a stand-alone basis, or in connection with a senior secured loan, a junior secured loan or a “one-stop” financing. Our unsecured investments may include PIK interest and an equity component, such as warrants to purchase common stock in the portfolio company.

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

### ***Equity Investments***

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

### ***Private Equity Fund Investments***

We make investments in the private equity funds of certain private equity sponsors we partner with in making investments in small and mid-sized companies. In general, we make these investments where we have a long-term relationship and are comfortable with the sponsor’s business model and investment strategy. As of September 30, 2014, we had investments in 19 private equity funds, which represented less than 1% of the fair value of our assets as of such date.

### ***SLF JV I***

We have invested in SLF JV I, which as of September 30, 2014, consisted of a diverse portfolio of loans to 18 different borrowers in industries similar to the companies in our portfolio. SLF JV I invests in middle-market and other corporate debt securities, including traditional senior debt, that are secured by some or all of the issuer’s assets.

## **Portfolio Management**

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

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

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

### ***Ranking Criteria***

In addition to various risk management and monitoring tools, we use an investment ranking system to characterize and monitor the credit profile and our expected level of returns on each investment in our portfolio. We use a four-level numeric ranking scale. The following is a description of the conditions associated with each investment ranking:

- 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.

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

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

<b>Investment Ranking</b>	<b>Fair Value (thousands)</b>	<b>% of Portfolio</b>
1	\$ 65,268	2.61%
2	2,424,290	97.14
3	—	—
4	6,356	0.25
<b>Total</b>	<b>\$ 2,495,914</b>	<b>100.00%</b>

#### **Valuation of Portfolio Investments and Net Asset Value Determinations**

As a business development company, we generally invest in illiquid securities including debt and equity investments of small and mid-sized companies. All of our investments are recorded at fair value as determined in good faith by our Board of Directors.

Authoritative accounting guidance defines fair value as 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. 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.

In accordance with authoritative accounting guidance, we perform detailed valuations of our debt and equity investments on an individual basis, using bond yield, income and market 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 an asset liquidation, 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, cash flows, net income, revenues, or in limited cases, book value.

We generally require portfolio companies to provide annual audited and quarterly and monthly unaudited financial statements, as well as annual projections for the upcoming fiscal year.

Under the income approach, we generally prepare and analyze discounted cash flow models based on 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 engaged by our Board of Directors 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, 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 September 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 substantial portion of the portfolio valued by an independent third party on a quarterly basis. 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%
For the quarter ended September 30, 2014	84.0%

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

### **Quarterly Net Asset Value Determination**

Our Board of Directors determines the net asset value per share of our common stock on a quarterly basis. The net asset value per share of our common stock is equal to the value of our total assets minus liabilities divided by the total number of shares of common stock outstanding. Our liabilities will include amounts that we have accrued under our investment advisory agreement, including the management fee, income incentive fee and capital gains incentive fee, the latter of which will be accrued based upon the cumulative realized and unrealized capital appreciation in our portfolio.

### **Competition**

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

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

### **Employees**

We do not have any employees. Our day-to-day investment operations are managed by Fifth Street Management as our investment adviser. See “- Investment Advisory Agreement.” Fifth Street Management utilizes over 40 investment professionals, including its principals. In addition, we reimburse our administrator, FSC CT, for the allocable portion of overhead and other expenses incurred by it in performing its obligations under an administration agreement, including our allocable portion of the costs of compensation of our chief financial officer and chief compliance officer and their staffs. For a more detailed discussion of the administration agreement, see “- Administration Agreement.”

### **Properties**

We do not own any real estate or other physical properties material to our operations. We utilize office space that is leased by our administrator from an affiliate controlled by our chief executive officer, Mr. Tannenbaum. See “Material Conflicts of Interest.” Pursuant to an administration agreement with our administrator, we pay FSC CT an allocable portion of the rent at

market rates for our principal executive office at 777 West Putnam Avenue, 3rd Floor, Greenwich, CT 06830. We also utilize additional office space that is leased by our affiliates at 311 South Wacker Drive, Suite 3380, Chicago, IL 60606 and 250 Cambridge Avenue, Suite 201, Palo Alto, CA 94306.

## **Investment Advisory Agreement**

### **Overview of Our Investment Adviser**

#### ***Management Services***

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

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

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

#### ***Management Fee***

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

#### ***Base Management Fee***

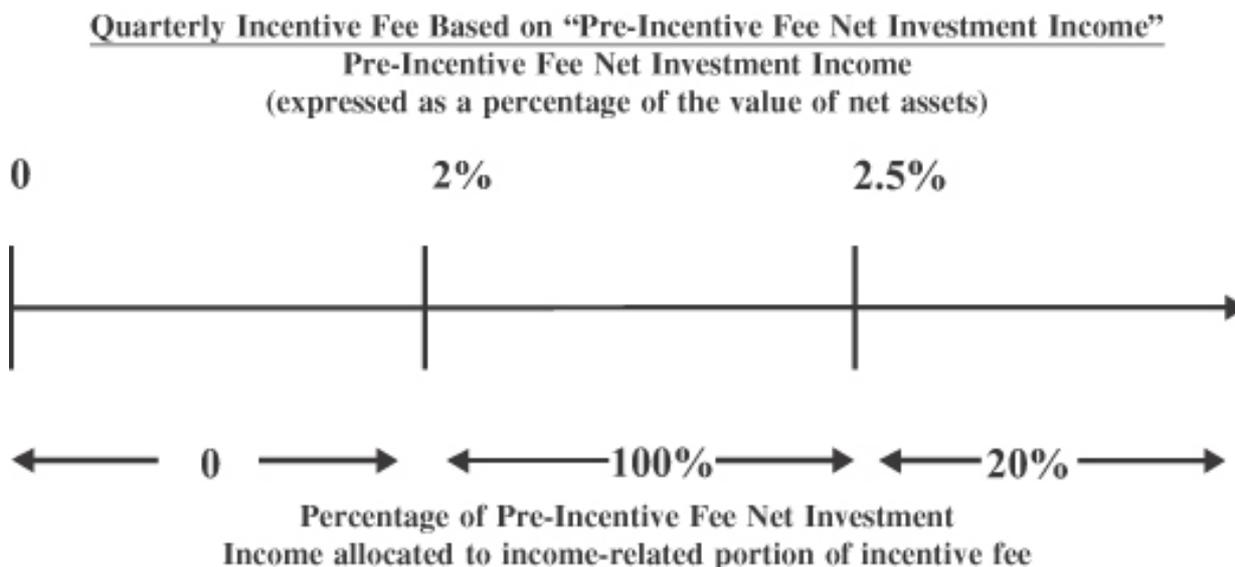
The base management fee is calculated at an annual rate of 2% of our gross assets, which includes any borrowings for investment purposes. The base management fee is payable quarterly in arrears and the fee for any partial month or quarter is appropriately prorated. Our investment adviser permanently waived the portion of the base management fee attributable to cash and cash equivalents (as defined in the notes to our Consolidated Financial Statements) as of the end of each quarter beginning March 31, 2010. As a result, our base management fee is calculated at an annual rate of 2% of our gross assets, including any investments made with borrowings, but excluding any cash and cash equivalents (as defined in the notes to our Consolidated Financial Statements) as of the end of each quarter.

#### ***Incentive Fee***

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

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

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



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

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

**Scenario 1**

*Assumptions*

- Investment income (including interest, dividends, fees, etc.) = 1.25%
- Hurdle rate(1) = 2%
- Management fee(2) = 0.5%
- Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.2%
- Pre-Incentive Fee Net Investment Income  
 (investment income – (management fee + other expenses)) = 0.55%
- Pre-Incentive Fee Net Investment Income does not exceed hurdle rate, therefore there is no income-related incentive fee.

**Scenario 2**

### Assumptions

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

Hurdle rate(1) = 2%

Management fee(2) = 0.5%

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

Pre-Incentive Fee Net Investment Income

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

Incentive fee =  $100\% \times$  Pre-Incentive Fee Net Investment Income (subject to “catch-up”)(4)  
=  $100\% \times (2.2\% - 2\%)$   
= 0.2%

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

### Scenario 3

#### Assumptions

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

Hurdle rate(1) = 2%

Management fee(2) = 0.5%

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

Pre-Incentive Fee Net Investment Income

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

Incentive fee =  $100\% \times$  Pre-Incentive Fee Net Investment Income (subject to “catch-up”)(4)

Incentive fee =  $100\% \times$  “catch-up” +  $(20\% \times (\text{Pre-Incentive Fee Net Investment Income} - 2.5\%))$

Catch up =  $2.5\% - 2\%$   
= 0.5%

Incentive fee =  $(100\% \times 0.5\%) + (20\% \times (2.8\% - 2.5\%))$   
=  $0.5\% + (20\% \times 0.3\%)$   
=  $0.5\% + 0.06\%$   
= 0.56%

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

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- (1) Represents 8% annualized hurdle rate.
  - (2) Represents 2% annualized base management fee.
  - (3) Excludes organizational and offering expenses.
  - (4) The “catch-up” provision is intended to provide our investment adviser with an incentive fee of 20% on all Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when our net investment income exceeds 2.5% in any fiscal quarter.

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

#### Scenario 1

##### Assumptions

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

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

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

Year 4: Investment B sold for \$31 million

The capital gains portion of the incentive fee would be:

Year 1: None

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

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

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

## **Scenario 2**

### **Assumptions**

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

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

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

Year 4: FMV of Investment B determined to be \$24 million

Year 5: Investment B sold for \$20 million

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

Year 1: None

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

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

Year 4: None

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

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

- (1) As illustrated in Year 3 of Scenario 1 above, if we were to be wound up on a date other than its fiscal year end of any year, we may have paid aggregate capital gains incentive fees that are more than the amount of such fees that would be payable if we had been wound up on our fiscal year end of such year.
- (2) As noted above, it is possible that the cumulative aggregate capital gains fee received by our investment adviser (\$6.4 million) is effectively greater than \$5 million (20% of cumulative aggregate realized capital gains less net realized capital losses or net unrealized depreciation (\$25 million)).

### **Payment of Our Expenses**

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

- Expenses of offering our debt and equity securities;
- The investigation and monitoring of our investments including expenses and travel fees incurred in connection with on-site visits;
- The cost of calculating our net asset value;
- The cost of effecting sales and repurchases of shares of our common stock and other securities;
- Management and incentive fees payable pursuant to the investment advisory agreement;

- Fees payable to third parties relating to, or associated with, making investments and valuing investments (including third-party valuation firms);
- Transfer agent, trustee and custodial fees;
- Interest payments and other costs related to our borrowings;
- Fees and expenses associated with our website, public relations and marketing efforts (including attendance at industry and investor conferences and similar events);
- Federal and state registration fees;
- Any exchange listing fees;
- Federal, state and local taxes;
- Independent directors' fees and expenses including travel expenses and other costs of meetings of the Board and its committees;
- Brokerage commissions;
- Costs of proxy statements, stockholders' reports and notices;
- Costs of preparing government filings, including periodic and current reports with the SEC;
- Fidelity bond, liability insurance and other insurance premiums; and
- Printing, mailing, independent accountants and outside legal costs and all other direct expenses incurred by either our investment adviser or us in connection with administering our business, including payments under the administration agreement that will be based upon our allocable portion of overhead and other expenses incurred by FSC CT in performing its obligations under the administration agreement and the compensation of our chief financial officer and chief compliance officer, and their staffs.

### ***Duration and Termination***

Unless earlier terminated as described below, the investment advisory agreement, as amended, will remain in effect from year-to-year if approved annually by the Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The investment advisory agreement will automatically terminate in the event of its assignment. The investment advisory agreement may be terminated by either party without penalty upon not more than 60 days' written notice to the other. The investment advisory agreement may also be terminated, without penalty, upon the vote of a majority of our outstanding voting securities.

### ***Indemnification***

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

### ***Organization of our Investment Adviser***

Our investment adviser is a Delaware limited liability company that registered as an investment adviser under the Advisers Act. The principal address of our investment adviser is 777 West Putnam Avenue, 3rd Floor, Greenwich, CT 06830.

### **Board Approval of the Investment Advisory Agreement**

The investment advisory agreement was first approved by our Board of Directors on December 13, 2007 and by a majority of the limited partners of Fifth Street Mezzanine Partners III, L.P., our predecessor fund, through a written consent first solicited on December 14, 2007. On March 14, 2008, our Board of Directors, including all of the directors who were not "interested persons" as defined in the 1940 Act, approved an amendment to the investment advisory agreement that revised the investment advisory agreement to clarify the calculation of the base management fee. Such amendment was also approved by a majority of our outstanding voting securities through a written consent first solicited on April 7, 2008. On May 2, 2011, the investment advisory agreement was further amended, as approved by our Board of Directors, to exclude management fees on any assets held in the form of cash and cash equivalents. Most recently, at a meeting of the Board of Directors held on January 14, 2014, the Board of Directors, including a majority of the independent directors, approved the annual continuation of the

investment advisory agreement. In reaching a decision to approve the investment advisory agreement, the Board of Directors reviewed a significant amount of information and considered, among other things:

- the nature, quality and extent of the advisory and other services to be provided to us by Fifth Street Management;
- the fee structures of comparable externally managed business development companies that engage in similar investing activities;
- our projected operating expenses and expense ratio compared to business development companies with similar investment objectives;
- any existing and potential sources of indirect income to Fifth Street Management LLC from its relationship with us and the profitability of that relationship, including through the investment advisory agreement;
- information about the services to be performed and the personnel performing such services under the investment advisory agreement;
- the organizational capability and financial condition of Fifth Street Management LLC and its affiliates; and
- various other matters.

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

### **Administration Agreement**

We have also entered into an administration agreement with FSC CT, a wholly-owned subsidiary of our investment adviser, under which FSC CT provides administrative services for us, including office facilities and equipment and clerical, bookkeeping and record-keeping services at such facilities. Under the administration agreement, FSC CT also performs, or oversees the performance of, our required administrative services, which includes being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, FSC CT assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others. For providing these services, facilities and personnel, we reimburse FSC CT the allocable portion of overhead and other expenses incurred by FSC CT in performing its obligations under the administration agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief financial officer and chief compliance officer, and their staffs. Such reimbursement is at cost, with no profit to, or markup by, FSC CT. Our allocable portion of FSC CT’s costs is determined based upon costs attributable to our operations versus costs attributable to the operations of other entities for which FSC CT provides administrative services.

FSC CT may also provide on our behalf managerial assistance to our portfolio companies. The administration agreement may be terminated by either party without penalty upon 60 days’ written notice to the other party.

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

### **License Agreement**

We have 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.

### **Material Conflicts of Interest**

Our executive officers and directors, and certain members of our investment adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. For example, Fifth Street Management presently serves as investment adviser to FSFR, a publicly-traded BDC with total assets of approximately \$208.7 million as of June 30, 2014. FSFR invests in senior secured loans, including first lien,

unitranche and second lien debt instruments that pay interest at rates which are determined periodically on the basis of a floating base lending rate, made to private middle market companies whose debt is rated below investment grade, similar to those we target for investment. Specifically, FSFR targets private leveraged middle market companies with approximately \$20 million to \$100 million of EBITDA and targets investment sizes generally ranging from \$3 million to \$20 million. We generally target small and mid-sized companies with annual revenues between \$25 million and \$250 million and target investment sizes generally ranging from \$10 million to \$100 million. In addition, though not the primary focus of our investment portfolio, our investments also include floating rate senior loans. Therefore, there may be certain investment opportunities that satisfy the investment criteria for both FSFR and us. FSFR operates as a distinct and separate public company and any investment in our common stock will not be an investment in FSFR. In addition, our executive officers and three of our independent directors serve in substantially similar capacities for FSFR. Fifth Street Management and its affiliates also manage private investment funds, and may manage other funds in the future, that have investment mandates that are similar, in whole and in part, with ours. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, the principals of our investment adviser may face conflicts of interest in the allocation of investment opportunities to us and such other funds.

Fifth Street Management has adopted, and our Board of Directors has approved, an investment allocation policy that governs the allocation of investment opportunities among the investment funds managed by Fifth Street Management and its affiliates. To the extent an investment opportunity is appropriate for us or FSFR or any other investment fund managed by our affiliates, Fifth Street Management will adhere to its investment allocation policy in order to determine to which entity to allocate the opportunity. As a business development company, we were substantially limited in our ability to co-invest in privately negotiated transactions with affiliated funds until we obtained an exemptive order from the SEC on September 9, 2014. The exemptive relief permits us to participate in negotiated co-investment transactions with certain affiliates, each of whose investment adviser is Fifth Street Management, or an investment adviser controlling, controlled by or under common control with Fifth Street Management, in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, and pursuant to the conditions to the exemptive relief.

If we are unable to rely on our exemptive relief for a particular opportunity, such opportunity will be allocated first to the entity whose investment strategy is the most consistent with the opportunity being allocated, and second, if the terms of the opportunity are consistent with more than one entity's investment strategy, on an alternating basis. Although our investment professionals will endeavor to allocate investment opportunities in a fair and equitable manner, we and our common stockholders could be adversely affected to the extent investment opportunities are allocated among us and other investment vehicles managed or sponsored by, or affiliated with, our executive officers, directors and members of our investment adviser.

Fifth Street Management's investment allocation policy is also designed to manage and mitigate the conflicts of interest associated with the allocation of investment opportunities if we are able to co-invest, either pursuant to SEC interpretive positions or our exemptive order, with other accounts managed by our investment adviser and its affiliates. Generally, under the investment allocation, co-investments will be allocated pursuant to the conditions of the exemptive order. Under the investment allocation policy, a portion of each opportunity that is appropriate for us and any affiliated fund will be offered to us and such other eligible accounts as determined by Fifth Street Management and generally based on asset class, fund size and liquidity, among other factors. If there is a sufficient amount of securities to satisfy all participants, the securities will be allocated among the participants in accordance with their order size and if there is an insufficient amount of securities to satisfy all participants, the securities will be allocated pro rata based on each participating party's capital available for investment in the asset class being allocated, up to the amount proposed to be invested by each. In accordance with Fifth Street Management's investment allocation policy, we might not participate in each individual opportunity, but will, on an overall basis, be entitled to participate equitably with other entities managed by Fifth Street Management and its affiliates. Fifth Street Management seeks to treat all clients fairly and equitably such that none receive preferential treatment vis-à-vis the others over time, in a manner consistent with its fiduciary duty to each of them; however, in some instances, especially in instances of limited liquidity, the factors may not result in pro rata allocations or may result in situations where certain funds receive allocations where others do not. See "Certain Relationships and Related Party Transactions."

Pursuant to the administration agreement with FSC CT, FSC CT furnishes us with the facilities, including our principal executive office, and administrative services necessary to conduct our day-to-day operations. We pay FSC CT its allocable portion of overhead and other expenses incurred by FSC CT in performing its obligations under the administration agreement, including a portion of the rent at market rates and the compensation of our chief financial officer and chief compliance officer and their respective staffs.

## **Exchange Act Reports**

We maintain a website at <http://www.fifthstreetfinance.com>. The information on our website is not incorporated by reference in this annual report on Form 10-K.

We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the SEC in accordance with the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

### **Business Development Company Regulations**

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

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

As a business development company, we will not generally be permitted to invest in any portfolio company in which our investment adviser or any of its affiliates currently have an investment or to make any co-investments with our investment adviser or its affiliates without an exemptive order from the SEC. In September 2014, Fifth Street Management received exemptive relief from the SEC to permit us to co-invest, subject to the conditions of the relief granted by the SEC, with other funds managed by Fifth Street Management in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors.

### **Qualifying Assets**

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

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

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

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

(c) satisfies any of the following:

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

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

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

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

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

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

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

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

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

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

#### ***Managerial Assistance to Portfolio Companies***

Business development companies generally must offer to make available to the issuer of the securities significant managerial assistance, except in circumstances where either (i) the business development company controls such issuer of securities or (ii) the business development company purchases such securities in conjunction with one or more other persons acting together and one of the other persons in the group makes available such managerial assistance means, among other things, any arrangement whereby the business development company, through its directors, officers or employees (if any), offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

#### ***Temporary Investments***

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

#### ***Senior Securities***

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

We received exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiaries guaranteed by the United States Small Business Administration, or SBA, from the definition of senior securities in the 200% asset coverage ratio we are required to maintain under the 1940 Act. This provides 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 under the 1940 Act absent the receipt of this exemptive relief.

## ***Common Stock***

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

## ***Code of Ethics***

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

## ***Compliance Policies and Procedures***

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

## ***Proxy Voting Policies and Procedures***

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

### *Introduction*

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

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

### *Proxy policies*

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

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

### *Proxy voting records*

You may obtain information, without charge, regarding how we voted proxies with respect to our portfolio securities by making a written request for proxy voting information to: Fifth Street Finance Corp. Chief Compliance Officer, 777 West Putnam Avenue, 3rd Floor, Greenwich, CT 06830.

### **Other**

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

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

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

We are subject to the reporting and disclosure requirements of the Exchange Act, including the filing of quarterly, annual and current reports, proxy statements and other required items. In addition, we are subject to the Sarbanes-Oxley Act of 2002, which imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. For example:

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

### **Small Business Investment Company Regulations**

Our wholly-owned subsidiaries' SBIC licenses allow them to obtain leverage by issuing SBA-guaranteed debentures, subject to 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 ten-year maturities.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$19.5 million and have average annual fully taxed net income not exceeding \$6.5 million for the two most recent fiscal years. In addition, an SBIC must devote 25% of its investment activity to "smaller" concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding \$6 million and has average annual fully taxed net income not exceeding \$2 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services.

SBA regulations currently limit the amount that 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 September 30, 2014, one of our SBIC subsidiaries had \$75 million in regulatory capital and \$150 million in SBA-guaranteed debentures outstanding, which had a fair value of \$134.0 million. As of September 30, 2014, our other SBIC subsidiary had \$37.5 million in regulatory capital and \$75.0 million in SBA-guaranteed debentures outstanding, which had a fair value of \$63.1 million.

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.

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

Our 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 SBIC licenses does not assure that our SBIC subsidiaries will receive SBA guaranteed debenture funding, which is dependent upon our SBIC subsidiaries continuing to be in compliance with SBA regulations and policies. The SBA, as a creditor, will have a superior claim to our SBIC subsidiaries’ assets over our stockholders in the event we liquidate our SBIC subsidiaries or the SBA exercises its remedies under the SBA-guaranteed debentures issued by our SBIC subsidiaries upon an event of default.

### **The NASDAQ Global Select Market Corporate Governance Regulations**

The NASDAQ Global Select Market has adopted corporate governance regulations that listed companies must comply with. We are in compliance with such corporate governance listing standards applicable to business development companies.

### **Taxation as a Regulated Investment Company**

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

If we qualify as a RIC and satisfy the Annual Distribution Requirement, then we generally will not be subject to U.S. federal income tax on the portion of our income we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years (the “Excise Tax Avoidance Requirement”). We generally will endeavor in each taxable year to make sufficient distributions to our stockholders to avoid any U.S. federal excise tax on our earnings.

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

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

Qualified earnings may exclude such income as management fees received in connection with our SBIC or other potential outside managed funds and certain other fees.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such

income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as PIK interest and deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

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

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

### **RISK FACTORS**

*Investing in our securities involves a number of significant risks. In addition to the other information contained in this annual report on Form 10-K, you should consider carefully the following information before making an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our securities could decline, and you may lose part or all of your investment.*

#### **Risks Relating to Economic Conditions**

***Economic recessions or downturns may have a material adverse effect on our business, financial condition and results of operations, and could impair the ability of our portfolio companies to repay loans.***

Economic recessions or downturns may result in a prolonged period of market illiquidity which could have a material adverse effect on our business, financial condition and results of operations. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could limit our investment originations, limit our ability to grow and negatively impact our operating results.

In addition, to the extent that recessionary conditions return, the financial results of small and mid-sized companies, like those in which we invest, will likely experience deterioration, which could ultimately lead to difficulty in meeting debt service requirements and an increase in defaults. Additionally, the end markets for certain of our portfolio companies’ products and services would likely experience negative economic trends. The performances of certain of our portfolio companies have been, and may continue to be, negatively impacted by these economic or other conditions, which may ultimately result in our receipt of a reduced level of interest income from our portfolio companies and/or losses or charge offs related to our investments, and, in turn, may adversely affect distributable income. Further, adverse economic conditions may decrease the value of collateral securing some of our loans and the value of our equity investments. As a result, we may need to modify the payment terms of our investments, including changes in payment-in-kind interest provisions and/or cash interest rates. These factors may result in our receipt of a reduced level of interest income from our portfolio companies and/or losses or charge offs related to our investments, and, in turn, may adversely affect distributable income and have a material adverse effect on our results of operations.

***Further downgrades of the U.S. credit rating, impending automatic spending cuts or another government shutdown could negatively impact our liquidity, financial condition and earnings.***

Recent U.S. debt ceiling and budget deficit concerns have increased the possibility of additional credit-rating downgrades and economic slowdowns, or a recession in the U.S. Although U.S. lawmakers passed legislation to raise the federal debt ceiling on multiple occasions, ratings agencies have lowered or threatened to lower the long-term sovereign credit rating on the United States. The impact of this or any further downgrades to the U.S. government’s sovereign credit rating or its perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. Absent further quantitative easing by the Federal Reserve, these developments could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. In addition, disagreement over the federal budget has caused the U.S. federal government to shut down for periods of time. Continued adverse political and economic conditions could have a material adverse effect on our business, financial condition and results of operations.

***Global economic, political and market conditions may adversely affect our business, results of operations and financial condition, including our revenue growth and profitability.***

The current worldwide financial market situation, as well as various social and political tensions in the United States and around the world, may contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets, and may cause economic uncertainties or deterioration in the United States and worldwide. Since 2010, several European Union (“EU”) countries, including Greece, Ireland, Italy, Spain, and Portugal, have faced budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. In addition, the fiscal policy of foreign nations, such as China, may have a severe impact on the worldwide and United States financial markets. We cannot predict the effects of these or similar events in the future on the United States economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

## **Risks Relating to Our Business and Structure**

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

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

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

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

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

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

We depend on the investment expertise, skill and network of business contacts of the principals of our investment adviser. The principals of our investment adviser evaluate, negotiate, structure, execute, monitor and service our investments. Our future success will depend to a significant extent on the continued service and coordination of the principals of our investment adviser. The departure of any key principals could have a material adverse effect on our ability to achieve our investment objective.

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

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

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

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

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

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

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

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

In addition, our investment adviser receives the incentive fee based, in part, upon net capital gains realized on our investments. Unlike the portion of the incentive fee based on income, there is no performance threshold applicable to the

portion of the incentive fee based on net capital gains. As a result, our investment adviser may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

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

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

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

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

Borrowings, also known as leverage, magnify the potential for loss on invested equity capital. If we continue to use leverage to partially finance our investments, through borrowings from banks and other lenders, you will experience increased risks of investing in our common stock. We, through our SBIC subsidiaries, issue debt securities guaranteed by the SBA and sold in the capital markets. As a result of its guarantee of the debt securities, the SBA has fixed dollar claims on the assets of our SBIC subsidiaries that are superior to the claims of our common stockholders. We also borrow under our credit facilities, have issued the Convertible Notes, 2019 Notes, 2024 Notes and 2028 Notes, and may issue other debt securities or enter into other types of borrowing arrangements in the future. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock distributions or scheduled debt payments. Leverage is generally considered a speculative investment technique and we only intend to use leverage if expected returns will exceed the cost of borrowing.

***Substantially all of our assets are subject to security interests under secured credit facilities or subject to a superior claim over our stockholders by the SBA and if we default on our obligations under the facilities or with respect to our SBA-guaranteed debentures, we may suffer adverse consequences, including foreclosure on our assets.***

As of September 30, 2014, substantially all of our assets were pledged as collateral under our credit facilities or subject to a superior claim over our stockholders by the SBA. If we default on our obligations under these facilities or our SBA-guaranteed debentures, the lenders and/or the SBA may have the right to foreclose upon and sell, or otherwise transfer, the collateral subject to their security interests or their superior claim. In such event, we may be forced to sell our investments to raise funds to repay our outstanding borrowings in order to avoid foreclosure and these forced sales may be at times and at prices we would not consider advantageous. Moreover, such deleveraging of our company could significantly impair our ability to effectively operate our business in the manner in which we have historically operated. As a result, we could be forced to curtail or cease new investment activities and lower or eliminate the dividends that we have historically paid to our stockholders.

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

***Pending legislation may allow us to incur additional leverage.***

As a BDC, 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). Recent legislation introduced in the U.S. House of Representatives, if eventually passed, would modify this section of the 1940 Act and increase the amount of debt that BDCs may incur by modifying the asset coverage percentage from 200% to 150%. In addition, recent legislation introduced in the U.S. Senate would modify SBA regulations in a manner that may permit us to incur additional SBA leverage. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase.

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

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

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

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

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

Fifth Street Management received an exemptive order from the SEC to permit us to co-invest, subject to the conditions of the relief granted by the SEC, with other funds managed by Fifth Street Management in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors.

***There are significant potential conflicts of interest including our investment adviser's management of FSFR and certain private investment funds, which could adversely impact our investment returns.***

Certain of our executive officers and directors, and members of the investment committee of our investment adviser, serve or may serve as officers, directors or principals of other entities and affiliates of our investment adviser, FSAM or other investment funds managed by our affiliates that may operate in the same or a related line of business as we do. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in our or our stockholders' best interests or may require them to devote time to services for other entities, which could interfere with the time available to provide services to us. For example, Fifth Street Management presently serves as investment adviser to FSFR, a publicly-traded BDC with total assets of approximately \$208.7 million as of June 30, 2014, that invests in senior secured loans, similar to those we target for investment, including first lien, unitranche and second lien debt instruments, that pay interest at rates which are determined periodically on the basis of a floating base lending rate, made to private middle market companies whose debt is rated below investment grade. Specifically, FSFR targets private leveraged middle market companies with approximately \$20 million to \$100 million of EBITDA and targets investment sizes generally ranging from \$3 million and \$20 million. We generally target small and mid-sized companies with annual revenues between \$25 million and \$250 million and target investment sizes generally ranging from \$10 million to \$100 million. In addition, though not the primary focus of our investment portfolio, our investments also include floating rate senior loans. Therefore, there may be certain investment opportunities that satisfy the investment criteria for both FSFR and us. FSFR operates as a distinct and separate public company and any investment in our common stock will not be an investment in FSFR. In addition, our executive officers and three of our independent directors serve in substantially similar capacities for FSFR. Fifth Street Management and its affiliates also manage private investment funds, and may manage other funds in the future, that have investment mandates that are similar, in whole and in part, with ours. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, the principals of our investment adviser may face conflicts of interest in the allocation of investment opportunities to us and such other funds.

Fifth Street Management has adopted, and our Board of Directors has approved, an investment allocation policy that governs the allocation of investment opportunities among the investment funds managed by Fifth Street Management and its affiliates. To the extent an investment opportunity is appropriate for us or FSFR or any other investment fund managed by our affiliates, and co-investment is not possible, Fifth Street Management will adhere to its investment allocation policy in order to determine to which entity to allocate the opportunity. Any such opportunity will be allocated first to the entity whose investment strategy is the most consistent with the opportunity being allocated, and second, if the terms of the opportunity are consistent with more than one entity's investment strategy, on an alternating basis. Although our investment professionals will endeavor to allocate investment opportunities in a fair and equitable manner, we and our common stockholders could be adversely affected to the extent investment opportunities are allocated among us and other investment vehicles managed or sponsored by, or affiliated with, our executive officers, directors and members of our investment adviser.

As a business development company, we were substantially limited in our ability to co-invest in privately negotiated transactions with affiliated funds until we obtained an exemptive order from the SEC on September 9, 2014. The exemptive relief permits us to participate in negotiated co-investment transactions with certain affiliates, each of whose investment adviser is Fifth Street Management, or an investment adviser controlling, controlled by or under common control with Fifth Street Management, in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, and pursuant to the conditions to the exemptive relief.

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

As a result of the operation of the cumulative method of calculating the capital gains portion of the incentive fee we pay to our investment adviser, the cumulative aggregate capital gains fee received by our investment adviser could be effectively greater than 20%, depending on the timing and extent of subsequent net realized capital losses or net unrealized depreciation. For additional information on this calculation, see the disclosure in footnote 2 to Example 2 under the caption "Item 1. Business - Investment Advisory Agreement — Management Fee — Incentive Fee." We cannot predict whether, or to what extent, this payment calculation would affect your investment in our stock.

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

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

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

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

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

In addition, we may issue "senior securities," including borrowing money from banks or other financial institutions only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the

rates at which we can borrow and the rates at which we can lend. As a business development company, therefore, we may need to issue equity more frequently than our privately owned competitors, which may lead to greater stockholder dilution.

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

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

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

Through wholly-owned subsidiaries, we hold two licenses from the SBA to operate SBIC subsidiaries. On February 3, 2010, our wholly-owned subsidiary, Fifth Street Mezzanine Partners IV, L.P. received a license, effective February 1, 2010, and on May 15, 2012, our wholly-owned subsidiary, Fifth Street Mezzanine Partners V, L.P. received a license, effective May 10, 2012, from the SBA to operate as SBICs under Section 301(c) of the Small Business Investment Act of 1958. The SBIC licenses allow our SBIC subsidiaries to obtain leverage by issuing SBA-guaranteed debentures. The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in a few prohibited industries. Compliance with SBIC requirements may cause our SBIC subsidiaries to forgo attractive investment opportunities that are not permitted under SBA regulations.

Further, SBA regulations require that an SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval, a "change of control" of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10% or more of a class of capital stock of an SBIC. If our SBIC subsidiaries fail to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit their use of debentures, declare outstanding debentures immediately due and payable, and/or limit them from making new investments. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because our SBIC subsidiaries are our wholly-owned subsidiaries.

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

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

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

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

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

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

- The annual distribution requirement for a RIC will be satisfied if we distribute to our stockholders on an annual basis at least 90% of our net taxable income and realized net short-term capital gains in excess of realized net long-term capital

losses, if any. Because we may use debt financing, we are subject to an asset coverage ratio requirement under the 1940 Act and we may be subject to certain financial covenants under our debt arrangements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the distribution requirement. If we are unable to obtain cash from other sources, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

- The income source requirement will be satisfied if we obtain at least 90% of our income for each year from dividends, interest, gains from the sale of stock or securities or similar sources.
- The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. To satisfy this requirement, at least 50% of the value of our assets must consist of cash, cash equivalents, U.S. government securities, securities of other RICs, and other acceptable securities; and no more than 25% of the value of our assets can be invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain “qualified publicly traded partnerships.” Failure to meet these requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

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

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

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

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

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

For U.S. federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount or accruals on a contingent payment debt instrument, which may occur if we receive warrants in connection with the origination of a loan or possibly in other circumstances. Such original issue discount is included in income before we receive any corresponding cash payments. In addition, our loans typically contain payment-in-kind (“PIK”) interest provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. We also may be required to include in income certain other amounts that we do not receive, and may never receive, in cash.

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

In addition, as discussed elsewhere herein, our loans may contain PIK interest provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, will be added to the principal balance of the loan and recorded as interest income. To avoid the imposition of corporate-level tax on us, this non-cash source of income will need to be paid out to

stockholders in cash distributions or, in the event that we determine to do so, in shares of our common stock, even though we may have not yet collected and may never collect the cash relating to the PIK interest.

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

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

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

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level U.S. federal income taxes, we are required to distribute substantially all of our net taxable income and net capital gain income, including income from certain of our subsidiaries, which includes the income from our SBIC subsidiaries. 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 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 and if our SBIC subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may result in loss of RIC tax treatment and a consequent imposition of an entity-level tax on us.

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

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

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

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

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

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

***Future control deficiencies could prevent us from accurately and timely reporting our financial results.***

We may identify deficiencies in our internal control over financial reporting in the future, including significant deficiencies and material weaknesses. A “significant deficiency” is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a company’s financial reporting. A “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis.

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

## **Risks Relating to Our Investments**

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

The companies in which we invest are typically highly leveraged, and, in most cases, our investments in such companies are not rated by any rating agency. If such investments were rated, we believe that they would likely receive a rating from a nationally recognized statistical rating organization of below investment grade (i.e., below BBB- or Baa), which is often referred to as “junk.” Exposure to below investment grade securities involves certain risks, and those securities are viewed as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. Investing in small and mid-sized companies involves a number of significant risks. Among other things, these companies:

- may have limited financial resources and may be unable to meet their obligations under their debt instruments that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees from subsidiaries or affiliates of our portfolio companies that we may have obtained in connection with our investments, as well as a corresponding decrease in the value of the equity components of our investments;
- may have shorter operating histories, narrower product lines, smaller market shares and/or significant customer concentrations than larger businesses, which tend to render them more vulnerable to competitors’ actions and market conditions, as well as general economic downturns;
- may not have collateral sufficient to pay any outstanding interest or principal due to us in the event of a default by these companies;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and
- generally have less publicly available information about their businesses, operations and financial condition. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and as a result may lose part or all of our investment.

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

***We may incur greater risk with respect to investments we acquire through assignments or participations of interests.***

Although we originate a substantial portion of our loans, we may acquire loans through assignments or participations of interests in such loans. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to such debt obligation. However, the purchaser's rights can be more restricted than those of the assigning institution, and we may not be able to unilaterally enforce all rights and remedies under an assigned debt obligation and with regard to any associated collateral. A participation typically results in a contractual relationship only with the institution participating out the interest and not directly with the borrower. Sellers of participations typically include banks, broker-dealers, other financial institutions and lending institutions. In purchasing participations, we generally will have no right to enforce compliance by the borrower with the terms of the loan agreement against the borrower, and we may not directly benefit from the collateral supporting the debt obligation in which we have purchased the participation. As a result, we will be exposed to the credit risk of both the borrower and the institution selling the participation. Further, in purchasing participations in lending syndicates, we will not be able to conduct the same level of due diligence on a borrower or the quality of the loan with respect to which we are buying a participation as we would conduct if we were investing directly in the loan. This difference may result in us being exposed to greater credit or fraud risk with respect to such loans than we expected when initially purchasing the participation.

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

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

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

We have made, and may in the future make, unsecured debt investments in portfolio companies. Unsecured debt investments are unsecured and junior to other indebtedness of the portfolio company. As a consequence, the holder of an unsecured debt investment may lack adequate protection in the event the portfolio company becomes distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event the portfolio company defaults on its indebtedness. In addition, unsecured debt investments of small and mid-sized companies are often highly illiquid and in adverse market conditions may experience steep declines in valuation even if they are fully performing.

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

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

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

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

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

We invest, and will continue to invest, in companies whose securities are not publicly traded, and whose securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. In fact, all of our assets may be invested in illiquid securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. Our investments are usually subject to

contractual or legal restrictions on resale or are otherwise illiquid because there is usually no established trading market for such investments. The illiquidity of most of our investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

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

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

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

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

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

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

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

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

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

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

The rights we may have with respect to the collateral securing the loans we make to our portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that obligations that have the benefit of the first

priority liens are outstanding, any of the following actions that may be taken with respect to the collateral will be at the direction of the holders of the obligations secured by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. We may not have the ability to control or direct such actions, even if our rights are adversely affected.

***Our investments in the healthcare sector face considerable uncertainties including substantial regulatory challenges.***

As of September 30, 2014, our investments in portfolio companies that operate in the healthcare sector represent approximately 15% of our total portfolio. Our investments in the healthcare sector are subject to substantial risks. The laws and rules governing the business of healthcare companies and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. Existing or future laws and rules could force our portfolio companies engaged in healthcare to change how they do business, restrict revenue, increase costs, change reserve levels and change business practices.

Healthcare companies often must obtain and maintain regulatory approvals to market many of their products, change prices for certain regulated products and consummate some of their acquisitions and divestitures. Delays in obtaining or failing to obtain or maintain these approvals could reduce revenue or increase costs. Policy changes on the local, state and federal level, such as the expansion of the government's role in the healthcare arena and alternative assessments and tax increases specific to the healthcare industry or healthcare products as part of federal health care reform initiatives, could fundamentally change the dynamics of the healthcare industry.

***We generally do not, and do not expect to, control our portfolio companies.***

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

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

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

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

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

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

We have made in the past and may make in the future investments in foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in foreign exchange rates, exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. In addition, our foreign investments generally do not constitute "qualifying assets" under the 1940 Act, under which qualifying assets must represent at least 70% of our total assets. See "Business Development Company Regulation — Qualifying Assets."

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

***We may expose ourselves to risks if we engage in hedging transactions.***

We have and may in the future enter into hedging transactions, which may expose us to risks associated with such transactions. We may utilize instruments such as forward contracts and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions and amounts due under our credit facilities from changes in market interest rates. Use of these hedging instruments may include counterparty credit risk. Utilizing such hedging instruments does not eliminate the possibility of fluctuations in the values of such positions and amounts due under our credit facilities or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Moreover, it may not be possible to hedge against an interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

The success of any hedging transactions will depend on our ability to correctly predict movements and interest rates. Therefore, while we may enter into such transactions to seek to reduce interest rate risks, unanticipated changes in interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings or credit facilities being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. See also “— Changes in interest rates may affect our cost of capital and net investment income.”

***We are a non-diversified investment company within the meaning of the 1940 Act, and therefore have few restrictions with respect to the proportion of our assets that may be invested in securities of a single industry or issuer.***

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single industry or issuer, excluding limitations on investments in other investment companies. To the extent that we assume large positions in the securities of a small number of industries or issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market’s assessment of the industry or issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond RIC diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few industries or issuers.

## **Risks Relating to Our Common Stock**

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

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

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

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

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

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

- significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- inability to obtain any exemptive relief that may be required by us from the SEC;
- changes in regulatory policies, accounting pronouncements or tax guidelines, particularly with respect to RICs, business development companies and SBICs;

- loss of our business development company or RIC status or the status of our SBIC subsidiaries as SBICs;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of our investment adviser’s key personnel; and
- general economic trends and other external factors.

***Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.***

Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues for a sustained period of time, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

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

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

***Stockholders may incur dilution if we issue securities to subscribe to, convert to or purchase shares of our common stock.***

The 1940 Act prohibits us from selling shares of our common stock at a price below the current net asset value per share of such stock with certain exceptions. One such exception is prior stockholder approval of issuances of securities to subscribe to, convert to or purchase shares of our common stock even if the subscription, conversion or purchase price per share of our common stock is below the net asset value per share of our common stock at the time of any such subscription, conversion or purchase. At our 2011 annual meeting of stockholders, our stockholders approved a proposal to authorize us to issue securities to subscribe to, convert to, or purchase shares of our common stock in one or more offerings, including under such circumstance. Such authorization has no expiration. Any decision to sell securities to subscribe to, convert to, or purchase shares of our common stock will be subject to the determination by our board of directors that such issuance is in our and our stockholders’ best interests. If we issue securities to subscribe to, convert to or purchase shares of common stock, the exercise or conversion of such securities would increase the number of outstanding shares of our common stock. Any such exercise or conversion would be dilutive on the voting power of existing stockholders, and could be dilutive with regard to dividends and our net asset value, and other economic aspects of the common stock.

Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect cannot be predicted; however, the table below illustrates the impact on the net asset value per common share of a business development company that would be experienced upon the exercise of a warrant to acquire shares of common stock of the business development company.

***Example of Impact of Exercise of Warrant to Acquire Common Stock on Net Asset Value Per Share***

The example assumes that the business development company has 1,000,000 shares of common stock outstanding, \$15,000,000 in total assets and \$5,000,000 in total liabilities at the time of the exercise of the warrant. As a result, the net asset value and net asset value per common share of the business development company are \$10,000,000 and \$10.00, respectively.

Further, the example assumes that the warrant permits the holder thereof to acquire 250,000 common shares under the following three different scenarios: (i) with an exercise price equal to a 10% premium to the business development company’s net asset value per share at the time of exercise, or \$11.00 per share, (ii) with an exercise price equal to the business development company’s net asset value per share at the time of exercise, or \$10.00 per share, and (iii) with an exercise price equal to a 10% discount to the business development company’s net asset value per share at the time of exercise, or \$9.00 per share.

Warrant Exercise Price	Net Asset Value Per Share Prior To Exercise		Net Asset Value Per Share After Exercise	
10% premium to net asset value per common share	\$	10.00	\$	10.20
Net asset value per common share	\$	10.00	\$	10.00
10% discount to net asset value per common share	\$	10.00	\$	9.80

Although we have chosen to demonstrate the impact on the net asset value per common share of a business development company that would be experienced by existing stockholders of the business development company upon the exercise of a

warrant to acquire shares of common stock of the business development company, the results noted above would be similar in connection with the exercise or conversion of other securities exercisable or convertible into shares of the business development company's common stock. In addition, the example does not take into account the impact of other securities that may be issued in connection with the issuance of exercisable or convertible securities (e.g., the issuance of shares of common stock in conjunction with the issuance of warrants to acquire shares of common stock).

## **Risks Related to Our Convertible Notes**

### ***Our stockholders may experience dilution upon the conversion of our convertible notes.***

Our convertible notes are convertible into shares of our common stock beginning January 1, 2016 or, under certain circumstances, earlier. Upon conversion, we must deliver shares of our common stock. The conversion rate of our convertible notes was initially, and as of September 30, 2014 is, 67.7415 shares of our common stock per \$1,000 principal amount of our convertible notes (equivalent to a conversion price of approximately \$14.76 per share of common stock), subject to adjustment in certain circumstances. 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 debt currently outstanding 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.

### ***We may not have, or have the ability to raise, the funds necessary to repurchase our convertible notes upon a fundamental change, and our debt may contain limitations on our ability to deliver shares of our common stock upon conversion or pay cash upon repurchase of our convertible notes.***

Holders of our convertible notes will have the right to require us to repurchase their notes upon the occurrence of certain significant corporate events involving us, including if our common stock ceases to trade on any national securities exchange or we consolidate or merge into another entity in certain circumstances, at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. We refer to such a corporate event as a "fundamental change." However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of convertible notes surrendered therefor. In addition, our ability to repurchase our convertible notes or deliver shares of our common stock upon conversions of the convertible notes may be limited by law, by regulatory authority or by agreements governing our indebtedness, including our credit facilities. In this regard, the ING facility prohibits us from repurchasing our convertible notes in certain circumstances upon the occurrence of a fundamental change. Our failure to repurchase the notes at a time when the repurchase is required by the indenture relating to the convertible notes or to deliver any shares of our common stock deliverable on future conversions of the convertible notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the occurrence of a fundamental change itself could also lead to a default under agreements governing our indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase our convertible notes.

### ***Provisions of our convertible notes could discourage an acquisition of us by a third party.***

Certain provisions of our convertible notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of a fundamental change, the holders of our convertible notes will have the right, at their option, to require us to repurchase all or a portion of their convertible notes, plus accrued and unpaid interest. We may also be required to increase the conversion rate of the convertible notes in certain other circumstances, including in the event of certain fundamental changes. These provisions could discourage an acquisition of us by a third party.

### ***Certain adverse consequences could result if our convertible notes are treated as equity interests in us for purposes of regulations under the Employee Retirement Income Security Act of 1974.***

Pursuant to regulations under the Employee Retirement Income Security Act of 1974 ("ERISA"), it is possible that, due to their convertibility feature, our convertible notes could be treated as equity interests in us. In that event, if employee benefit plans subject to Title I of ERISA, plans that are not subject to ERISA but that are subject to Section 4975 of the Internal Revenue Code (the "Code"), such as individual retirement accounts, and entities that are deemed to hold the assets of such plans or accounts (such plans, accounts, and entities, "Benefit Plan Investors") were to acquire 25% or more of the aggregate value of our convertible notes, among other consequences, we and our management would be subject to ERISA fiduciary duties, and certain transactions we might enter into, or may have entered into, in the ordinary course of our business might constitute non-exempt "prohibited transactions" under Section 406 of ERISA or Section 4975 of the Code and might have to be rescinded at significant cost to us. Moreover, if our underlying assets were deemed to be assets constituting plan assets, (i) our assets could be subject to ERISA's reporting and disclosure requirements, (ii) a fiduciary causing a Benefit Plan Investor to make an investment in our equity interests could be deemed to have delegated its responsibility to manage the assets of the Benefit Plan Investor, and (iii) various providers of fiduciary or other services to us, and any other parties with authority or

control with respect to our assets, could be deemed to be plan fiduciaries or otherwise parties in interest or disqualified persons by virtue of their provision of such services.

We do not believe that our convertible notes should be treated as equity interests in us for purposes of ERISA in light of the relevant regulations. No assurance can be given, however, that our convertible notes will not be so treated.

***The accounting for convertible debt securities is complex and subject to uncertainty.***

The accounting for convertible debt securities is complex and subject to frequent scrutiny by the accounting regulatory bodies and is subject to change. The issuance of our convertible notes may have an accounting effect on our earnings per share on a fully diluted basis. Further, we cannot predict if or when changes in the accounting for convertible debt securities could be made and whether any such change could have an adverse impact on our reported or future financial results. Any such impacts could adversely affect the market price or value of our common stock.

**Risks Related to Our Notes**

***The Notes are unsecured and therefore are effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.***

Our 6.125% unsecured notes due 2028 (the “2028 Notes”), 5.875% unsecured notes due 2024 (the “2024 Notes”), and the 4.875% unsecured notes due 2019 (the “2019 Notes” and together with the 2028 Notes and 2024 Notes, the “Notes”) are not secured by any of our assets or any of the assets of our subsidiaries. As a result, the Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of September 30, 2014, we had \$267.4 million of outstanding borrowings under our ING facility, \$50.0 million of borrowings outstanding under our Sumitomo facility and \$225.0 million of outstanding SBA-guaranteed debentures.

***The Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.***

The Notes are obligations exclusively of Fifth Street Finance Corp. and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Notes and the Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. A portion of the indebtedness required to be consolidated on our balance sheet is held through our SBIC subsidiaries. The assets of such subsidiaries are not directly available to satisfy the claims of our creditors, including holders of the Notes. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition, Liquidity and Capital Resources” for more detail on the SBA-guaranteed debentures.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including trade creditors) and holders of preferred stock, if any, of our subsidiaries have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims are effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the Notes are structurally subordinated to all indebtedness and other liabilities (including trade payables) of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise.

In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

***The indenture under which the Notes are issued contains limited protection for holders of the Notes.***

The indenture under which the Notes are issued offers limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or any of our subsidiaries’ ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have a material adverse impact on investments in the Notes. In particular, the terms of the indenture and the Notes do not place any restrictions on our or our subsidiaries’ ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the Notes with

respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC (currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings);

- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes, including subordinated indebtedness, in each case, while the 2024 Notes remain outstanding, other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase);
- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
- enter into transactions with affiliates;
- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture does not require us to offer to purchase the Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for holders of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

***An active trading market for the Notes may not exist, which could limit your ability to sell the Notes or affect the market price of the Notes.***

We cannot provide any assurances that an active trading market for the Notes will exist in the future or that you will be able to sell your Notes. Even if an active trading market does exist, the Notes may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, if any, general economic conditions, our financial condition, performance and prospects and other factors. To the extent an active trading market does not exist, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

***If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.***

Any default under the agreements governing our indebtedness, including the ING facility, the Sumitomo facility, and our Notes or other indebtedness to which we may be a party that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the ING facility, the Sumitomo facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure

proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the ING facility, or the Sumitomo facility or the required holders of our Notes or other debt that we may incur in the future to avoid being in default. If we breach our covenants under the ING facility, the Sumitomo facility, or our Notes or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default and our lenders or debt holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under the ING facility, or the Sumitomo facility, could proceed against the collateral securing the debt. Because the ING facility, the Sumitomo facility and our Notes have, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness thereunder or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We do not own any real estate or other physical properties material to our operations. We utilize office space that is leased by our administrator from an affiliate controlled by our chief executive officer and the chief executive officer of our investment adviser and administrator, Mr. Tannenbaum. See “Material Conflicts of Interest.” Pursuant to an administration agreement with our administrator, we pay FSC CT an allocable portion of the rent at market rates or our principal executive office at 777 West Putnam Avenue, 3rd Floor, Greenwich, CT 06830. We also utilize additional office space that is leased by our affiliates at 311 South Wacker Drive, Suite 3380, Chicago, IL 60606 and 250 Cambridge Avenue, Suite 201, Palo Alto, CA 94306. We may from time to time, through our affiliates, lease satellite office space elsewhere, but these leases are generally not material to our operations.

**Item 3. Legal Proceedings**

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

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

#### Price Range of Common Stock

Our common stock trades on the NASDAQ Global Select Market under the symbol "FSC." The following table sets forth, for each fiscal quarter during the two most recently completed fiscal years, the range of high and low sales prices of our common stock as reported on the NASDAQ Global Select Market:

	High	Low
Fiscal year ended September 30, 2014		
First quarter	\$ 10.37	\$ 8.94
Second quarter	\$ 9.92	\$ 9.20
Third quarter	\$ 9.90	\$ 9.05
Fourth quarter	\$ 10.20	\$ 9.18
Fiscal year ended September 30, 2013		
First quarter	\$ 11.08	\$ 9.80
Second quarter	\$ 11.07	\$ 10.33
Third quarter	\$ 11.13	\$ 9.66
Fourth quarter	\$ 10.96	\$ 10.04

The last reported price for our common stock on November 28, 2014 was \$8.87 per share. As of November 24, 2014, we had 70 stockholders of record, which did not include stockholders for whom shares are held in nominee or "street" name.

#### Sales of Unregistered Securities

While we did not engage in any sales of unregistered securities during the fiscal year ended September 30, 2014, we issued a total of 253,478 shares of common stock under our dividend reinvestment plan ("DRIP"). This issuance was not subject to the registration requirements of the Securities Act of 1933, as amended. The aggregate value of the shares of our common stock issued under our DRIP was approximately \$2.5 million.

#### Distributions

Our dividends, if any, are determined by our Board of Directors.

In addition, we have elected to be treated for U.S. federal income tax purposes as a RIC under Subchapter M of the Code. As long as we continue to qualify as a RIC, we will not be taxed on our investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis.

To maintain RIC tax treatment, we must, among other things, distribute, 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). Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% U.S. federal excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year in which such taxable income was generated. We may, in the future, make actual distributions to our stockholders of our net capital gains. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and we may be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See "Item 1. Business — Regulation — Taxation as a Regulated Investment Company."

We have adopted an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we make a cash distribution, then stockholders' cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash distributions.

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.

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

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount per Share</b>	<b>Cash Distribution</b>	<b>DRIP Shares Issued</b>	<b>DRIP Shares Value</b>
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	0.0500	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	12.2 million	54,739 (1)	0.5 million
February 6, 2014	August 15, 2014	August 29, 2014	0.0833	12.1 million	59,466	0.6 million
July 2, 2014	September 15, 2014	September 30, 2014	0.0917	13.4 million	73,141 (1)	0.7 million
July 2, 2014	October 15, 2014	October 31, 2014	0.0917	13.3 million	82,390 (1)	0.7 million
July 2, 2014	November 14, 2014	November 28, 2014	0.0917			
November 20, 2014	December 15, 2014	December 30, 2014	0.0917			
November 20, 2014	January 15, 2015	January 30, 2015	0.0917			

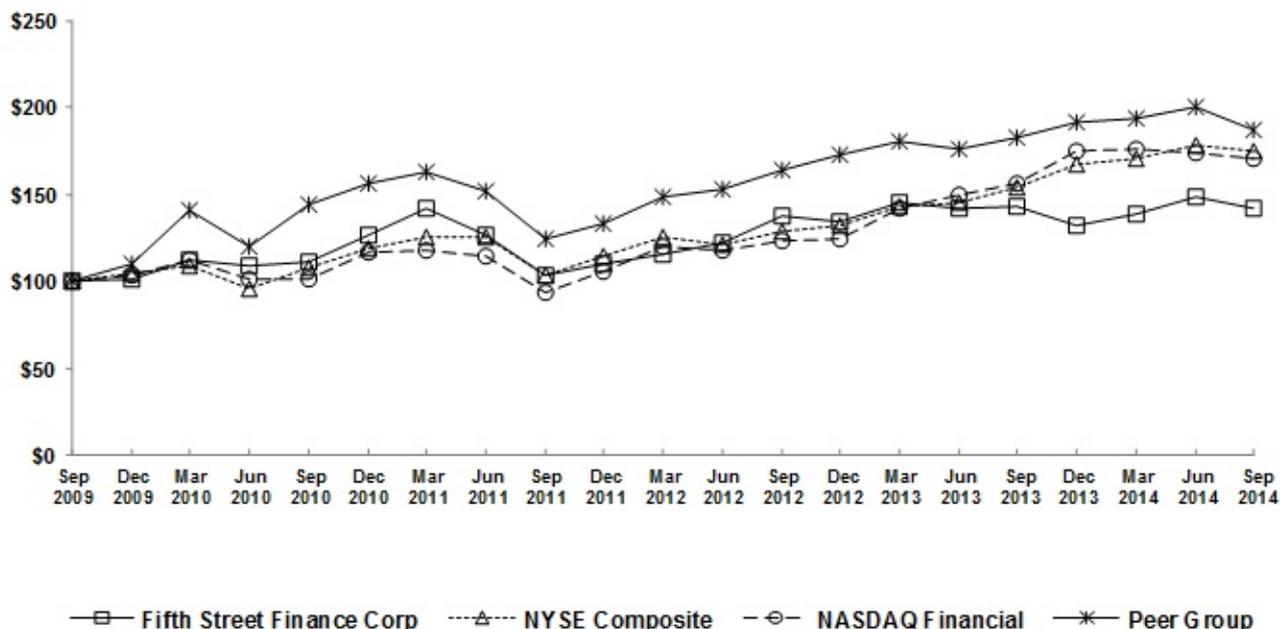
(1) Shares were purchased on the open market and distributed.

## Stock Performance Graph

The following graph compares the cumulative 5-year total return provided to shareholders on Fifth Street Finance Corp.'s common stock relative to the cumulative total returns of the NYSE Composite index, the NASDAQ Financial index and a customized peer group of six companies that includes: Apollo Investment Corp., Ares Capital Corp., Blackrock Kelso Capital Corp., Gladstone Capital Corp., MCG Capital Corp. and MVC Capital Inc. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in each index and in the peer group on September 30, 2009 and its relative performance is tracked through September 30, 2014.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Fifth Street Finance Corp, the NYSE Composite Index, the NASDAQ Financial Index, and a Peer Group



\*\$100 invested on 9/30/09 in stock or index, including reinvestment of dividends.  
Fiscal year ending September 30.

	Sep 2009	Dec 2009	Mar 2010	Jun 2010	Sep 2010	Dec 2010	Mar 2011	Jun 2011	Sep 2011	Dec 2011
<b>Fifth Street Finance Corp.</b>	100.00	100.93	112.06	109.28	111.48	126.01	141.92	126.55	103.79	110.07
<b>NYSE Composite</b>	100.00	104.53	108.93	95.26	107.81	118.52	125.74	125.28	102.89	113.97
<b>NASDAQ Financial</b>	100.00	103.02	112.40	100.68	101.76	116.71	118.21	114.58	93.82	106.11
<b>Peer Group</b>	100.00	110.13	141.21	120.20	143.70	156.16	163.09	151.30	124.03	133.33

	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Mar 2013	Jun 2013	Sep 2013	Dec 2013	Mar 2014	Jun 2014	Sep 2014
<b>Fifth Street Finance Corp. (cont.)</b>	115.47	121.67	137.60	134.19	145.72	141.99	143.55	132.27	138.88	148.22	142.10
<b>NYSE Composite (cont.)</b>	125.87	120.62	128.40	132.19	143.50	145.39	153.59	166.94	170.01	178.47	174.97
<b>NASDAQ Financial (cont.)</b>	120.28	117.27	122.90	123.90	142.12	149.97	156.41	174.54	175.53	174.24	170.47
<b>Peer Group (cont.)</b>	148.46	153.04	164.31	172.66	180.92	175.80	182.87	191.40	193.19	200.53	187.39

Selected unaudited quarterly financial data for Fifth Street Finance Corp. for the years ended September 30, 2014, 2013 and 2012 are below:

(dollars in thousands, except per share amounts)	For the three months ended											
	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Total investment income	\$ 76,217	\$ 74,274	\$ 72,132	\$ 71,331	\$ 57,092	\$ 58,050	\$ 54,687	\$ 51,783	\$ 42,531	\$ 41,008	\$ 42,080	\$ 39,497
Net investment income	37,458	34,665	34,233	36,218	28,699	30,394	29,303	26,556	22,315	21,910	22,791	20,989
Realized and unrealized gain (loss)	(9,019)	(14,378)	(4,133)	(2,512)	(2,561)	(4,388)	2,531	(8,713)	4,757	179	(2,735)	(10,805)
Net increase in net assets resulting from operations	28,439	20,287	30,100	33,706	26,138	26,006	31,834	17,843	27,072	22,089	20,056	10,184
Net assets	1,478,475	1,351,321	1,365,297	1,369,968	1,368,872	1,197,268	1,050,961	1,046,879	903,570	812,071	813,322	715,665
Total investment income per common share	\$ 0.51	\$ 0.53	\$ 0.52	\$ 0.51	\$ 0.47	\$ 0.49	\$ 0.52	\$ 0.55	\$ 0.51	\$ 0.50	\$ 0.53	\$ 0.55
Net investment income per common share	0.25	0.25	0.25	0.26	0.24	0.26	0.28	0.28	0.27	0.27	0.29	0.29
Earnings per common share	0.19	0.15	0.22	0.24	0.21	0.22	0.30	0.19	0.32	0.27	0.25	0.14
Net asset value per common share at period end	9.64	9.71	9.81	9.85	9.85	9.90	9.90	9.88	9.92	9.85	9.87	9.89

### Open Market Stock Repurchase Program

On November 21, 2013, our Board of Directors terminated our previous \$50 million stock repurchase program and approved a new \$100 million stock repurchase program. Under this program, any stock repurchases were to be made through the open market at times and in such amounts as management deemed appropriate, provided they were below the most recently published net asset value per share.

In December 2013, we repurchased 45,104 shares at the weighted average price of \$8.978 per share, resulting in \$0.4 million of cash paid during the year ended September 30, 2014.

On November 20, 2014, our Board of Directors terminated our previous \$100 million stock repurchase program and approved a new \$100 million stock repurchase plan through November 20, 2015. Any stock repurchases under the new \$100 million stock repurchase program will be made through the open market at times, and in such amounts, as management deems appropriate. This program may be limited or terminated at any time without prior notice.

**Item 6. Selected Financial Data**

The following selected financial data should be read together with our financial statements and the related notes and the discussion under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” which is included elsewhere in this annual report on Form 10-K. The financial information as of and for the fiscal years ended September 30, 2010, 2011, 2012, 2013 and 2014 set forth below was derived from our audited financial statements and related notes for Fifth Street Finance Corp.

(dollars in thousands, except per share amounts)	As of and for the Years Ended				
	September 30, 2014	September 30, 2013	September 30, 2012	September 30, 2011	September 30, 2010
<b>Statement of Operations data:</b>					
Total investment income	\$293,954	\$221,612	\$165,116	\$125,165	\$70,538
Base management fee, net	51,048	33,427	23,799	19,656	9,275
Incentive fee	35,472	28,158	22,001	16,782	10,756
All other expenses	64,860	45,074	32,882	23,080	7,483
Gain on extinguishment of unsecured convertible notes	—	—	1,571	1,480	—
Net investment income	142,574	114,953	88,005	67,127	43,024
Unrealized appreciation (depreciation) on interest rate swap	—	—	—	773	(773)
Realized gain (loss) on interest rate swap	—	—	—	(1,335)	—
Net unrealized appreciation (depreciation) on investments	(32,164)	13,397	55,974	(7,299)	(1,054)
Net unrealized appreciation on secured borrowings	(53)				
Realized gain (loss) on investments	2,175	(26,529)	(64,578)	(29,059)	(18,781)
Net increase in net assets resulting from operations	112,532	101,821	79,401	30,207	22,416
<b>Per share data:</b>					
Net asset value per common share at period end	9.64	9.85	9.92	10.07	10.43
Market price at period end	9.18	10.29	10.98	9.32	11.14
Net investment income	1.00	1.04	1.11	1.05	0.95
Net realized and unrealized loss on investments, secured borrowings and interest rate swap	(0.21)	(0.12)	(0.11)	(0.58)	(0.46)
Net increase in partners’ capital/net assets resulting from operations	0.79	0.92	1.00	0.47	0.49
Distributions per common share	1.00	1.15	1.18	1.26	0.96
<b>Balance Sheet data at period end:</b>					
Total investments at fair value	\$2,495,914	\$1,893,046	\$1,288,108	\$1,119,837	\$563,821
Cash, cash equivalents and restricted cash	109,046	147,359	74,393	67,644	76,765
Other assets	63,258	31,928	26,501	22,236	11,340
Total assets	2,668,218	2,072,333	1,389,002	1,209,717	651,926
Total liabilities	1,189,743	703,461	485,432	481,090	82,754
Total net assets	1,478,475	1,368,872	903,570	728,627	569,172
<b>Other data:</b>					
Weighted average yield on debt investments (1)	11.1%	11.1%	12.0%	12.4%	14.0%
Number of investments at period end	124	99	78	65	38

(1) Weighted average yield is calculated based upon our debt investments, including the return on SLF JV I, at the end of the period.

## **Item 7. 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 annual report on Form 10-K.

Some of the statements in this annual report on Form 10-K constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this annual report on Form 10-K 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,” “seek,” “plan,” “should,” “estimate,” “project” and “intend” indicate forward-looking statements, although not all forward-looking statements include these words. The forward-looking statements contained in this annual report on Form 10-K 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 “Item 1A. Risk Factors” and elsewhere in this annual report on Form 10-K. 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 annual report on Form 10-K on information available to us on the date of this annual 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 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.”

### **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 September 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 substantial portion of the portfolio valued by an independent third party on a quarterly basis. 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%
For the quarter ended September 30, 2014	84.0%

As of September 30, 2014 and September 30, 2013, approximately 93.5% 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 of income from portfolio companies are generally recorded as dividend income on the ex-dividend date.

#### *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 September 30, 2014, we had structured \$3.8 million in aggregate exit fees across five 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 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 \$39.7 million, or 1.6% of the fair value of our portfolio of investments as of September 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:

	September 30, 2014	September 30, 2013
<b>Cost:</b>		
Senior secured debt	79.72%	78.33%
Subordinated debt	11.67	15.76
CLO debt	1.18	1.59
Subordinated notes of SLF JV I	2.16	—
LLC equity interests of SLF JV I	0.24	—
Purchased equity	4.31	3.86
Equity grants	0.22	0.23
Limited partnership interests	0.50	0.23
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Fair value:</b>		
Senior secured debt	79.01%	77.53%
Subordinated debt	11.61	15.65
CLO debt	1.18	1.56
Subordinated notes of SLF JV I	2.16	—
LLC equity interests of SLF JV I	0.23	—
Purchased equity	5.04	4.74
Equity grants	0.30	0.30
Limited partnership interests	0.47	0.22
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

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

	September 30, 2014	September 30, 2013
<b>Cost:</b>		
Healthcare services	15.03%	14.35%
Education services	9.35	8.97
Advertising	6.59	8.28
Internet software & services	6.31	5.87
Application software	5.57	0.69
Airlines	5.18	1.32
Specialized finance	4.76	6.68
Diversified support services	4.71	9.15
Oil & gas equipment services	3.86	4.06
IT consulting & other services	3.86	4.43
Healthcare equipment	3.04	3.79
Multi-sector holdings	2.74	0.20
Specialty stores	2.46	3.68
Data processing & outsourced services	2.42	1.25
Industrial machinery	2.14	0.91
Human resources & employment services	2.05	3.49
Leisure facilities	1.97	—
Integrated telecommunication services	1.87	—
Pharmaceuticals	1.86	2.77
Household products	1.52	1.60
Apparel, accessories & luxury goods	1.43	1.53
Construction & engineering	1.39	1.75
Air freight & logistics	1.30	0.90
Asset management & custody banks	1.18	1.59
Home improvement retail	1.10	1.54
Cable & satellite	1.08	—
Leisure products	0.83	2.54
Consumer electronics	0.76	—
Auto parts & equipment	0.66	1.78
Other diversified financial services	0.62	2.25
Research & consulting services	0.59	0.94
Specialty chemicals	0.54	1.08
Security & alarm services	0.53	0.71
Healthcare technology	0.32	—
Systems software	0.22	—
Thrift & mortgage finance	0.16	0.01
Food distributors	—	0.99
Environmental & facilities services	—	0.47
Construction materials	—	0.39
Building products	—	0.04
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

	September 30, 2014	September 30, 2013
<b>Fair value:</b>		
Healthcare services	15.23%	14.47%
Education services	9.28	8.90
Advertising	6.58	8.18
Internet software & services	6.43	6.03
Application software	5.62	0.71
Airlines	5.33	1.29
Specialized finance	5.16	6.57
Diversified support services	4.71	9.04
IT consulting & other services	3.89	4.43
Oil & gas equipment services	3.71	4.04
Healthcare equipment	3.06	3.74
Multi-sector holdings	2.70	0.21
Data processing & outsourced services	2.40	1.23
Specialty stores	2.38	3.65
Industrial machinery	2.20	0.96
Human resources & employment services	2.06	3.45
Leisure facilities	1.98	0.01
Pharmaceuticals	1.87	2.79
Integrated telecommunication services	1.86	0.00
Construction & engineering	1.55	2.16
Household products	1.47	1.55
Asset management & custody banks	1.18	1.56
Home improvement retail	1.12	1.51
Cable & satellite	1.08	—
Leisure products	0.94	2.64
Apparel, accessories & luxury goods	0.91	1.46
Air freight & logistics	0.84	0.74
Consumer electronics	0.77	—
Auto parts & equipment	0.70	1.90
Other diversified financial services	0.63	2.22
Research & consulting services	0.60	0.95
Specialty chemicals	0.54	1.06
Security & alarm services	0.53	0.69
Healthcare technology	0.32	—
Systems software	0.21	—
Thrift & mortgage finance	0.16	0.01
Food distributors	—	0.99
Environmental & facilities services	—	0.43
Construction materials	—	0.39
Building products	—	0.04
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

### 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 September 30, 2014 and September 30, 2013:

Investment Ranking	September 30, 2014			September 30, 2013		
	Fair Value	% of Portfolio	Leverage Ratio	Fair Value	% of Portfolio	Leverage Ratio
1	\$ 65,268	2.61%	1.94	\$ 122,769	6.49%	2.67
2	2,424,290	97.14	4.84	1,770,277	93.51	4.70
3	—	—	—	—	—	—
4	6,356	0.25	NM (1)	—	—	—
<b>Total</b>	<b>\$ 2,495,914</b>	<b>100.00%</b>	<b>4.75</b>	<b>\$ 1,893,046</b>	<b>100.00%</b>	<b>4.57</b>

(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 September 30, 2014, we had modified the payment terms of our investments in 19 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 September 30, 2014, there was one investment on which we had stopped accruing cash interest. As of September 30, 2013, there were no investments on which we had stopped accruing cash and/or PIK interest and OID income. As of September 30, 2012, we had stopped accruing PIK interest on one investment.

The percentages of our debt investments at cost and fair value by accrual status for the years ended September 30, 2014, September 30, 2013 and September 30, 2012 were as follows:

	September 30, 2014				September 30, 2013				September 30, 2012			
	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	\$ 2,345,637	99.25%	\$ 2,339,087	99.73%	\$ 1,779,201	100.00%	\$ 1,793,463	100.00%	\$ 1,217,393	99.26%	\$ 1,237,961	99.74%
PIK non-accrual	—	—	—	—	—	—	—	—	9,096	0.74	3,236	0.26
Cash non-accrual(1)	17,752	0.75	6,356	0.27	—	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 2,363,389</b>	<b>100.00%</b>	<b>\$ 2,345,443</b>	<b>100.00%</b>	<b>\$ 1,779,201</b>	<b>100.00%</b>	<b>\$ 1,793,463</b>	<b>100.00%</b>	<b>\$ 1,226,489</b>	<b>100.00%</b>	<b>\$ 1,241,197</b>	<b>100.00%</b>

(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 September 30, 2014, September 30, 2013 and September 30, 2012 was as follows:

	September 30, 2014	September 30, 2013	September 30, 2012
Coll Materials Group LLC(1)	—	—	PIK non-accrual
Miche Bag, LLC	Cash non-accrual	—	—

(1) We no longer hold this investment as of September 30, 2014. See “— Discussion and Analysis of Results and Operations — Comparison of the years ended September 30, 2014 and September 30, 2013 — Realized Gain (Loss) on Investments” for a discussion of our recent realization events.

Income non-accrual amounts for the years ended September 30, 2014, 2013 and 2012 were as follows:

	Year ended September 30, 2014 (1)	Year ended September 30, 2013 (1)	Year ended September 30, 2012 (1)
Cash interest income	\$ 786	\$ 280	\$ 3,068
PIK interest income	181	745	4,198
OID income	250	—	96
<b>Total</b>	<b>\$ 1,217</b>	<b>\$ 1,025</b>	<b>\$ 7,362</b>

(1) Income non-accrual amounts for the year include amounts for investments that were no longer held at the end of the period.

### Senior Loan Fund JV I, LLC

In May, 2014, we entered into an LLC agreement with Trinity Universal Insurance Company, a subsidiary of Kemper Corporation (“Kemper”) to form SLF JV I. On July 1, 2014, SLF JV I began investing in senior secured loans of middle market companies and other corporate debt securities. We co-invest in these securities with Kemper through our investment in SLF JV I. SLF JV I is managed by a four person Board of Directors, two of whom are selected by us and two of whom are selected by Kemper. SLF JV I is capitalized pro rata with subordinated notes and LLC equity interests as transactions are completed. All portfolio decisions and investment decisions in respect of SLF JV I must be approved by the SLF JV I investment committee, which consists of one representative from us and one representative of Kemper (with approval from a representative of each required). We and Kemper provide capital to SLF JV I in the form of subordinated notes and LLC equity interests. As of September 30, 2014, we and Kemper owned, in the aggregate, 87.5% and 12.5%, respectively, of each of the outstanding subordinated notes and LLC equity interests.

We have determined that SLF JV I is an investment company under ASC 946, however, in accordance with such guidance, we will generally not consolidate our investment in a company other than a wholly owned investment company subsidiary or a controlled operating company whose business consists of providing services to us. Accordingly, we do not consolidate our noncontrolling interest in SLF JV I.

As of September 30, 2014, SLF JV I had total assets of \$186.0 million. Our investment in SLF JV I consisted of LLC equity interests of \$5.6 million and subordinated notes of \$54.0 million, at fair value as of September 30, 2014. The subordinated notes are junior in right of payment to the repayment of temporary contributions made by us to fund investments of SLF JV I. SLF JV I's portfolio consisted of middle-market and other corporate debt securities of 18 “eligible portfolio companies” (as defined in the Section 2(a)(46) of the 1940 Act) as of September 30, 2014. As of September 30, 2014, the largest investment in a single company in SLF JV I's portfolio in aggregate principal amount was \$20.0 million, and the five largest investments in portfolio companies in SLF JV I totaled \$60.0 million in aggregate principal amount. The portfolio companies in SLF JV I are in industries similar to those in which we may invest directly.

As of September 30, 2014, SLF JV I had total capital commitments of \$200.0 million, \$175.0 million of which was from us and the remaining \$25.0 million from Kemper. Approximately \$68.6 million was funded as of September 30, 2014 relating to these commitments, of which \$60.0 million was from us. Additionally, SLF JV I had a senior revolving credit facility with Deutsche Bank AG, New York Branch (“Deutsche Bank facility”) with a stated maturity date of July 1, 2019, which permitted up to \$200.0 million of borrowings. As of September 30, 2014, we had commitments to fund subordinated notes to SLF JV I of \$157.5 million, of which \$103.5 million was unfunded. The subordinated notes mature on May 2, 2019. As of September 30, 2014, we had commitments to fund LLC equity interests in SLF JV I of \$17.5 million, of which \$11.5 million was unfunded. Under the Deutsche Bank facility, \$109.3 million was outstanding as of September 30, 2014.

Below is a summary of SLF JV I's portfolio, followed by a listing of the individual loans in SLF JV I's portfolio as of September 30, 2014:

	September 30, 2014
Senior secured loans (1)	\$158,451
Weighted average current interest rate on senior secured loans (2)	8.09%
Number of borrowers in SLF JV I	18
Largest loan to a single borrower (1)	\$20,000
Total of five largest loans to borrowers (1)	\$60,000

(1) At principal amount.

(2) Computed as the (a) annual interest on accruing senior secured loans divided by (b) total senior secured loans at principal amount.

#### SLF JV I Loan Portfolio as of September 30, 2014

Portfolio Company	Business Description	Investment Type	Maturity Date	Current Interest Rate (1)	Principal	Cost	Fair Value (2)
All Web Leads, Inc.	Advertising	Senior Loan	11/2018	LIBOR+8% (1% floor)	9,937	9,937	9,867
Ansira Partners, Inc.	Advertising	Senior Loan	05/2017	LIBOR+5.0% (1.5% floor)	3,553	3,536	3,549
Drugtest, Inc.	Human resources & employment services	Senior Loan	06/2018	LIBOR+ 5.75% (1% floor)	9,859	9,924	9,940
First Choice ER, LLC	Healthcare services	Senior Loan	10/2018	LIBOR+7.5% (1% floor)	20,000	20,019	20,166
InMotion Entertainment Group, LLC	Consumer electronics	Senior Loan	10/2018	LIBOR+7.75% (1.25% floor)	10,000	10,038	10,043
Integrated Petroleum Technologies, Inc.	Oil & gas equipment services	Senior Loan	03/2019	LIBOR+7.5% (1% floor)	9,937	9,937	9,987
Lift Brands, Inc.	Leisure facilities	Senior Loan	12/2019	LIBOR+7.5% (1% floor)	9,937	9,937	9,881
MedTech Group, Inc.	Healthcare equipment	Senior Loan	09/2016	LIBOR+5.25% (1.25% floor)	4,663	4,667	4,644
Olson + Co., Inc.	Advertising	Senior Loan	09/2017	LIBOR+5.75% (1.5% floor)	4,257	4,257	4,257
OmniSYS Acquisition Corporation	Diversified support services	Senior Loan	11/2018	LIBOR+7.5% (1% floor)	9,937	9,937	9,887
OnCourse Learning Corporation	Education services	Senior Loan	02/2019	LIBOR+7.5% (1% floor)	10,000	10,000	10,030
Teaching Strategies, LLC	Education services	Senior Loan	12/2017	LIBOR+6% (1.25% floor)	9,490	9,592	9,490
Total Military Management, Inc.	Air freight and logistics	Senior Loan	03/2019	LIBOR+5.75% (1.25% floor)	3,343	3,343	3,346
Yeti Acquisition, LLC	Leisure products	Senior Loan	06/2017	LIBOR+7% (1.25% floor)	6,115	6,161	6,115
Yeti Acquisition, LLC	Leisure products	Senior Loan	06/2017	LIBOR+10.25% (1.25% floor) 1% PIK	3,710	3,731	3,710
TV Borrower US, LLC	Integrated telecommunications services	Senior Loan	01/2021	LIBOR+5.0% (1% floor)	10,000	10,000	10,000
Vitera Healthcare Solutions, LLC	Healthcare technology	Senior Loan	11/2020	LIBOR+5% (1% floor)	4,963	4,963	4,980
H.D. Vest, Inc.	Specialty Finance	Senior Loan	06/2019	LIBOR+8% (1.25% floor)	8,750	8,820	8,820
TravelClick, Inc.	Internet software & services	Senior Loan	11/2021	LIBOR+7.75% (1% floor)	10,000	10,000	9,971
					<u>\$ 158,451</u>	<u>\$ 158,799</u>	<u>\$ 158,683</u>

(1) Represents the current interest rate as of September 30, 2014. All interest rates are payable in cash, unless otherwise noted.

(2) Represents the fair value determined utilizing a similar process as us in accordance with ASC 820. However, the determination of such fair value is not included in our Board of Directors' valuation process described elsewhere herein.

The amortized cost and fair value of the subordinated notes held by us was \$54.0 million as of September 30, 2014. The subordinated notes bear interest at a rate of LIBOR plus 8.0% and we earned interest income of \$1.0 million on our investments in these notes for the period from July 1, 2014 through September 30, 2014. The cost and fair value of the LLC equity interests held by us was \$6.0 million and \$5.6 million, respectively. We earned dividend income of \$1.3 million with respect to our LLC equity interests.

Below is certain summarized financial information for SLF JV I as of September 30, 2014 and for the period from July 1, 2014 (commencement of operations) through September 30, 2014:

As of September 30, 2014

**Selected Balance Sheet Information:**

Investments in loans at fair value (cost: \$158,799)	\$	158,683
Receivables from secured financing arrangements at fair value (cost: \$20,070)		19,970
Cash		2,276
Other assets		5,039
Total assets	\$	185,968
Senior credit facility payable		109,334
Payable for unsettled transaction		4,750
Subordinated notes payable at fair value (proceeds: \$61,696)		61,696
Other liabilities		3,634
Total liabilities	\$	179,414
Members' equity		6,554
Total liabilities and net assets	\$	185,968

Period from July 1, 2014  
through September 30, 2014**Selected Statement of Operations Information:**

Total revenues	\$	3,677
Total expenses		2,249
Net unrealized depreciation		(209)
Net realized losses		(20)
Net income	\$	1,199

SLF JV I has elected to fair value the subordinated notes issued to us and Kemper under ASC Topic 825 — Financial Instruments, or ASC Topic 825. The subordinated notes are valued by calculating the net present value of the future expected cash flow streams using an appropriate risk-adjusted discount rate model.

During the period from July 1, 2014 through September 30, 2014, we transferred \$160.2 million of senior secured debt investments and \$20.1 million of receivables from secured financing arrangements to SLF JV I at fair value in exchange for \$118.6 million of cash consideration, \$51.3 million of subordinated notes, \$5.7 million of LLC equity interests in SLF JV I, and \$4.7 million of receivables from unsettled transactions. We recognized a realized gain of \$0.3 million on this transaction.

**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 and secured borrowings.

**Comparison of Years ended September 30, 2014 and September 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 years ended September 30, 2014 and September 30, 2013 was \$294.0 million and \$221.6 million, respectively. For the year ended September 30, 2014, this amount primarily consisted of \$236.8 million of interest income from portfolio investments (which included \$24.1 million of PIK interest) and \$52.8 million of fee income. For the year ended September 30,

2013, this amount primarily consisted of \$173.7 million of interest income from portfolio investments (which included \$16.8 million of PIK interest) and \$45.9 million of fee income.

The increase in our total investment income for the year ended September 30, 2014 as compared to the year ended September 30, 2013 was primarily attributable to higher average levels of outstanding debt investments, which was principally due to a net increase of 15 debt investments in our portfolio and fees related to investment activity, partially offset by amortization repayments received on our debt investments.

#### *Expenses*

Net expenses for the years ended September 30, 2014 and September 30, 2013 were \$151.4 million and \$106.7 million, respectively. Net expenses increased for the year ended September 30, 2014 as compared to the year ended September 30, 2013 by \$44.7 million. This was due primarily to increases in:

- Base management fee (net of waivers), which was primarily attributable to a 31.8% 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 24.4% increase in pre-incentive fee net investment income for the year-over-year period; and
- Interest expense, which was attributable to a 85.7% increase in weighted average debt outstanding for the year-over-year period.

#### *Net Investment Income*

As a result of the \$72.3 million increase in total investment income and the \$44.7 million increase in net expenses, net investment income for the year ended September 30, 2014 reflected a \$27.6 million, or 24.0%, increase compared to the year ended September 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 year ended September 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;
- In July 2014, we received a payment of \$132.2 million from Desert NDT, 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 July 2014, we received a payment of \$21.1 million from Genoa Healthcare 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. We also received an additional \$1.2 million in connection with the sale of our preferred and common equity investments, realizing a gain of \$0.8 million;
- In July 2014, we received a payment of \$ 27.0 million from I Drive Safely, 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 August 2014, we received a payment of \$13.4 million from Specialty Bakers 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 August 2014, we received a payment of \$10.7 million from Personable 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 the transaction;
- In September 2014, we received a payment of \$13.5 million from Insight Pharmaceuticals 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 September 2014, we received a payment of \$28.7 million from Med-Data, Incorporated 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 September 2014, we received a payment of \$7.6 million from CPASS Acquisition 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 September 2014, we received a payment of \$20.0 million from SumTotal Systems, 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;
- During the period from July 1, 2014 through September 30, 2014, we transferred \$160.2 million of senior secured debt investments and \$20.1 million of receivables from secured financing arrangements to SLF JV I at fair value in exchange for \$118.6 million of cash consideration, \$51.3 million of subordinated notes, \$5.7 million of LLC equity interests in SLF JV I, and \$4.7 million of receivables from unsettled transactions. We recorded a realized gain of \$0.3 million on this transaction; and
- During the year ended September 30, 2014, we received payments of \$329.6 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 \$1.4 million on these transactions.

During the year ended September 30, 2013, we recorded investment realization events, including the following:

- In October 2012, we received a cash 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 cash 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 cash 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 cash 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 cash 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. We also received an additional \$3.0 million in connection with the sale of our preferred equity investment (including accumulated PIK of \$0.9 million), realizing a gain of \$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 the 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.
- 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 its investment in Trans-Trade Brokers, Inc. As part of the restructuring, we exchanged cash and our 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;
- In July 2013, we received a cash payment of \$9.1 million from U.S. Collections, 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 July 2013, we received a cash payment of \$9.9 million from Ikaria Acquisition, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited (plus additional fees) at par and no realized gain or loss was recorded on this transaction;
- In July 2013, we received a cash payment of \$5.5 million from Miche Bag, LLC in full satisfaction of all obligations related to the Term Loan A under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;

- In July 2013, we received a cash payment of \$43.9 million from Tegra Medical, 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 July 2013, we received a cash payment of \$27.0 million from MX USA, 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 August 2013, we restructured our investment in Eagle Hospital Physicians, Inc. As part of the restructuring, we exchanged cash and our debt securities for debt and equity securities in the successor entity, Eagle Hospital Physicians, LLC, and recorded a realized loss in the amount of \$9.8 million on this transaction;
- In August 2013, we received a cash payment of \$43.5 million from InvestRx 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 September 2013, we received a cash payment of \$43.1 million from Titan Fitness, 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; and
- During the year ended September 30, 2013, we received cash payments of \$59.9 million in connection with partial sales of debt investments in the open market and recorded a net realized gain of \$0.4 million.

#### *Net Unrealized Appreciation (Depreciation) on Investments*

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

During the year ended September 30, 2014, we recorded net unrealized depreciation on investments of \$32.2 million. This consisted of \$31.9 million of net unrealized depreciation on debt investments and \$3.4 million of net reclassifications to realized gains on debt and equity investments (resulting in unrealized depreciation), partially offset by \$3.1 million of net unrealized appreciation on equity investments. During the year ended September 30, 2013, we recorded net unrealized appreciation of \$13.4 million. This consisted of \$16.4 million of net reclassifications to realized losses on debt and equity investments (resulting in unrealized appreciation) and \$10.9 million of net unrealized appreciation on equity investments, offset by \$13.9 million of net unrealized depreciation on debt investments.

#### ***Comparison of Years ended September 30, 2013 and September 30, 2012***

##### *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 years ended September 30, 2013 and September 30, 2012 was \$221.6 million and \$165.1 million, respectively. For the year ended September 30, 2013, this amount primarily consisted of \$173.7 million of interest income from portfolio investments (which included \$16.8 million of PIK interest) and \$45.9 million of fee income. For the year ended September 30, 2012, this amount primarily consisted of \$133.2 million of interest income from portfolio investments (which included \$13.8 million of PIK interest) and \$31.7 million of fee income.

The increase in our total investment income for the year ended September 30, 2013 as compared to the year ended September 30, 2012 was primarily attributable to higher average levels of outstanding debt investments, which was principally due to a net increase of 18 debt investments in our portfolio and fees related to debt payoffs, partially offset by amortization repayments received on our debt investments and a decrease in the weighted average yield of our debt investments from 12.0% to 11.1% during the year-over-year period.

##### *Expenses*

Net expenses for the years ended September 30, 2013 and September 30, 2012 were \$106.7 million and \$78.7 million, respectively. Expenses increased for the year ended September 30, 2013 as compared to the year ended September 30, 2012 by \$28.0 million. This was due primarily to increases in:

- Base management fee, which was primarily attributable to a 47.0% increase in the fair value of the investment portfolio due to an increase in net investment fundings in the year-over-year period;
  - Incentive fee, which was attributable to a 30.1% increase in pre-incentive fee net investment income for the year-over-year period; and
- Interest expense, which was attributable to a 41.8% increase in weighted average debt outstanding for the year-over-year period.

#### *Gain on Extinguishment of Convertible Notes*

During the year ended September 30, 2013, we did not repurchase any of our Convertible Notes in the open market. During the year ended September 30, 2012, we repurchased \$20.0 million in principal amount of our Convertible Notes in the open market and surrendered them to the trustee for cancellation. The aggregate purchase price of these Convertible Notes was \$17.9 million because they were trading at a discount due to what we believe were volatile market conditions. As such, we recorded a gain in the amount of the difference between the reacquisition price and the net carrying amount of these Convertible Notes, net of the proportionate amount of unamortized debt issuance costs. The net gain on extinguishment of debt we recorded for the year ended September 30, 2012 was \$1.6 million. 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 income incentive fee to the investment adviser under our investment advisory agreement. Paying an 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 income 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 \$56.5 million increase in total investment income and the \$1.6 million decrease in the gain on extinguishment of debt and the \$28.0 million increase in total expenses, net investment income for the year ended September 30, 2013 reflected a \$26.9 million, or 30.6%, increase compared to the year ended September 30, 2012.

#### *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 year ended September 30, 2013, we recorded investment realization events, including the following:

- In October 2012, we received a cash 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 cash 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 cash 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 cash 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 cash 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. We also received an additional \$3.0 million in connection with the sale of our preferred equity investment (including accumulated PIK of \$0.9 million), realizing a gain of \$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 the 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.
- 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 its investment in Trans-Trade Brokers, Inc. As part of the restructuring, we exchanged cash and our 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;
- In July 2013, we received a cash payment of \$9.1 million from U.S. Collections, 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 July 2013, we received a cash payment of \$9.9 million from Ikaria Acquisition, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited (plus additional fees) at par and no realized gain or loss was recorded on this transaction;
- In July 2013, we received a cash payment of \$5.5 million from Miche Bag, LLC in full satisfaction of all obligations related to the Term Loan A under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In July 2013, we received a cash payment of \$43.9 million from Tegra Medical, 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 July 2013, we received a cash payment of \$27.0 million from MX USA, 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 August 2013, we restructured our investment in Eagle Hospital Physicians, Inc. As part of the restructuring, we exchanged cash and our debt securities for debt and equity securities in the successor entity, Eagle Hospital Physicians, LLC, and recorded a realized loss in the amount of \$9.8 million on this transaction;
- In August 2013, we received a cash payment of \$43.5 million from InvestRx 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 September 2013, we received a cash payment of \$43.1 million from Titan Fitness, 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; and
- During the year ended September 30, 2013, we received cash payments of \$59.9 million in connection with partial sales of debt investments in the open market and recorded a net realized gain of \$0.4 million.

During the year ended September 30, 2012, we recorded investment realization events, including the following:

- In November 2011, we recorded a realized loss in the amount of \$18.1 million as a result of a Delaware bankruptcy court judge ruling which confirmed a Chapter 11 plan of reorganization that provided no recovery on our investment in Premier Trailer Leasing, Inc.;
- In November 2011, we received a cash payment of \$20.2 million from IZI Medical Products, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and we received an additional \$1.3 million proceeds from our equity investment, realizing a gain of \$0.8 million;
- In December 2011, we received a cash payment of \$23.0 million from ADAPCO, 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 December 2011, we received a cash payment of \$2.0 million from Best Vinyl Fence & Deck, LLC in full satisfaction of all obligations related to the Term Loan A under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In December 2011, we received a cash payment of \$9.2 million from Actient Pharmaceuticals 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 this transaction;

- In January 2012, we received a cash payment of \$18.5 million from IOS Acquisitions, 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 2012, we received a cash payment of \$2.1 million from O’Currence, Inc. The debt investment was exited below par and we recorded a realized loss in the amount of \$10.7 million on this transaction;
- In February 2012, we received a cash payment of \$25.0 million from Ernest Health, 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 2012, we received a cash payment of \$47.7 million from CRGT, 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 2012, we received a cash payment of \$24.5 million from Epic 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 this transaction;
- In March 2012, we received a cash payment of \$48.8 million from Dominion Diagnostics, 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 March 2012, we received a cash payment of \$5.0 million from Genoa Healthcare Holdings, LLC in full satisfaction of all obligations under the senior loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In May 2012, we received a cash payment of \$28.9 million from JTC Education, Inc. in full satisfaction of all obligations under the first lien loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In May 2012, we received a cash payment of \$6.1 million from Fitness Edge, 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 this transaction;
- In June 2012, we received a cash payment of \$20.2 million from Caregiver Services, 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 July 2012, we received a cash payment of \$1.0 million from Best Vinyl Fence & Deck, LLC. The Term Loan B debt investment was exited below par and we recorded a realized loss in the amount of \$3.3 million on this transaction;
- In July 2012, we received a cash payment of \$8.7 million from Pacific Architects & Engineers, 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 August 2012, we restructured our investment in Traffic Control & Safety Corp. As part of the restructuring, we exchanged cash and our debt and equity securities for debt and equity securities in the successor entity, Statewide Holdings, Inc., and recorded a realized loss in the amount of \$10.9 million on this transaction;
- In August 2012, we received a cash payment of \$18.0 million from Stackpole Powertrain International ULC 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 September 2012, we received a cash payment of \$0.1 million in connection with the exit of our investment in Lighting by Gregory, LLC. The investment was exited below par and we recorded a realized loss in the amount of \$5.3 million on this transaction;
- In September 2012, we received total consideration of \$0.6 million in connection with the exit of our investment in Repechage Investments Limited. The investment was exited below par and we recorded a realized loss in the amount of \$3.6 million on this transaction; and

- In September 2012, we received total consideration of \$1.8 million in connection with the sale of our Rail Acquisition Corp. term loan investment. The debt investment was exited below par and we recorded a realized loss in the amount of \$13.9 million on this transaction. The proceeds related to this sale had not yet been received as of September 30, 2012 and are recorded as receivables from unsettled transactions in the Consolidated Statement of Assets and Liabilities.

#### *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 year ended September 30, 2013, we recorded net unrealized appreciation of \$13.4 million. This consisted of \$16.4 million of net reclassifications to realized losses on debt and equity investments (resulting in unrealized appreciation) and \$10.9 million of net unrealized appreciation on equity investments, offset by \$13.9 million of net unrealized depreciation on debt investments. During the year ended September 30, 2012, we recorded net unrealized depreciation of \$56.0 million. This consisted of \$66.6 million of net reclassifications to realized losses on debt and equity investments (resulting in unrealized appreciation) and \$0.1 million of net unrealized appreciation on equity investments, offset by \$10.7 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 year ended September 30, 2014, we experienced a net decrease in cash and cash equivalents of \$56.6 million. During that period, we used \$546.3 million of cash in operating activities, primarily for the funding of \$1.58 billion of investments and net revolvers, partially offset by \$981.4 million of principal payments, PIK payments and sale proceeds received and \$142.6 million of net investment income. During the same period, cash provided by financing activities was \$489.8 million, primarily consisting of \$138.2 million of proceeds from issuances of our common stock, \$244.4 million of proceeds from the issuances of unsecured notes, \$129.4 million of net borrowings under our credit facilities, \$78.3 million of net proceeds from secured borrowings and \$43.3 million of net borrowings under our SBA debentures, partially offset by \$132.5 million of cash dividends paid, \$0.6 million of offering costs paid and \$2.7 million of deferred financing costs paid.

For the year ended September 30, 2013, we experienced a net increase in cash and cash equivalents of \$70.5 million. During that period, we used \$461.7 million of cash in operating activities, primarily for the funding of \$1.28 billion of investments and net revolvers, partially offset by \$687.2 million of principal and PIK payments received and \$115.0 million of net investment income. During the same period, cash provided by financing activities was \$532.2 million, primarily consisting of \$479.9 million of proceeds from issuances of our common stock, \$155.8 million of proceeds from the issuances of unsecured notes and \$31.8 million of net borrowings under our SBA debentures, partially offset by \$13.3 million of net repayments under our credit facilities, \$115.4 million of cash dividends paid, \$1.1 million of offering costs paid and \$5.6 million of deferred financing costs paid.

As of September 30, 2014, we had \$109.0 million in cash and cash equivalents (including restricted cash), portfolio investments (at fair value) of \$2.5 billion, \$15.2 million of interest and fees receivable, \$225.0 million of SBA debentures payable, \$317.4 million of borrowings outstanding under our credit facilities, \$115.0 million of Convertible Notes payable, \$409.9 million of unsecured notes payable, \$84.8 million of net proceeds from secured borrowings and unfunded commitments of \$325.0 million.

As of September 30, 2013, we had \$147.4 million in cash and cash equivalents (including restricted cash), portfolio investments (at fair value) of \$1.89 billion, \$10.4 million of interest and fees receivable, \$181.8 million of SBA debentures payable, \$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 and future offerings of securities. 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. Our primary use of funds is investments in our targeted asset classes and cash distributions to holders of our common stock.

Although we expect to fund the growth of our investment portfolio through the net proceeds from future equity offerings 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 Code. See “Regulated Investment Company Status and Distributions” below. Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings. 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 September 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	0.0500	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	12.2 million	54,739 (1)	0.5 million
February 6, 2014	August 15, 2014	August 29, 2014	0.0833	12.1 million	59,466	0.6 million
July 2, 2014	September 15, 2014	September 30, 2014	0.0917	13.4 million	73,141 (1)	0.7 million
July 2, 2014	October 15, 2014	October 31, 2014	0.0917	13.3 million	82,390 (1)	0.7 million
July 2, 2014	November 14, 2014	November 28, 2014	0.0917			
November 20, 2014	December 15, 2014	December 30, 2014	0.0917			
November 20, 2014	January 15, 2015	January 30, 2015	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 September 30, 2014:

Date	Transaction	Shares	Public Offering Price	Gross Proceeds
December 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
July 11, 2014	Public offering	13,250,000	9.95	131.8 million

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

On August 22, 2014, we entered into an at-the-market offering ("ATM Program") with KeyBanc Capital Markets Inc. through which we may sell, from time to time at our sole discretion, up to \$100,000,000 of our common stock. During the period from September 2, 2014 to September 30, 2014, we sold 841,456 shares of our common stock at an average price of \$9.86 per share, and raised \$8.3 million of net proceeds, under the ATM Program. Commissions to the broker-dealer on shares sold and offering costs were approximately \$50,000.

## 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 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 ten-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 September 30, 2014, FSMP IV had \$75 million in regulatory capital and \$150 million in SBA-guaranteed debentures outstanding, which had a fair value of \$134.0 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 September 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 \$63.1 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 September 30, 2014.

For the years ended September 30, 2014, 2013 and 2012, we recorded interest expense of \$8.6 million, \$7.1 million and \$6.4 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 2.6931% for the year ended September 30, 2014. For the years ended September 30, 2014, 2013 and 2012, we recorded interest expense of \$1.8 million, \$3.1 million and \$2.8 million, respectively, 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 September 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 September 30, 2014, the ING facility permitted up to \$705 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 Holdings, 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 September 30, 2014, we had \$267.4 million of borrowings outstanding under the ING facility, which had a fair value of \$267.4 million. Our borrowings under the ING facility bore interest at a weighted average interest rate of 2.675% for the year ended September 30, 2014. For the years ended

September 30, 2014, 2013 and 2012, we recorded interest expense of \$13.0 million, \$7.7 million and \$5.7 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 September 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 September 30, 2014, we had \$50.0 million of borrowings outstanding under the Sumitomo facility which had a fair value of \$50.0 million. Our borrowings under the Sumitomo facility bore interest at a weighted average interest rate of 2.533% for the year ended September 30, 2014. For the years ended September 30, 2014, 2013 and 2012, we recorded interest expense of \$2.0 million, \$1.7 million and \$1.2 million, respectively, related to the Sumitomo facility.

As of September 30, 2014, except for assets that were funded through our SBIC subsidiaries, substantially all of our assets were pledged as collateral under the 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	\$1,097 million	\$1,351 million
Asset coverage ratio	Asset coverage ratio shall not be less than 2.10:1	2.10:1	2.27:1
Interest coverage ratio	Interest coverage ratio shall not be less than 2.50:1	2.50:1	4.71:1

(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 June 30, 2014. We were also in compliance with all financial covenants under these credit facilities based on the financial information contained in this Form 10-K for the year ended September 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.”

The following table reflects material credit facility and SBA debenture transactions that have occurred since October 1, 2009. Amounts available are as of September 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 + 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				LIBOR + 2.25%
	8/12/2014	Expanded credit facility	680 million	0.1 million				LIBOR + 2.25%
9/26/2014	Expanded credit facility	705 million	0.2 million	705 million	267 million	438 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	—	88 million (1)	50 million	38 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 LIBOR, at our option

### Convertible Notes

On April 12, 2011, we issued \$152 million of 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 semi-annually 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 September 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. We did not repurchase any Convertible Notes during the years ended September 30, 2014 or September 30, 2013. During the year ended September 30, 2012, we repurchased \$20.0 million in principal amount of the Convertible Notes in the open market for an aggregate purchase price of \$17.9 million and surrendered them to the Trustee for cancellation. We have repurchased \$37.0 million in principal amount of the Convertible Notes in the open market since they were issued.

For the years ended September 30, 2014, 2013 and 2012, we recorded interest expense of \$6.8 million, \$6.8 million, and \$7.1 million, respectively, related to the Convertible Notes.

As of September 30, 2014, there were \$115.0 million Convertible Notes outstanding, which had a fair value of \$119.0 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 \$244.4 million after deducting original issue discount of \$1.4 million, underwriting commissions and discounts of \$3.7 million and offering costs of \$0.5 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 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 year ended September 30, 2014, we did not repurchase any of the 2019 Notes in the open market.

For the year ended September 30, 2014, we recorded interest expense of \$7.8 million related to the 2019 Notes.

As of September 30, 2014, there were \$250.0 million of 2019 Notes outstanding, which had a fair value of \$258.7 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 years ended September 30, 2014 and 2013, we did not repurchase any of the 2024 Notes in the open market.

For the years ended September 30, 2014 and 2013, we recorded interest expense of \$4.6 million and \$4.4 million, respectively, related to the 2024 Notes.

As of September 30, 2014, there were \$75.0 million 2024 Notes outstanding, which had a fair value of \$73.7 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 years ended September 30, 2014 and 2013, we did not repurchase any of the 2028 Notes in the open market.

For the years ended September 30, 2014 and 2013, we recorded interest expense of \$5.5 million and \$2.7 million, respectively, related to the 2028 Notes.

As of September 30, 2014, there were \$86.3 million 2028 Notes outstanding, which had a fair value of \$84.2 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 September 30, 2014, secured borrowings at fair value totaled \$84.8 million and the fair value of the loans that are associated with these secured borrowings was \$154.0 million. These secured borrowings were the result of the completion of partial loan sales of two senior secured debt investments totaling \$87.8 million during the year ended September 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 year ended September 30, 2014, there were \$3.0 million of repayments on secured borrowings.

As of September 30, 2014, there were \$84.8 million of secured borrowings outstanding, which had a fair value of \$84.8 million.

For the year ended September 30, 2014, we recorded interest expense of \$1.3 million related to the secured borrowings.

Total interest expense for the years ended September 30, 2014, 2013 and 2012 was \$51.5 million, \$33.5 million and \$23.2 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 September 30, 2014, our only off-balance sheet arrangements consisted of \$325.0 million of unfunded commitments, which was comprised of \$185.4 million to provide debt financing to certain of our portfolio companies, \$115.0 million to provide debt and equity financing to SLF JV I and \$24.6 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 Statements of Assets and Liabilities and are not reflected on our Consolidated Statements of Assets and Liabilities.

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

	September 30, 2014	September 30, 2013
Senior Loan Fund JV 1, LLC	\$ 115,018	\$ —
Lift Brands Holdings, Inc.	20,000	—
Yeti Acquisition, LLC	15,000	7,500
BMC Software Finance, Inc.	15,000	—
Drugtest, Inc.	10,900	20,000
RP Crown Parent, LLC	10,000	9,000
P2 Upstream Acquisition Co.	10,000	—
BeyondTrust Software, Inc.	9,375	—
First Choice ER, LLC (1)	9,181	—
InMotion Entertainment Group, LLC	7,916	—
Refac Optical Group	6,400	8,000
Thing5, LLC	6,000	—
Pingora MSR Opportunity Fund I, LP (limited partnership interest)	5,944	9,792
Integrated Petroleum Technologies, Inc.	5,397	—
First American Payment Systems, LP	5,000	5,000
Integral Development Corporation	5,000	—
Teaching Strategies, LLC	5,000	5,000
Adventure Interactive, Corp.	4,846	5,000
World 50, Inc.	4,000	4,000
Charter Brokerage, LLC	4,000	4,000
All Web Leads, Inc.	3,500	—
Deltek, Inc.	3,213	8,667
OnCourse Learning Corporation	3,000	—
Discovery Practice Management, Inc.	2,682	1,000
CPASS Acquisition Company	2,500	2,500
OmniSYS Acquisition Corporation	2,500	—
TransTrade Operators, Inc.	2,255	—

Chicago Growth Partners L.P. (limited partnership interest)	2,000	2,000
Webster Capital III, L.P. (limited partnership interest)	2,000	—
Eagle Hospital Physicians, Inc.	1,820	1,867
Tailwind (limited partnership interest)	1,726	—
Olson + Co., Inc.	1,673	2,105
CCCG, LLC	1,520	1,520
Enhanced Recovery Company, LLC	1,500	3,500
Beecken Petty O'Keefe Fund IV, L.P. (limited partnership interest)	1,433	2,000
Riverside Fund V, LP (limited partnership interest)	1,422	1,712
SPC Partners V, L.P. (limited partnership interest)	1,415	—
Phoenix Brands Merger Sub LLC	1,286	3,429
Moelis Capital Partners Opportunity Fund I-B, L.P. (limited partnership interest)	1,285	—
Ansira Partners, Inc.	1,190	1,190
Sterling Capital Partners IV, L.P. (limited partnership interest)	1,126	1,528
Psilos Group Partners IV, LP (limited partnership interest)	1,000	1,000
L Squared Capital Partners (limited partnership interest)	1,000	—
RCP Direct II, LP (limited partnership interest)	990	—
Milestone Partners IV, LP (limited partnership interest)	869	1,414
Garretson Firm Resolution Group, Inc.	859	—
Total Military Management, Inc.	857	—
2Checkout.com, Inc.	850	2,850
HealthDrive Corporation	734	734
Bunker Hill Capital II (QP), LP (limited partnership interest)	632	786
ACON Equity Partners III, LP (limited partnership interest)	502	671
American Cadastre, LLC	405	—
Riverlake Equity Partners II, LP (limited partnership interest)	358	638
Riverside Fund IV, LP (limited partnership interest)	357	287
RCP Direct, LP (limited partnership interest)	344	524
Baird Capital Partners V, LP (limited partnership interest)	174	351
ISG Services, LLC	—	6,000
I Drive Safely, LLC	—	5,000
HealthEdge Software, Inc.	—	5,000
Personable Holdings, Inc.	—	3,409
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
Genoa Healthcare Holdings, LLC	—	1,000
<b>Total</b>	<b>\$ 324,954</b>	<b>\$ 149,474</b>

(1) In addition to our revolving commitment, we have extended a \$105.2 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 September 30, 2014, the total amount available to the borrower under this delayed draw facility was \$22.4 million, and the facility was drawn at \$25.0 million as of this date.

### Contractual Obligations

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

	Debt Outstanding as of September 30, 2013	Debt Outstanding as of September 30, 2014	Weighted average debt outstanding for the year ended September 30, 2014	Maximum debt outstanding for the year ended September 30, 2014
SBA debentures	\$ 181,750	\$ 225,000	\$ 214,225	\$ 225,000
Wells Fargo facility	20,000	—	17,633	54,700
ING facility	168,000	267,395	362,913	548,250
Sumitomo facility	—	50,000	46,910	83,500
Convertible Notes	115,000	115,000	115,000	115,000
2019 Notes	—	250,000	147,945	250,000
2024 Notes	75,000	75,000	75,000	75,000
2028 Notes	86,250	86,250	86,250	86,250
Secured borrowings	—	84,750	44,145	87,750
<b>Total debt</b>	<b>\$ 646,000</b>	<b>\$ 1,153,395</b>	<b>\$ 1,110,021</b>	<b>\$ 1,419,181</b>

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

	Payments due by period as of September 30, 2014				
	Total	< 1 year	1-3 years	3-5 years	> 5 years
SBA debentures	\$ 225,000	\$ —	\$ —	\$ —	\$ 225,000
Interest due on SBA	64,439	8,862	17,749	17,725	20,103
ING facility	267,395	—	—	267,395	—
Interest due on ING facility	25,071	6,518	13,036	5,517	—
Sumitomo facility	50,000	—	—	—	50,000
Interest due on Sumitomo facility	7,175	1,203	2,405	2,405	1,162
Convertible Notes	115,000	—	115,000	—	—
Interest due on Convertible Notes	9,297	6,181	3,116	—	—
Secured borrowings	84,750	—	—	84,750	—
Interest due on secured borrowings	7,856	2,158	4,315	1,383	—
2019 Notes	250,000	—	—	250,000	—
Interest due on 2019 Notes	53,859	12,188	24,375	17,296	—
2024 Notes	75,000	—	—	—	75,000
Interest due on 2024 Notes	44,461	4,406	8,813	8,813	22,429
2028 Notes	86,250	—	—	—	86,250
Interest due on 2028 Notes	71,803	5,283	10,566	10,566	45,388
<b>Total</b>	<b>\$ 1,437,356</b>	<b>\$ 46,799</b>	<b>\$ 199,375</b>	<b>\$ 665,850</b>	<b>\$ 525,332</b>

### 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 continue to 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 U.S. federal excise tax for calendar years 2011, 2012 and 2013 and do not expect to incur a U.S. 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 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. Messrs. Berman, Dimitrov and Tannenbaum, each an interested member of our Board of Directors, have a direct or indirect pecuniary interest in Fifth Street Management. Fifth Street Management is a registered investment adviser under the Investment Advisers Act of 1940, that is partially and indirectly owned by Fifth Street Asset Management Inc. 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 first part is calculated and payable quarterly in arrears and equals 20% of our "Pre-Incentive Fee Net Investment Income" for the immediately preceding quarter, subject to a preferred return, or "hurdle," and a "catch up" feature. The second part is determined and payable in arrears as of the end of each fiscal year (or upon termination of the investment advisory agreement) and equals 20% of our "Incentive Fee Capital Gains," which equals our realized capital gains on a cumulative basis from inception through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee. The investment advisory agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. During the years ended September 30, 2014, 2013 and 2012, we incurred fees of \$87.2 million, \$63.9 million and \$45.8 million, respectively, under the investment advisory agreement. During the years ended September 30, 2014 and 2013, the Investment Adviser voluntarily waived the

portion of the base management fee attributable to certain new investments that closed prior to period end, which resulted in waivers of \$0.7 million and \$2.3 million, respectively.

Pursuant to the administration agreement with FSC CT, which is a wholly-owned subsidiary of our investment adviser, FSC CT will furnish us with the facilities, including our principal executive offices 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 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 pay FSC CT its allocable portion of overhead and other expenses incurred by FSC CT in performing its obligations under the administration agreement, including a portion of the rent at market rates 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. During the years ended September 30, 2014, 2013 and 2012, we have incurred expenses of \$5.7 million, \$4.3 million and \$3.9 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, our chief executive officer.

### Recent Developments

On November 20, 2014, our Board of Directors declared the following dividends:

- \$0.0917 per share, payable on December 30, 2014 to stockholders of record on December 15, 2014; and
- \$0.0917 per share, payable on January 30, 2015 to stockholders of record on January 15, 2015.

Effective November 26, 2014, our Board of Directors increased its size to nine members and appointed Todd G. Owens, our President, to the Board to serve until our 2016 Annual Meeting of Stockholders.

### 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 7A. 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 September 30, 2014, 70.0% of our debt investment portfolio (at fair value) and 70.0% of our debt investment portfolio (at cost) bore interest at floating rates. The composition of our floating rate debt investments by cash interest rate floor (excluding PIK) as of September 30, 2014 and September 30, 2013 was as follows:

	September 30, 2014		September 30, 2013	
	Fair Value	% of Floating Rate Portfolio	Fair Value	% of Floating Rate Portfolio
Under 1%	\$ 181,450	11.05%	\$ 115,659	9.57%
1% to under 2%	1,397,913	85.16	1,007,366	83.35
2% to under 3%	39,970	2.44	48,649	4.03
3% and over	22,143	1.35	36,913	3.05
<b>Total</b>	<b>\$ 1,641,476</b>	<b>100.00%</b>	<b>\$ 1,208,587</b>	<b>100.00%</b>

Based on our Consolidated Statement of Assets and Liabilities as of September 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	\$ 63,900	\$ (17,900)	\$ 46,000
400	47,800	(14,200)	33,600
300	31,800	(10,600)	21,200
200	15,800	(7,000)	8,800
100	2,300	(3,400)	(1,100)

(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 September 30, 2014 and September 30, 2013:

	September 30, 2014		September 30, 2013	
	Interest Bearing Cash and Investments	Borrowings	Interest Bearing Cash and Investments	Borrowings
Money market rate	\$ 109,046	\$ —	\$ 147,359	\$ —
Prime rate	1,040	80,000	2,886	—
<b>LIBOR</b>				
30 day	62,509	237,395	57,604	188,000
90 day	1,546,536	84,750	1,143,068	—
Fixed rate	709,963	751,250	582,340	458,000
<b>Total</b>	<b>\$ 2,429,094</b>	<b>\$ 1,153,395</b>	<b>\$ 1,933,257</b>	<b>\$ 646,000</b>

**Item 8. Consolidated Financial Statements and Supplementary Data**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Fifth Street Finance Corp.:

In our opinion, the accompanying consolidated statement of assets and liabilities, including the consolidated schedules of investments, and the related consolidated statements of operations, changes in net assets and cash flows, present fairly, in all material respects, the financial position of Fifth Street Finance Corp. and its subsidiaries (the "Company") at September 30, 2014 and September 30, 2013, and the results of their operations, the changes in their net assets and their cash flows for each of the three years in the period ended September 30, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule appearing under Item 15(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014, based on criteria established in *Internal Control - Integrated Framework 1992* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A(b) of the Annual Report to stockholders. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits, which included confirmation of securities at September 30, 2014 by correspondence with the custodian and the application of alternative auditing procedures where replies had not been received, provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

November 28, 2014

**Fifth Street Finance Corp.**  
**Consolidated Statements of Assets and Liabilities**  
(in thousands, except per share amounts)

	September 30, 2014	September 30, 2013
<b>ASSETS</b>		
<b>Investments at fair value:</b>		
Control investments (cost September 30, 2014: \$387,625; cost September 30, 2013: \$207,518)	\$ 394,872	\$ 215,502
Affiliate investments (cost September 30, 2014: \$37,757; cost September 30, 2013: \$29,807)	40,764	31,932
Non-control/Non-affiliate investments (cost September 30, 2014: \$2,069,301; cost September 30, 2013: \$1,622,326)	2,060,278	1,645,612
<b>Total investments at fair value (cost September 30, 2014: \$2,494,683; cost September 30, 2013: \$1,859,651)</b>	<b>2,495,914</b>	<b>1,893,046</b>
Cash and cash equivalents	86,731	143,289
Restricted cash	22,315	4,070
Interest, dividends and fees receivable	15,224	10,379
Due from portfolio companies	22,950	1,814
Receivables from unsettled transactions	4,750	—
Deferred financing costs	20,334	19,548
Other assets	—	187
<b>Total assets</b>	<b>\$ 2,668,218</b>	<b>\$ 2,072,333</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable, accrued expenses and other liabilities	\$ 3,908	\$ 1,166
Base management fee payable	12,372	9,625
Part I incentive fee payable	9,309	7,175
Due to FSC CT	2,464	840
Interest payable	5,797	2,939
Amounts payable to syndication partners	3,817	—
Payables from unsettled transactions	—	35,716
Credit facilities payable	317,395	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 \$84,750 and \$0 at September 30, 2014 and September 30, 2013, respectively)	84,803	—
<b>Total liabilities</b>	<b>1,189,743</b>	<b>703,461</b>
<b>Commitments and contingencies (Note 3)</b>		
<b>Net assets:</b>		
Common stock, \$0.01 par value, 250,000 shares authorized, at September 30, 2014 and September 30, 2013; 153,340 and 139,041 shares issued and outstanding at September 30, 2014 and September 30, 2013, respectively	1,533	1,390
Additional paid-in-capital	1,649,086	1,509,546
Net unrealized appreciation on investments and net unrealized appreciation on secured borrowings	1,178	33,395
Net realized loss on investments and interest rate swap	(152,416)	(154,591)
Accumulated overdistributed net investment income	(20,906)	(20,868)
<b>Total net assets (equivalent to \$9.64 and \$9.85 per common share at September 30, 2014 and September 30, 2013, respectively) (Note 12)</b>	<b>1,478,475</b>	<b>1,368,872</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,668,218</b>	<b>\$ 2,072,333</b>

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**  
**Consolidated Statements of Operations**  
(in thousands, except per share amounts)

	Year ended September 30, 2014	Year ended September 30, 2013	Year ended September 30, 2012
<b>Interest income:</b>			
Control investments	\$ 14,839	\$ 5,614	\$ 927
Affiliate investments	4,084	2,792	2,804
Non-control/Non-affiliate investments	193,720	148,467	115,625
Interest on cash and cash equivalents	17	23	34
<b>Total interest income</b>	<b>212,660</b>	<b>156,896</b>	<b>119,390</b>
<b>PIK interest income:</b>			
Control investments	9,615	2,764	309
Affiliate investments	966	1,404	916
Non-control/Non-affiliate investments	13,560	12,619	12,570
<b>Total PIK interest income</b>	<b>24,141</b>	<b>16,787</b>	<b>13,795</b>
<b>Fee income:</b>			
Control investments	7,211	4,271	1,285
Affiliate investments	230	48	642
Non-control/Non-affiliate investments	45,382	41,551	29,779
<b>Total fee income</b>	<b>52,823</b>	<b>45,870</b>	<b>31,706</b>
<b>Dividend and other income:</b>			
Control investments	3,313	—	—
Non-control/Non-affiliate investments	1,017	2,059	225
<b>Total dividend and other income</b>	<b>4,330</b>	<b>2,059</b>	<b>225</b>
<b>Total investment income</b>	<b>293,954</b>	<b>221,612</b>	<b>165,116</b>
<b>Expenses:</b>			
Base management fee	51,735	35,748	23,799
Part I incentive fee	35,472	28,158	22,001
Professional fees	3,948	4,182	2,890
Board of Directors fees	598	576	551
Interest expense	51,465	33,470	23,245
Administrator expense	2,810	1,925	2,425
General and administrative expenses	6,039	4,921	3,771
<b>Total expenses</b>	<b>152,067</b>	<b>108,980</b>	<b>78,682</b>
Base management fee waived	(687)	(2,321)	—
<b>Net expenses</b>	<b>151,380</b>	<b>106,659</b>	<b>78,682</b>
<b>Gain on extinguishment of unsecured convertible notes</b>	<b>—</b>	<b>—</b>	<b>1,571</b>
<b>Net investment income</b>	<b>142,574</b>	<b>114,953</b>	<b>88,005</b>
<b>Unrealized appreciation (depreciation) on investments:</b>			
Control investments	(737)	13,302	(6,096)
Affiliate investments	882	434	12,944
Non-control/Non-affiliate investments	(32,309)	(339)	49,126
<b>Net unrealized appreciation (depreciation) on investments</b>	<b>(32,164)</b>	<b>13,397</b>	<b>55,974</b>
<b>Net unrealized appreciation on secured borrowings</b>	<b>(53)</b>	<b>—</b>	<b>—</b>
<b>Realized gain (loss) on investments:</b>			
Control investments	(299)	(11,224)	(5,316)
Affiliate investments	—	—	(10,620)
Non-control/Non-affiliate investments	2,474	(15,305)	(48,642)
<b>Net realized gain (loss) on investments</b>	<b>2,175</b>	<b>(26,529)</b>	<b>(64,578)</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 112,532</b>	<b>\$ 101,821</b>	<b>\$ 79,401</b>
<b>Net investment income per common share — basic</b>	<b>\$ 1.00</b>	<b>\$ 1.04</b>	<b>\$ 1.11</b>
<b>Earnings per common share — basic</b>	<b>\$ 0.79</b>	<b>\$ 0.92</b>	<b>\$ 1.00</b>
Weighted average common shares outstanding — basic	141,992	110,270	79,570
<b>Net investment income per common share — diluted</b>	<b>\$ 0.99</b>	<b>\$ 1.01</b>	<b>\$ 1.07</b>
<b>Earnings per common share — diluted</b>	<b>\$ 0.79</b>	<b>\$ 0.90</b>	<b>\$ 0.97</b>
Weighted average common shares outstanding — diluted	149,783	118,061	87,719

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**  
**Consolidated Statements of Changes in Net Assets**  
(in thousands, except per share amounts)

	Year ended September 30, 2014	Year ended September 30, 2013	Year ended September 30, 2012
<b>Operations:</b>			
Net investment income	\$ 142,574	\$ 114,953	\$ 88,005
Net unrealized appreciation (depreciation) on investments	(32,164)	13,397	55,974
Net unrealized appreciation on secured borrowings	(53)	—	—
Net realized gain (loss) on investments	2,175	(26,529)	(64,578)
<b>Net increase in net assets resulting from operations</b>	<b>112,532</b>	<b>101,821</b>	<b>79,401</b>
<b>Stockholder transactions:</b>			
Distributions to stockholders from ordinary income	(133,984)	(100,430)	(78,906)
Tax return of capital	(8,628)	(27,063)	(15,172)
<b>Net decrease in net assets from stockholder transactions</b>	<b>(142,612)</b>	<b>(127,493)</b>	<b>(94,078)</b>
<b>Capital share transactions:</b>			
Issuance of common stock, net	137,595	478,919	187,408
Issuance of common stock under dividend reinvestment plan	10,144	12,055	2,212
Repurchase of common stock under stock repurchase program	(406)	—	—
Repurchase of common stock under dividend reinvestment program	(7,650)	—	—
<b>Net increase in net assets from capital share transactions</b>	<b>139,683</b>	<b>490,974</b>	<b>189,620</b>
<b>Total increase in net assets</b>	<b>109,603</b>	<b>465,302</b>	<b>174,943</b>
Net assets at beginning of period	1,368,872	903,570	728,627
<b>Net assets at end of period</b>	<b>\$ 1,478,475</b>	<b>\$ 1,368,872</b>	<b>\$ 903,570</b>
<b>Net asset value per common share</b>	<b>\$ 9.64</b>	<b>\$ 9.85</b>	<b>\$ 9.92</b>
Common shares outstanding at end of period	153,340	139,041	91,048

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**  
**Consolidated Statements of Cash Flows**  
(in thousands, except per share amounts)

	Year ended September 30, 2014	Year ended September 30, 2013	Year ended September 30, 2012
<b>Cash flows from operating activities:</b>			
Net increase in net assets resulting from operations	\$ 112,532	\$ 101,821	\$ 79,401
<b>Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:</b>			
Gain on extinguishment of unsecured convertible notes	—	—	(1,571)
Net unrealized (appreciation) depreciation on investments	32,164	(13,397)	(55,974)
Net unrealized appreciation on secured borrowings	53	—	—
Net realized (gains) losses on investments	(2,175)	26,529	64,578
PIK interest income	(24,141)	(16,787)	(13,795)
Recognition of fee income	(52,823)	(45,870)	(31,706)
Accretion of original issue discount on investments	(747)	(612)	(1,497)
Amortization of deferred financing costs	6,092	5,198	4,456
<b>Changes in operating assets and liabilities:</b>			
Fee income received	50,498	38,558	24,841
(Increase) decrease in restricted cash	(18,245)	(2,434)	(1,348)
Increase in interest, dividends and fees receivable	(4,456)	(2,249)	(1,204)
(Increase) decrease in due from portfolio companies	(21,136)	1,478	(2,740)
(Increase) decrease in receivables from unsettled transactions	(4,750)	1,750	(1,750)
(Increase) decrease in other assets	187	(131)	207
Increase (decrease) in accounts payable, accrued expenses and other liabilities	2,742	28	(191)
Increase in base management fee payable	2,747	3,052	863
Increase in Part I incentive fee payable	2,134	1,596	582
Increase (decrease) in due to FSC CT	1,624	(790)	150
Increase (decrease) in interest payable	2,857	(1,280)	(450)
Increase (decrease) in payables from unsettled transactions	(35,716)	35,716	—
Increase in amounts payable to syndication partners	3,817	—	—
Purchases of investments and net revolver activity, net of syndications	(1,581,001)	(1,281,029)	(530,866)
Principal payments received on investments (scheduled payments)	71,305	46,911	42,625
Principal payments received on investments (payoffs)	572,510	571,396	316,978
PIK interest income received in cash	7,969	8,514	5,477
Proceeds from the sale of investments	329,621	60,373	11,370
<b>Net cash used in operating activities</b>	<b>(546,338)</b>	<b>(461,659)</b>	<b>(91,564)</b>
<b>Cash flows from financing activities:</b>			
Distributions paid in cash	(132,468)	(115,438)	(91,866)
Borrowings under SBA debentures payable	43,250	31,750	—
Borrowings under credit facilities	1,016,233	1,067,144	580,897
Repayments of borrowings under credit facilities	(886,838)	(1,080,395)	(557,669)
Repurchases of unsecured convertible notes	—	—	(17,939)
Proceeds from the issuance of unsecured notes	244,403	155,824	—
Proceeds from the issuance of common stock	138,239	479,949	188,700
Proceeds from secured borrowings	81,312	—	—
Repayments of secured borrowings	(3,000)	—	—
Repurchases of common stock under stock repurchase program	(406)	—	—
Repurchases of common stock under dividend reinvestment plan	(7,650)	—	—
Deferred financing costs paid	(2,653)	(5,570)	(4,029)
Offering costs paid	(642)	(1,073)	(1,129)
<b>Net cash provided by financing activities</b>	<b>489,780</b>	<b>532,191</b>	<b>96,965</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(56,558)</b>	<b>70,532</b>	<b>5,401</b>
Cash and cash equivalents, beginning of period	143,289	72,757	67,356
<b>Cash and cash equivalents, end of period</b>	<b>\$ 86,731</b>	<b>\$ 143,289</b>	<b>\$ 72,757</b>
<b>Supplemental information:</b>			
Cash paid for interest	\$ 42,811	\$ 27,628	\$ 20,775
<b>Non-cash operating activities:</b>			
Non-cash exchange of investments	\$ 50,548	\$ 30,521	\$ 38,437

Non-cash financing activities:

Issuance of shares of common stock under dividend reinvestment plan	\$	10,144	\$	12,054	\$	2,212
Non-cash exchange of secured borrowings		6,438		—		—

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**Fifth Street Finance Corp.**  
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<u>Portfolio Company/Type of Investment (1)(2)(5)(22)</u>	<u>Industry</u>	<u>Principal (8)</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Control Investments (3)</b>				
<b>Traffic Solutions Holdings, Inc.</b>				
	Construction and engineering			
Second Lien Term Loan, 12% cash 3% PIK due 12/31/2016		\$ 14,942	\$ 14,925	\$ 14,905
LC Facility, 8.5% cash due 12/31/2016 (10)			(6)	—
746,114 Series A Preferred Units			14,460	17,564
746,114 Common Stock Units			5,316	6,113
			<b>34,695</b>	<b>38,582</b>
<b>TransTrade Operators, Inc. (9)</b>				
	Air freight and logistics			
First Lien Term Loan, 11% cash 3% PIK due 5/31/2016		15,572	15,572	11,109
First Lien Revolver, 8% cash due 5/31/2016			—	—
596.67 Series A Common Units			—	—
1,403,922 Series A Preferred Units in TransTrade Holdings LLC			2,000	—
5,200,000 Series B Preferred Units in TransTrade Holding LLC			5,200	—
			<b>22,772</b>	<b>11,109</b>
<b>HFG Holdings, LLC (23)</b>				
	Specialized finance			
First Lien Term Loan, 6% cash 4% PIK due 6/10/2019		96,378	96,378	96,935
875,933 Class A Units			22,347	31,786
			<b>118,725</b>	<b>128,721</b>
<b>First Star Aviation, LLC</b>				
	Airlines			
First Lien Term Loan, 9% cash 3% PIK due 1/9/2018		16,840	16,840	16,556
10,104,401 Common Units (6)			10,105	10,328
			<b>26,945</b>	<b>26,884</b>
<b>First Star Speir Aviation 1 Limited (12)</b>				
	Airlines			
First Lien Term Loan, 9% cash due 12/15/2015		60,773	60,773	61,155
2,058,411.64 Common Units (6)			2,058	3,572
			<b>62,831</b>	<b>64,727</b>
<b>First Star Bermuda Aviation Limited (12)</b>				
	Airlines			
First Lien Term Loan, 9% cash 3% PIK due 8/19/2018		35,045	35,045	35,606
4,293,736 Common Units			4,294	5,839
			<b>39,339</b>	<b>41,445</b>
<b>Eagle Hospital Physicians, LLC</b>				
	Healthcare services			
First Lien Term Loan A, 8% PIK due 8/1/2016		12,088	12,088	11,924
First Lien Term Loan B, 8.1% PIK due 8/1/2016		3,301	3,301	3,262
First Lien Revolver, 8% cash due 8/1/2016		2,847	2,847	2,847
4,100,000 Class A Common Units			4,100	5,738
			<b>22,336</b>	<b>23,771</b>
<b>Senior Loan Fund JV I, LLC (12)(24)</b>				
	Multi-sector holdings			
Subordinated Notes, LIBOR+8% cash due 5/2/2021 (14)		53,984	53,984	53,984
87.5% LLC equity interest			5,998	5,649
			<b>59,982</b>	<b>59,633</b>
<b>Total Control Investments (26.7% of net assets)</b>			<b>\$ 387,625</b>	<b>\$ 394,872</b>
<b>Affiliate Investments (4)</b>				
<b>Caregiver Services, Inc.</b>				
	Healthcare services			
Second Lien Term Loan, 10% cash 2% PIK due 6/30/2019		\$ 9,145	\$ 9,145	\$ 9,062
1,080,399 shares of Series A Preferred Stock			1,080	3,805
			<b>10,225</b>	<b>12,867</b>
<b>AmBath/ReBath Holdings, Inc.</b>				
	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2016 (14)		1,206	1,203	1,222
First Lien Term Loan B, 12.5% cash 2.5% PIK due 4/30/2016		26,337	26,329	26,032
4,668,788 Shares of Preferred Stock			—	643
			<b>27,532</b>	<b>27,897</b>
<b>Total Affiliate Investments (2.8% of net assets)</b>			<b>\$ 37,757</b>	<b>\$ 40,764</b>
<b>Non-Control/Non-Affiliate Investments (7)</b>				
<b>Fitness Edge, LLC</b>				
	Leisure facilities			
1,000 Common Units (6)			\$ 43	\$ 190

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<b>Portfolio Company/Type of Investment (1)(2)(5)(22)</b>	<b>Industry</b>	<b>Principal (8)</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Thermoforming Technology Group LLC</b>	Industrial machinery			
33,786 shares of Common Stock			\$ 849	\$ 819
			<b>849</b>	<b>819</b>
<b>HealthDrive Corporation (9)</b>	Healthcare services			
First Lien Term Loan A, 10% cash due 12/31/15		\$ 4,325	4,323	4,287
First Lien Term Loan B, 12% cash 1% PIK due 12/31/15		11,376	11,376	11,373
First Lien Revolver, 12% cash due 12/31/15		2,266	2,266	2,266
			<b>17,965</b>	<b>17,926</b>
<b>Cenegenics, LLC (9)</b>	Healthcare services			
First Lien Term Loan, 9.75% cash due 9/30/2019		32,014	31,982	32,015
414,419 Common Units (6)			598	1,019
			<b>32,580</b>	<b>33,034</b>
<b>Riverlake Equity Partners II, LP</b>	Multi-sector holdings			
1.78% limited partnership interest (12)			642	492
			<b>642</b>	<b>492</b>
<b>Riverside Fund IV, LP</b>	Multi-sector holdings			
0.34% limited partnership interest (6)(12)			643	629
			<b>643</b>	<b>629</b>
<b>JTC Education, Inc. (9)</b>	Education services			
Subordinated Term Loan, 13% cash due 11/1/2017		14,500	14,436	14,449
17,391 Shares of Series A-1 Preferred Stock			313	89
17,391 Shares of Common Stock			187	—
			<b>14,936</b>	<b>14,538</b>
<b>Psilos Group Partners IV, LP</b>	Multi-sector holdings			
2.35% limited partnership interest (11)(12)			—	—
			<b>—</b>	<b>—</b>
<b>Mansell Group, Inc.</b>	Advertising			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 12/31/2015		5,046	5,023	5,028
First Lien Term Loan B, LIBOR+9% (3% floor) cash 1.5% PIK due 12/31/2015		9,568	9,546	9,537
			<b>14,569</b>	<b>14,565</b>
<b>Enhanced Recovery Company, LLC</b>	Diversified support services			
First Lien Term Loan A, LIBOR+7% (2% floor) cash due 8/13/2015 (14)		10,750	10,688	10,705
First Lien Term Loan B, LIBOR+10% (2% floor) cash 1% PIK due 8/13/2015 (14)		16,013	15,957	15,983
First Lien Revolver, LIBOR+7% (2% floor) cash due 8/13/2015 (14)		500	479	500
			<b>27,124</b>	<b>27,188</b>
<b>Welocalize, Inc.</b>	Internet software & services			
3,393,060 Common Units in RPWL Holdings, LLC			3,393	5,835
			<b>3,393</b>	<b>5,835</b>
<b>Miche Bag, LLC (9)</b>	Apparel, accessories & luxury goods			
First Lien Term Loan B, LIBOR+10% (3% floor) cash 3% PIK due 12/7/2015 (14)		17,936	16,778	5,856
First Lien Revolver, LIBOR+7% (3% floor) cash due 12/7/2015 (14)		1,000	974	500
10,371 shares of series A preferred equity interest			1,037	—
1,358.854 shares of series C preferred equity interest			136	—
146,289 shares of series D common equity interest			1,463	—
			<b>20,388</b>	<b>6,356</b>
<b>Bunker Hill Capital II (QP), L.P.</b>	Multi-sector holdings			
0.51% limited partnership interest (12)			368	254
			<b>368</b>	<b>254</b>

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<b>Portfolio Company/Type of Investment (1)(2)(5)(22)</b>	<b>Industry</b>	<b>Principal (\$)</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Drugtest, Inc. (9)</b>				
	Human resources & employment services			
First Lien Term Loan A, LIBOR+7.5% (0.75% floor) cash due 6/27/2018 (14)		\$ 13,297	\$ 13,211	\$ 13,406
First Lien Term Loan B, LIBOR+10% (1% floor) cash 1.5% PIK due 6/27/2018 (14)		13,395	13,356	13,344
First Lien Revolver, LIBOR+6% (1% floor) cash due 6/27/2018 (10)(14)			(19)	—
Acquisition Line, LIBOR+5.75% cash due 6/27/2015 (14)		9,100	9,100	9,100
			<b>35,648</b>	<b>35,850</b>
<b>Physicians Pharmacy Alliance, Inc. (9)</b>				
	Healthcare services			
First Lien Term Loan, LIBOR+9% cash 1.5% PIK due 1/4/2016		10,823	10,722	10,794
			<b>10,722</b>	<b>10,794</b>
<b>Cardon Healthcare Network, LLC</b>				
	Diversified support services			
69,487 Class A Units			265	602
			<b>265</b>	<b>602</b>
<b>Phoenix Brands Merger Sub LLC (9)</b>				
	Household products			
Senior Term Loan, LIBOR+5% (1.5% floor) cash due 1/31/2016 (15)		3,675	3,632	3,524
Subordinated Term Loan, 10% cash 3.875% PIK due 2/1/2017		31,590	31,389	30,154
First Lien Revolver, LIBOR+5% (1.5% floor) cash due 1/31/2016 (15)		3,000	2,955	3,000
			<b>37,976</b>	<b>36,678</b>
<b>CCCG, LLC (9)</b>				
	Oil & gas equipment services			
First Lien Term Loan, LIBOR+8% (1.75% floor) cash 1% PIK due 12/29/2017 (15)		34,572	34,259	30,309
First Lien Revolver, LIBOR+5.5% (1.75% floor) cash due 12/29/2017 (15)			—	—
			<b>34,259</b>	<b>30,309</b>
<b>Maverick Healthcare Group, LLC</b>				
	Healthcare equipment			
First Lien Term Loan A, LIBOR+5.5% cash (1.75% floor) cash due 12/31/2016 (16)		16,722	16,165	16,576
First Lien Term Loan B, LIBOR+9% cash (1.75% floor) cash due 12/31/2016 (16)		38,500	38,243	38,256
CapEx Line, LIBOR+5.75% (1.75% floor) cash due 12/31/2016 (16)		1,260	1,160	1,255
			<b>55,568</b>	<b>56,087</b>
<b>Refac Optical Group (9)</b>				
	Specialty stores			
First Lien Term Loan A, LIBOR+7.5% cash due 9/30/2018 (17)		21,950	21,832	21,643
First Lien Term Loan B, LIBOR+8.5% cash, 1.75% PIK due 9/30/2018 (17)		33,408	33,161	32,707
First Lien Term Loan C, 12% cash due 9/30/2018		3,405	3,405	3,401
First Lien Revolver, LIBOR+7.5% cash due 9/30/2018 (17)		1,600	1,557	1,600
1,550.9435 Shares of Common Stock in Refac Holdings, Inc.			1	—
550.9435 Series A-2 Preferred Stock in Refac Holdings, Inc.			305	—
1,000 Series A Preferred Stock in Refac Holdings, Inc.			999	134
			<b>61,260</b>	<b>59,485</b>
<b>Charter Brokerage, LLC</b>				
	Oil & gas equipment services			
Senior Term Loan, LIBOR+6.5% (1.5% floor) cash due 10/10/2016 (16)		27,215	27,166	27,198
Mezzanine Term Loan, 11.75% cash 2% PIK due 10/10/2017		12,217	12,182	12,190
Senior Revolver, LIBOR+6.5% (1.5% floor) cash due 10/10/2016 (10)(16)			(26)	—
			<b>39,322</b>	<b>39,388</b>
<b>Baird Capital Partners V, LP</b>				
	Multi-sector holdings			
0.4% limited partnership interest (6)(12)			826	753
			<b>826</b>	<b>753</b>
<b>Discovery Practice Management, Inc. (9)</b>				
	Healthcare services			
Senior Term Loan, LIBOR+9.75% cash due 11/4/2018 (14)		19,787	19,707	20,323
Senior Revolver, LIBOR+6% cash due 11/4/2018 (14)		1,500	1,484	1,500
Capex Line, LIBOR+7% cash due 11/4/2018 (14)		750	750	750
			<b>21,941</b>	<b>22,573</b>

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<u>Portfolio Company/Type of Investment (1)(2)(5)(22)</u>	<u>Industry</u>	<u>Principal (8)</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Milestone Partners IV, L.P.</b>				
	Multi-sector holdings			
0.85% limited partnership interest (6)(12)			\$ 1,131	\$ 1,118
			<b>1,131</b>	<b>1,118</b>
<b>National Spine and Pain Centers, LLC</b>				
	Healthcare services			
Mezzanine Term Loan, 11% cash 1.6% PIK due 9/27/2017		\$ 29,740	29,607	29,726
317,282.97 Class A Units (6)			317	609
			<b>29,924</b>	<b>30,335</b>
<b>RCPDirect, L.P.</b>				
	Multi-sector holdings			
0.91% limited partnership interest (6)(12)			656	787
			<b>656</b>	<b>787</b>
<b>The MedTech Group, Inc. (9)</b>				
	Healthcare equipment			
Senior Term Loan, LIBOR+5.5% (1.5% floor) cash due 9/7/2016 (15)		7,460	7,415	7,427
			<b>7,415</b>	<b>7,427</b>
<b>Digi-Star Acquisition Holdings, Inc.</b>				
	Industrial machinery			
Subordinated Term Loan, 12% cash 1.5% PIK due 11/18/2017		16,698	16,632	16,673
264.37 Class A Preferred Units			115	122
2,954.87 Class A Common Units (6)			36	478
			<b>16,783</b>	<b>17,273</b>
<b>CRGT, Inc.</b>				
	IT consulting & other services			
Mezzanine Term Loan, 12.5% cash 3% PIK due 3/9/2018		27,566	27,421	27,741
			<b>27,421</b>	<b>27,741</b>
<b>Riverside Fund V, L.P.</b>				
	Multi-sector holdings			
0.48% limited partnership interest (6)(12)			578	390
			<b>578</b>	<b>390</b>
<b>World 50, Inc.</b>				
	Research & consulting services			
Senior Term Loan A, LIBOR+6.25% (1.5% floor) cash due 3/30/2017 (18)		7,947	7,880	7,956
Senior Term Loan B, 12.5% cash due 3/30/2017		7,000	6,958	7,006
Senior Revolver, LIBOR+6.25% (1.5% floor) cash due 3/30/2017 (10)(18)			(30)	—
			<b>14,808</b>	<b>14,962</b>
<b>ACON Equity Partners III, LP</b>				
	Multi-sector holdings			
0.13% limited partnership interest (6)(12)			498	447
			<b>498</b>	<b>447</b>
<b>BMC Acquisition, Inc.</b>				
	Other diversified financial services			
500 Series A Preferred Shares			499	604
50,000 Common Shares			1	1
			<b>500</b>	<b>605</b>
<b>Ansira Partners, Inc. (9)</b>				
	Advertising			
First Lien Term Loan, LIBOR+5.5% (1.5% floor) cash due 5/4/2017 (15)		5,329	5,286	5,321
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	331
			<b>5,531</b>	<b>5,652</b>
<b>Edmentum, Inc.</b>				
	Education services			
Second Lien Term Loan, LIBOR+9.75% (1.5% floor) cash due 5/17/2019 (15)		17,000	17,000	16,815
			<b>17,000</b>	<b>16,815</b>

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<b>I Drive Safely, LLC</b>				
	Education services			
75,000 Class A Common Units of IDS Investments, LLC			\$ 1,000	\$ 902
			<b>1,000</b>	<b>902</b>
<b>Yeti Acquisition, LLC (9)</b>				
	Leisure products			
First Lien Term Loan A, LIBOR+8% (1.25% floor) cash due 6/15/2017 (14)		\$ 11,007	10,978	11,010
First Lien Term Loan B, LIBOR+11.25% (1.25% floor) cash 1% PIK, due 6/15/2017 (14)		8,290	8,278	8,287
First Lien Revolver, LIBOR+8% (1.25% floor) cash due 6/15/2017 (10)(14)			(10)	—
1,500 Common Stock Units of Yeti Holdings, Inc.			1,500	4,286
			<b>20,746</b>	<b>23,583</b>
<b>Specialized Education Services, Inc.</b>				
	Education services			
First Lien Term Loan A, LIBOR+7% (1.5% floor) cash due 6/28/2017 (15)		8,554	8,554	8,411
Subordinated Term Loan B, 11% cash 1.5% PIK due 6/28/2018		18,112	18,112	17,903
			<b>26,666</b>	<b>26,314</b>
<b>Vitalyst Holdings, Inc. (formerly known as PC Helps Support, LLC)</b>				
	IT consulting & other services			
Subordinated Term Loan, 12% cash 1.5% PIK due 9/5/2018		19,092	19,092	18,999
675 Series A Preferred Units of PCH Support Holdings, Inc.			675	807
7,500 Class A Common Stock Units of PCH Support Holdings, Inc.			75	—
			<b>19,842</b>	<b>19,806</b>
<b>Olson + Co., Inc. (9)</b>				
	Advertising			
First Lien Term Loan, LIBOR+5.5% (1.5% floor) cash due 9/30/2017 (15)		8,556	8,556	8,553
First Lien Revolver, LIBOR+5.5% (1.5% floor) cash due 9/30/2017 (15)			—	—
			<b>8,556</b>	<b>8,553</b>
<b>Beecken Petty O'Keefe Fund IV, L.P.</b>				
	Multi-sector holdings			
0.5% limited partnership interest (12)			567	525
			<b>567</b>	<b>525</b>
<b>Deltek, Inc. (9)</b>				
	IT consulting & other services			
Second Lien Term Loan, LIBOR+8.75% (1.25% floor) cash due 10/10/2019 (15)		25,000	25,000	25,127
First Lien Revolver, LIBOR+4.75% (1.25% floor) cash due 10/10/2017 (15)			—	—
			<b>25,000</b>	<b>25,127</b>
<b>First American Payment Systems, LP</b>				
	Diversified support services			
Second Lien Term Loan, LIBOR+9.5% (1.25% floor) cash due 4/12/2019 (15)		23,304	23,304	23,190
First Lien Revolver, LIBOR+4.5% (1.25% floor) cash due 10/12/2017 (15)			—	—
			<b>23,304</b>	<b>23,190</b>
<b>Dexter Axle Company</b>				
	Auto parts & equipment			
1,500 Common Shares in Dexter Axle Holding Company			1,500	2,507
			<b>1,500</b>	<b>2,507</b>
<b>Comprehensive Pharmacy Services LLC</b>				
	Pharmaceuticals			
Mezzanine Term Loan, 11.25% cash 1.5% PIK due 11/30/2019		14,362	14,362	14,342
20,000 Common Shares in MCP CPS Group Holdings, Inc.			2,000	2,570
			<b>16,362</b>	<b>16,912</b>
<b>Garretson Firm Resolution Group, Inc.</b>				
	Diversified support services			
First Lien Senior Term Loan, LIBOR+5% (1.25% floor) cash due 12/20/2018 (15)		6,984	6,984	6,975
Mezzanine Term Loan, 11% cash 1.5% PIK due 6/20/2019		5,095	5,095	5,100
First Lien Revolver, LIBOR+5% (1.25% floor) cash due 12/20/2017 (15)		391	391	391
4,950,000 Preferred Units in GRG Holdings, LP			495	432
50,000 Common Units in GRG Holdings, LP			5	—
			<b>12,970</b>	<b>12,898</b>

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<b>Teaching Strategies, LLC</b>	Education services			
First Lien Term Loan A, LIBOR+6% (1.25% floor) cash due 12/21/2017 (18)		\$ 46,360	\$ 46,355	\$ 46,360
First Lien Term Loan B, LIBOR+8.35% (1.25% floor) cash 3.15% PIK due 12/21/2017 (18)		27,975	27,973	27,976
First Lien Revolver, LIBOR+6% (1.25% floor) cash due 12/21/2017 (10)(18)			(1)	—
			<b>74,327</b>	<b>74,336</b>
<b>Omniplex World Services Corporation</b>	Security & alarm services			
Subordinated Term Loan, 12.25% cash 1.25% PIK due 12/21/2018		12,785	12,785	12,681
500 units Class A Common Units in Omniplex Holdings Corp.			500	575
			<b>13,285</b>	<b>13,256</b>
<b>Dominion Diagnostics, LLC (9)</b>	Healthcare services			
Subordinated Term Loan, 11% cash 2% PIK due 12/21/2018		15,990	15,990	16,053
			<b>15,990</b>	<b>16,053</b>
<b>Affordable Care, Inc.</b>	Healthcare services			
Second Lien Term Loan, LIBOR+9.25% (1.25% floor) cash due 12/26/2019 (15)		21,500	21,500	21,656
			<b>21,500</b>	<b>21,656</b>
<b>Aderant North America, Inc.</b>	Internet software & services			
Second Lien Term Loan, LIBOR+8.75% (1.25% floor) cash due 6/20/2019 (15)		7,000	7,000	7,036
			<b>7,000</b>	<b>7,036</b>
<b>AdVenture Interactive, Corp.</b>	Advertising			
First Lien Term Loan, LIBOR+6.75% (1.25% floor) cash due 3/22/2018 (13)(16)		108,989	108,968	109,249
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	1,325
			<b>110,778</b>	<b>110,574</b>
<b>CoAdvantage Corporation</b>	Human resources & employment services			
Mezzanine Term Loan, 11.5% cash 1.25% PIK due 12/31/2018		14,893	14,893	14,934
50,000 Class A Units in CIP CoAdvantage Investments LLC			557	701
			<b>15,450</b>	<b>15,635</b>
<b>EducationDynamics, LLC (9)</b>	Education services			
Mezzanine Term Loan, 12% cash 6% PIK due 1/16/2017		12,462	12,462	12,035
			<b>12,462</b>	<b>12,035</b>
<b>Sterling Capital Partners IV, L.P.</b>	Multi-sector holdings			
0.2% limited partnership interest (6)(12)			874	761
			<b>874</b>	<b>761</b>
<b>Devicor Medical Products, Inc.</b>	Healthcare equipment			
First Lien Term Loan, LIBOR+5% (2% floor) cash due 7/8/2015 (15)		12,785	12,785	12,782
			<b>12,785</b>	<b>12,782</b>
<b>RP Crown Parent, LLC</b>	Application software			
First Lien Revolver, LIBOR+5.5% (1.25% floor) cash due 12/21/2017 (10)(15)			(472)	—
			<b>(472)</b>	<b>—</b>
<b>Advanced Pain Management</b>	Healthcare services			
First Lien Term Loan, LIBOR+8.5% (1.25% floor) cash due 2/26/2018 (15)		24,000	24,000	23,914
			<b>24,000</b>	<b>23,914</b>
<b>Rocket Software, Inc.</b>	Internet software & services			
Second Lien Term Loan, LIBOR+8.75% (1.5% floor) cash due 2/8/2019 (15)		10,475	10,443	10,452
			<b>10,443</b>	<b>10,452</b>
<b>TravelClick, Inc.</b>	Internet software & services			
First Lien Term Loan, LIBOR+4.5% (1% floor) cash due 5/6/2019		4,988	4,988	4,994
Second Lien Term Loan, LIBOR+7.75% (1% floor) cash due 11/8/2021 (15)		10,000	10,000	9,971
			<b>14,988</b>	<b>14,965</b>
<b>Pingora MSR Opportunity Fund I-A, LP</b>	Thrift & mortgage finance			
1.9% limited partnership interest (12)			4,056	3,966
			<b>4,056</b>	<b>3,966</b>

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**  
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<u>Portfolio Company/Type of Investment (1)(2)(5)(22)</u>	<u>Industry</u>	<u>Principal (\$)</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Credit Infonet, Inc. (9)</b>	Data processing & outsourced services			
Subordinated Term Loan, 12.25% cash 1.25% PIK due 10/26/2018		\$ 13,292	\$ 13,292	\$ 13,387
			<b>13,292</b>	<b>13,387</b>
<b>2Checkout.com, Inc.</b>	Diversified support services			
First Lien Revolver, LIBOR+5% cash due 6/26/2016 (17)		2,150	2,148	2,150
			<b>2,148</b>	<b>2,150</b>
<b>Meritas Schools Holdings, LLC</b>	Education services			
First Lien Term Loan, LIBOR+5.75% (1.25% floor) cash due 6/25/2019 (15)		8,345	8,345	8,336
Second Lien Term Loan, LIBOR+9% (1% floor) cash due 1/23/2021 (15)		19,500	19,500	19,493
			<b>27,845</b>	<b>27,829</b>
<b>Chicago Growth Partners III, LP</b>	Multi-sector holdings			
0.5% limited partnership interest (11)(12)			—	—
			—	—
<b>Royal Adhesives and Sealants, LLC</b>	Specialty chemicals			
Second Lien Term Loan, LIBOR+8.5% (1.25% floor) cash due 1/31/2019 (11) (15)		13,500	13,500	13,580
			<b>13,500</b>	<b>13,580</b>
<b>Bracket Holding Corp.</b>	Healthcare services			
Second Lien Term Loan, LIBOR+8.25% (1% floor) cash due 2/15/2020 (15)		32,000	32,000	31,767
50,000 Common Units in AB Group Holdings, LP			500	294
			<b>32,500</b>	<b>32,061</b>
<b>Salus CLO 2012-1, Ltd.</b>	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
			<b>29,500</b>	<b>29,500</b>
<b>HealthEdge Software, Inc.</b>	Application software			
Second Lien Term Loan, 12% cash due 9/30/2018		17,500	17,320	17,463
482,453 Series A-3 Preferred Stock Warrants (exercise price \$1.450918)			213	722
			<b>17,533</b>	<b>18,185</b>
<b>InMotion Entertainment Group, LLC</b>	Consumer electronics			
First Lien Term Loan, LIBOR+7.75% (1.25% floor) cash due 10/1/2018 (14)		13,813	13,813	13,872
First Lien Revolver, LIBOR+6.75% (1.25% floor) cash due 10/1/2018 (14)		4,179	4,179	4,179
CapEx Line, LIBOR+7.75% (1.25% floor) cash due 10/1/2018 (14)			—	—
1,000,000 Class A Units in InMotion Entertainment Holdings, LLC			1,000	1,169
			<b>18,992</b>	<b>19,220</b>
<b>BMC Software Finance, Inc.</b>	Application software			
First Lien Revolver, LIBOR+4% (1% floor) cash due 9/10/2018			—	—
			—	—
<b>CT Technologies Intermediate Holdings, Inc.</b>	Healthcare services			
Second Lien Term Loan, LIBOR+8% (1.25% floor) cash due 10/4/2020 (15)		12,000	12,000	11,920
			<b>12,000</b>	<b>11,920</b>
<b>Thing5, LLC</b>	Data processing & outsourced services			
First Lien Term Loan, LIBOR+7% (1% floor) cash due 10/11/2018 (13)(15)		45,000	45,000	44,780
First Lien Revolver, LIBOR+7% (1% floor) cash due 10/11/2018 (15)			—	—
2,000,000 in T5 Investment Vehicle, LLC (6)			2,000	1,667
			<b>47,000</b>	<b>46,447</b>
<b>Epic Health Services, Inc.</b>	Healthcare services			
Second Lien Term Loan, LIBOR+8% (1.25% floor) cash due 10/18/2019 (15)		25,000	25,000	24,877
			<b>25,000</b>	<b>24,877</b>
<b>Kason Corporation</b>	Industrial machinery			
Mezzanine Term Loan, 11.5% cash 1.75% PIK due 10/28/2019		5,695	5,695	5,630
450 Class A Preferred Units in Kason Investment, LLC			450	396
5,000 Class A Common Units in Kason Investment, LLC			50	—
			<b>6,195</b>	<b>6,026</b>

See notes to Consolidated Financial Statements.



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<u>Portfolio Company/Type of Investment (1)(2)(5)(22)</u>	<u>Industry</u>	<u>Principal (\$)</u>	<u>Cost</u>	<u>Fair Value</u>
<b>First Choice ER, LLC</b>				
	Healthcare services			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 10/31/2018 (14)		\$ 55,000	\$ 55,000	\$ 55,457
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 10/31/2018 (14)			—	—
First Lien Delayed Draw, LIBOR+7.5% (1% floor) cash due 4/30/2015 (14)		25,000	25,000	25,067
			<b>80,000</b>	<b>80,524</b>
<b>SPC Partners V, L.P.</b>				
	Multi-sector holdings			
0.571% limited partnership interest (6)(12)			585	521
			<b>585</b>	<b>521</b>
<b>Systems Maintenance Services Holdings, Inc.</b>				
	IT consulting & other services			
Second Lien Term Loan, LIBOR+8.25% (1% floor) cash due 10/18/2020 (15)		24,000	24,000	24,353
			<b>24,000</b>	<b>24,353</b>
<b>P2 Upstream Acquisition Co.</b>				
	Application software			
First Lien Revolver, L+4% (1% floor) cash due 10/31/2018			—	—
			—	—
<b>Vandelay Industries Merger Sub, Inc.</b>				
	Industrial machinery			
Second Lien Term Loan, 10.75% cash 1% PIK due 11/12/2019		27,001	27,001	27,251
2,500,000 Class A Common Units in Vandelay Industries, L.P.			2,500	3,461
			<b>29,501</b>	<b>30,712</b>
<b>Vitera Healthcare Solutions, LLC</b>				
	Healthcare technology			
First Lien Term Loan, LIBOR+5% (1% floor) cash due 11/4/2020 (20)			—	—
Second Lien Term Loan, LIBOR+8.25% (1% floor) cash due 11/4/2021 (20)		8,000	8,000	8,083
			<b>8,000</b>	<b>8,083</b>
<b>SugarSync, Inc.</b>				
	Internet software & services			
First Lien Term Loan, LIBOR+10% (0.5% floor) cash due 11/18/2016 (14)		6,500	6,500	6,500
			<b>6,500</b>	<b>6,500</b>
<b>The Active Network, Inc.</b>				
	Internet software & services			
Second Lien Term Loan, LIBOR+8.5% (1% floor) cash due 11/15/2021 (15)		13,600	13,600	13,609
			<b>13,600</b>	<b>13,609</b>
<b>OmniSYS Acquisition Corporation</b>				
	Diversified support services			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 11/21/2018 (21)		10,670	10,666	10,611
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 11/21/2018 (21)			—	—
100,000 Common Units in OSYS Holdings, LLC			1,000	961
			<b>11,666</b>	<b>11,572</b>
<b>All Web Leads, Inc.</b>				
	Advertising			
First Lien Term Loan, LIBOR+8% (1% floor) cash due 11/26/2018 (17)		25,050	25,047	24,864
First Lien Revolver, LIBOR+8% (1% floor) cash due 11/26/2018 (17)			—	—
			<b>25,047</b>	<b>24,864</b>
<b>Moelis Capital Partners Opportunity Fund I-B, LP</b>				
	Multi-sector holdings			
1.0% limited partnership interest (6)(12)			715	677
			<b>715</b>	<b>677</b>
<b>Aden &amp; Anais Merger Sub, Inc.</b>				
	Apparel, accessories & luxury goods			
Mezzanine Term Loan, 10% cash 2% PIK due 6/23/2019		12,189	12,189	12,330
30,000 Common Units in Aden & Anais Holdings, Inc.			3,000	3,973
			<b>15,189</b>	<b>16,303</b>
<b>Lift Brands Holdings Inc.</b>				
	Leisure facilities			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 12/23/2019 (15)		43,721	43,708	43,474
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 12/23/2019 (15)		3,500	3,497	3,500
2,000,000 Class A Common Units in Snap Investments, LLC			2,000	2,142
			<b>49,205</b>	<b>49,116</b>

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<b>Portfolio Company/Type of Investment (1)(2)(5)(22)</b>	<b>Industry</b>	<b>Principal (8)</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Tailwind Capital Partners II, L.P.</b>	Multi-sector holdings			
0.3% limited partnership interest (6)(12)			\$ 274	\$ 274
			<b>274</b>	<b>274</b>
<b>Long's Drugs Incorporated</b>	Pharmaceuticals			
Mezzanine Term Loan, 11% cash 1% PIK due 1/31/2020		\$ 9,519	9,518	9,530
50 Series A Preferred Shares in Long's Drugs Incorporated			500	548
			<b>10,018</b>	<b>10,078</b>
<b>American Cadastre, LLC</b>	Systems software			
First Lien Revolver, LIBOR+5% (1% floor) cash due 8/14/2015 (14)		5,595	5,592	5,345
			<b>5,592</b>	<b>5,345</b>
<b>Five9, Inc.</b>	Internet software & services			
Second Lien Term Loan, LIBOR+9% (1% floor) cash due 2/20/2019 (14)		20,000	19,721	20,294
118,577 Common Stock Warrants (exercise price \$10.12)			321	69
			<b>20,042</b>	<b>20,363</b>
<b>Crealta Pharmaceuticals LLC</b>	Pharmaceuticals			
Second Lien Term Loan, 12.75% cash due 8/21/2020		20,000	20,000	19,640
			<b>20,000</b>	<b>19,640</b>
<b>Conviva Inc.</b>	Application software			
First Lien Term Loan, LIBOR+8.75% (1% floor) cash due 2/28/2018 (14)		5,000	4,913	4,998
417,851 Series D Preferred Stock Warrants (exercise price \$1.1966)			104	79
			<b>5,017</b>	<b>5,077</b>
<b>OnCourse Learning Corporation</b>	Education services			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 2/28/2019 (14)		55,000	54,969	55,154
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 2/28/2019 (14)		2,000	1,998	2,000
200,000 Class A Units in CIP OCL Investments, LLC			2,000	1,755
			<b>58,967</b>	<b>58,909</b>
<b>ShareThis, Inc.</b>	Internet software & services			
Second Lien Term Loan, LIBOR+10.5% (1% floor) cash due 3/5/2018 (14)		15,000	14,686	15,115
345,452 Series C Preferred Stock Warrants (exercise price \$3.0395)			367	282
			<b>15,053</b>	<b>15,397</b>
<b>Aegis Toxicology Sciences Corporation</b>	Healthcare services			
Second Lien Term Loan, LIBOR+8.5% (1% floor) cash due 8/24/2021 (15)		18,000	18,000	18,044
			<b>18,000</b>	<b>18,044</b>
<b>Aptean, Inc.</b>	Internet software & services			
Second Lien Term Loan, LIBOR+7.5% (1% floor) cash due 2/26/2021 (15)		3,000	3,000	3,020
			<b>3,000</b>	<b>3,020</b>
<b>Integrated Petroleum Technologies, Inc.</b>	Oil & gas equipment services			
First Lien Term Loan, LIBOR+7.5% (1% floor) cash due 3/31/2019 (15)		22,752	22,734	22,873
First Lien Revolver, LIBOR+7.5% (1% floor) cash due 3/31/2019 (10)(15)			(3)	—
			<b>22,731</b>	<b>22,873</b>
<b>Total Military Management, Inc.</b>	Air freight and logistics			
First Lien Term Loan, LIBOR+5.75% (1.25% floor) cash due 3/31/2019 (16)		9,750	9,750	9,759
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)			—	—
			<b>9,750</b>	<b>9,759</b>
<b>ExamSoft Worldwide, Inc.</b>	Internet software & services			
First Lien Term Loan, LIBOR+8% (1% floor) cash due 5/1/2019 (14)		15,000	14,834	14,992
First Lien Revolver, LIBOR+8% (1% floor) cash due 5/1/2019 (14)			—	—
180,707 Class C Units in ExamSoft Investor LLC			181	17
			<b>15,015</b>	<b>15,009</b>

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<b>Portfolio Company/Type of Investment (1)(2)(5)(22)</b>	<b>Industry</b>	<b>Principal (8)</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Language Line, LLC</b>	Integrated telecommunication services			
Second Lien Term Loan, LIBOR+8.75% (1.75% floor) cash due 12/20/2016 (15)		\$ 6,600	\$ 6,592	\$ 6,605
			<b>6,592</b>	<b>6,605</b>
<b>DigiCert, Inc.</b>	Internet software & services			
Second Lien Term Loan, LIBOR+8.25% (1% floor) cash due 6/2/2020 (15)		42,000	42,000	42,010
			<b>42,000</b>	<b>42,010</b>
<b>Puerto Rico Cable Acquisition Company Inc.</b>	Cable & satellite			
Second Lien Term Loan, LIBOR+8.5% (1% floor) cash due 5/30/2019 (12)(15)		27,000	27,000	27,019
			<b>27,000</b>	<b>27,019</b>
<b>RCPDirect II, LP</b>	Multi-sector holdings			
0.5% limited partnership interest (12)			10	10
			<b>10</b>	<b>10</b>
<b>PR Wireless, Inc. (12)</b>	Integrated telecommunication services			
First Lien Term Loan, LIBOR+9% (1% floor) cash due 6/27/2020 (20)		9,975	9,975	9,325
118,4211 Common Stock Warrants (exercise price \$0.01)			—	557
			<b>9,975</b>	<b>9,882</b>
<b>Integral Development Corporation</b>	Other diversified financial services			
First Lien Term Loan, LIBOR+9.5% (1% floor) cash due 7/10/2019 (17)		15,000	15,000	15,000
1,078,284 Common Stock Warrants (exercise price \$0.9274)			—	—
			<b>15,000</b>	<b>15,000</b>
<b>Loftware, Inc.</b>	Internet software & services			
Mezzanine Term Loan, 11% cash 1% PIK due 7/18/2020		6,013	6,013	6,013
300,000 Class A Common Units in RPLF Holdings, LLC			300	300
			<b>6,313</b>	<b>6,313</b>
<b>Tectum Holdings, Inc.</b>	Auto parts & equipment			
Second Lien Term Loan, LIBOR+8.75% (1% floor) cash due 1/28/2021 (15)		15,000	15,000	15,000
			<b>15,000</b>	<b>15,000</b>
<b>TV Borrower US, LLC (12)</b>	Integrated telecommunication services			
Second Lien Term Loan, LIBOR+8.5% (1% floor) cash due 7/8/2021 (15)		30,000	30,000	30,000
			<b>30,000</b>	<b>30,000</b>
<b>Webster Capital III, L.P.</b>	Multi-sector holdings			
0.754% limited partnership interest (11)(12)			—	—
			—	—
<b>L Squared Capital Partners LLC</b>	Multi-sector holdings			
2% limited partnership interest (11)(12)			—	—
			—	—
<b>ERS Acquisition Corp.</b>	Diversified support services			
Second Lien Term Loan, LIBOR+8.25% (1% floor) cash due 9/10/2018 (14)		40,000	40,000	40,000
			<b>40,000</b>	<b>40,000</b>
<b>BeyondTrust Software, Inc.</b>	Application software			
First Lien Term Loan LIBOR+7% (1% floor) cash due 9/25/2019 (14)		112,500	112,434	112,500
First Lien Revolver, LIBOR+7% (1% floor) cash due 9/25/2019 (10)(14)			(6)	—
4,500,000 Class A membership interests in BeyondTrust Holdings LLC			4,500	4,500
			<b>116,928</b>	<b>117,000</b>
<b>Total Non-Control/Non-Affiliate Investments (139.4% of net assets)</b>			<b>\$ 2,069,301</b>	<b>\$ 2,060,278</b>
<b>Total Portfolio Investments (188.8% of net assets)</b>			<b>\$ 2,494,683</b>	<b>\$ 2,495,914</b>

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- (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 revolving. 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:

<b>Portfolio Company</b>	<b>Effective date</b>	<b>Cash interest</b>	<b>PIK interest</b>	<b>Reason</b>
Refac Optical Group	August 22, 2014	+1.0% on Revolver	+1.0% on Term Loan A +1.0% on Term Loan B +1.0% on Term Loan C	Per loan amendment
EducationDynamics, LLC	August 14, 2014	-12.0% on Term Loan	+12.0% on Term Loan	Per loan amendment
Cenegenics, LLC	August 14, 2014		+2.0% on Term Loan	Per loan amendment
Credit Infonet, Inc.	July 1, 2014	-1.25% on Term Loan	+1.25% on Term Loan	Per loan amendment
HealthDrive Corporation	July 1, 2014	-1.0% on Term Loan A -3.0% on Term Loan B	+3.0% on Term Loan A +4.0% on Term Loan B	Per loan amendment
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	Per loan amendment
Olson + Co., Inc.	December 13, 2013	+ 0.25% on Term Loan and 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.	August 1, 2014	- 11.0% on Term Loan	+ 7.0% 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 and 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	- 0.5% 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
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 and 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.

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- (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.
- (24) As defined in the 1940 Act, the Company is deemed to be both an "Affiliated Person" of and to "Control" this portfolio company as the Company owns more than 25% of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company (including through a management agreement). See Schedule 12-14 in the accompanying notes to the consolidated financial statements for transactions during the year ended September 30, 2014 in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control.

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**  
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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (\$)	Cost	Fair Value
<b>Control Investments (3)</b>				
<b>Traffic Solutions Holdings, Inc.</b>				
	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
			<u>32,577</u>	<u>40,919</u>
<b>TransTrade Operators, Inc.</b>				
	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
			<u>16,693</u>	<u>14,063</u>
<b>HFG Holdings, LLC</b>				
	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			22,347	22,346
			<u>115,482</u>	<u>115,643</u>
<b>First Star Aviation, LLC</b>				
	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
			<u>24,475</u>	<u>24,475</u>
<b>Eagle Hospital Physicians, LLC (13)</b>				
	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
			<u>18,291</u>	<u>20,402</u>
<b>Total Control Investments (15.7% of net assets)</b>			<u>\$ 207,518</u>	<u>\$ 215,502</u>
<b>Affiliate Investments (4)</b>				
<b>Caregiver Services, Inc.</b>				
	Healthcare services			
1,080,399 shares of Series A Preferred Stock			\$ 1,080	\$ 3,256
			<u>1,080</u>	<u>3,256</u>
<b>AmBath/ReBath Holdings, Inc. (9)</b>				
	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2016		\$ 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
			<u>28,727</u>	<u>28,676</u>
<b>Total Affiliate Investments (2.3% of net assets)</b>			<u>\$ 29,807</u>	<u>\$ 31,932</u>
<b>Non-Control/Non-Affiliate Investments (7)</b>				
<b>Fitness Edge, LLC</b>				
	Leisure facilities			
1,000 Common Units (6)			\$ 43	\$ 190
			<u>43</u>	<u>190</u>
<b>Capital Equipment Group, Inc. (9)</b>				
	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
			<u>4,352</u>	<u>5,209</u>
<b>Western Emulsions, Inc.</b>				
	Construction materials			
Second Lien Term Loan, 12.5% cash 2.5% PIK due 6/30/2014		7,200	7,170	7,297
			<u>7,170</u>	<u>7,297</u>
<b>HealthDrive Corporation (9)</b>				
	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
			<u>16,987</u>	<u>16,976</u>

See notes to Consolidated Financial Statements.

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

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

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (\$)	Cost	Fair Value
<b>Charter Brokerage, LLC</b>				
	Oil & gas equipment services			
Senior Term Loan, LIBOR+6.5% (1.5% floor) cash due 10/10/2016		\$ 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)			(40)	—
			<b>40,709</b>	<b>41,466</b>
<b>Stackpole Powertrain International Holding, L.P.</b>				
	Auto parts & equipment			
1,000 Common Units (12)			1,000	3,200
			<b>1,000</b>	<b>3,200</b>
<b>Discovery Practice Management, Inc. (9)</b>				
	Healthcare services			
First Lien Term Loan A, LIBOR+7.5% cash due 8/8/2016		5,756	5,706	5,761
First Lien Term Loan B, 12% cash 3% PIK due 8/8/2016		6,606	6,559	6,608
First Lien Revolver, LIBOR+7% cash due 8/8/2016		3,000	2,977	3,000
			<b>15,242</b>	<b>15,369</b>
<b>CTM Group, Inc.</b>				
	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
			<b>15,428</b>	<b>15,583</b>
<b>Milestone Partners IV, LP</b>				
	Multi-sector holdings			
0.86% limited partnership interest (6)(12)			586	638
			<b>586</b>	<b>638</b>
<b>Insight Pharmaceuticals LLC</b>				
	Pharmaceuticals			
Second Lien Term Loan, LIBOR+11.75% (1.5% floor) cash due 8/25/2017		13,517	13,439	13,607
			<b>13,439</b>	<b>13,607</b>
<b>National Spine and Pain Centers, LLC</b>				
	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
			<b>29,401</b>	<b>29,939</b>
<b>RCPDirect, LP</b>				
	Multi-sector holdings			
0.91% limited partnership interest (6)(12)			476	569
			<b>476</b>	<b>569</b>
<b>The MedTech Group, Inc. (9)</b>				
	Healthcare equipment			
Senior Term Loan, LIBOR+5.5% (1.25% floor) cash due 9/7/2016		12,448	12,379	12,454
			<b>12,379</b>	<b>12,454</b>
<b>Digi-Star Acquisition Holdings, Inc.</b>				
	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
			<b>12,531</b>	<b>12,989</b>
<b>CPASS Acquisition Company</b>				
	Internet software & services			
First Lien Term Loan, LIBOR+9% (1.5% floor) cash 1% PIK due 11/21/2016		8,069	8,005	8,166
First Lien Revolver, LIBOR+9% (1.5% floor) cash due 11/21/2016 (10)			(12)	—
			<b>7,993</b>	<b>8,166</b>
<b>Genoa Healthcare Holdings, LLC</b>				
	Pharmaceuticals			
Senior Term Loan, LIBOR+5.25% (1.25% floor) cash due 12/1/2016		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			—	—
500,000 Preferred units (6)			261	275
500,000 Class A Common Units			25	466
			<b>21,951</b>	<b>22,744</b>

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

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

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 (\$)	Cost	Fair Value
<b>SumTotal Systems, LLC</b>				
	Internet software & services			
Second Lien Term Loan, LIBOR+9% (1.25% floor) cash due 5/16/2019		\$ 20,000	\$ 20,000	\$ 20,015
			<b>20,000</b>	<b>20,015</b>
<b>Comprehensive Pharmacy Services, LLC</b>				
	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
			<b>16,148</b>	<b>16,437</b>
<b>Reliance Communications, LLC</b>				
	Internet software & services			
First Lien Term Loan A, LIBOR+7% (1% floor) cash due 12/18/2017		21,774	21,769	21,898
First Lien Term Loan B, LIBOR+11.5% (1% floor) cash due 12/18/2017		11,333	11,331	11,398
First Lien Revolver, LIBOR+7% (1% floor) cash due 12/18/2017		2,250	2,249	2,250
			<b>35,349</b>	<b>35,546</b>
<b>Garretson Firm Resolution Group, Inc.</b>				
	Diversified support services			
First Lien Term Loan, LIBOR+5% (1.25% floor) cash due 12/20/2018		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		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	—
			<b>14,033</b>	<b>14,047</b>
<b>Teaching Strategies, LLC</b>				
	Education services			
First Lien Term Loan A, LIBOR+6% (1.25% floor) cash due 12/21/2017		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		19,605	19,603	19,888
First Lien Revolver, LIBOR+6% (1.25% floor) cash due 12/21/2017 (10)			(1)	—
			<b>56,258</b>	<b>57,061</b>
<b>Omniplex World Services Corporation</b>				
	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
			<b>13,124</b>	<b>13,104</b>
<b>Dominion Diagnostics, LLC</b>				
	Healthcare services			
Subordinated Term Loan, 11% cash 2% PIK due 12/21/2018		15,746	15,746	16,016
			<b>15,746</b>	<b>16,016</b>
<b>Affordable Care, Inc.</b>				
	Healthcare services			
Second Lien Term Loan, LIBOR+9.25% (1.25% floor) cash due 12/26/2019		21,500	21,500	21,957
			<b>21,500</b>	<b>21,957</b>
<b>Aderant North America, Inc.</b>				
	Internet software & services			
Second Lien Term Loan, LIBOR+8.75% (1.25% floor) cash due 6/20/2019		7,000	7,000	7,067
			<b>7,000</b>	<b>7,067</b>
<b>AdVenture Interactive, Corp.</b>				
	Advertising			
First Lien Term Loan, LIBOR+6.75% (1.25% floor) cash due 3/22/2018		112,575	112,555	112,760
First Lien Revolver, LIBOR+6.75% (1.25% floor) cash due 3/22/2018 (10)			(1)	—
2,000 Preferred Units of AVI Holdings, L.P. (6)			2,000	2,123
			<b>114,554</b>	<b>114,883</b>

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

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**  
**Consolidated Schedule of Investments**  
(dollar amounts in thousands)  
September 30, 2013

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

See notes to Consolidated Financial Statements.

**Fifth Street Finance Corp.**  
**Consolidated Schedule of Investments**  
(dollar amounts in thousands)  
**September 30, 2013**

- (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:

<b>Portfolio Company</b>	<b>Effective date</b>	<b>Cash interest</b>	<b>PIK interest</b>	<b>Reason</b>
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 12, 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.
- (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 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 is recorded in "Payables from unsettled transactions" in the Statements of Assets and Liabilities.

See notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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”). Fifth Street Finance Corp. 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 U.S. federal 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 have occurred from inception through September 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	10.50	58.0 million
January 27, 2010	Follow-on public offering	7,000,000	11.20	78.4 million
February 25, 2010	Underwriters’ partial exercise of over-allotment option	300,500	11.20	3.4 million
June 21, 2010	Follow-on public offering (including underwriters’ exercise of over-allotment option)	9,200,000	11.50	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
July 11, 2014	Follow-on public offering	13,250,000	9.95	131.8 million
September 2014	At-the-Market offering	841,456	9.86 (1)	8.3 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 September 30, 2014, FSMP IV had \$75 million in regulatory capital and \$150 million in SBA-guaranteed debentures outstanding, which had a fair value of \$134.0 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 September 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 \$63.1 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 of September 30, 2014, the \$225.0 million of SBA-guaranteed debentures held by the Company's SBIC subsidiaries carry a weighted average interest rate of 3.323%.

For the years ended September 30, 2014, 2013 and 2012, the Company recorded interest expense of \$8.6 million, \$7.1 million and \$6.4 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:***

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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-K 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 \$2.5 billion and \$1.9 billion at September 30, 2014 and September 30, 2013, respectively. The portfolio investments represent 168.8% and 138.3% of net assets at September 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.

**Consolidation:**

As provided under Regulation S-X and ASC Topic 946 – Financial Services – Investment Companies, the Company will generally not consolidate its investment in a company other than a wholly-owned investment company or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company’s wholly-owned subsidiaries in its consolidated financial statements.

**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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- 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 investment portfolio:

- 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 September 30, 2014 and September 30, 2013 was determined in good faith 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

The Company generally recognizes dividend income on the ex-dividend date.

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 \$16.5 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") that represents collateral for standby letters of credit issued to portfolio companies under the Wells Fargo facility (as defined in Note 6 — Lines of Credit). Effective February 21, 2014, the Company and its financing subsidiary terminated the Wells Fargo facility.

**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:**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 \$0.6 million, \$1.0 million and \$1.3 million of offering costs charged to capital during the years ended September 30, 2014, 2013 and 2012.

**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 U.S. federal or state income tax at the RIC level. As a RIC, the Company is also subject to a 4% U.S. 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 U.S. federal excise tax for calendar year 2010. The Company did not incur a U.S. federal excise tax for calendar years 2012 and 2013 and does not expect to incur a U.S. federal excise tax for calendar year 2014. The Company may incur a U.S. 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 U.S. federal income 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 U.S. federal 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.

**Payable to Syndication Partners**

The Company acts as administrative agent for certain loans it originates and then syndicates. As administrative agent, the Company receives interest, principal and/or other payments from borrowers that gets redistributed to syndication partners. Such amounts are recorded as payable to syndication partners on the Consolidated Statements of Assets and Liabilities.

**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 had a cost basis of \$84.8 million in the aggregate, as of September 30, 2014. The

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

**Reclassifications:**

The Company made a minor reclassification of prior year restricted cash balances to conform to current period presentation. This change did not have a material impact on the consolidated financial statements.

**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. The Company anticipates no impact from adoption of this guidance. ASU 2013-08 will be effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). ASU 2011-04 amends ASC 820, and requires entities to change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 clarifies the application of existing fair value measurement and disclosure requirements related to the application of the highest and best use and valuation premise concepts for financial and nonfinancial instruments, measuring the fair value of an instrument classified in shareholders' equity and disclosures about fair value measurements. ASU 2011-04 changes the measurement of the fair value of financial instruments that are managed within a portfolio and the application of premiums and discounts in a fair value measurement related to size as a characteristic of the reporting entity's holding rather than a characteristic of the asset or liability. ASU 2011-04 requires additional disclosures about fair value measurements categorized within Level 3 of the fair value hierarchy including the valuation processes used by the reporting entity, the sensitivity of the fair value to changes in unobservable inputs, and the interrelationships between those unobservable inputs, if any. All the amendments to ASC 820 made by ASU 2011-04 are effective for interim and annual periods beginning after December 15, 2011. The adoption of this disclosure-only guidance is included in Note 3 – Portfolio Investments and did not have an impact on the Company's consolidated financial results.

In February 2011, the FASB issued Accounting Standards Update 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring* ("ASU 2011-02"). ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 provides guidance to clarify whether the creditor has granted a concession and whether a debtor is experiencing financial difficulties. ASU 2011-02 also clarifies that a creditor is precluded from using the effective interest rate test, as described in the debtors guidance on restructuring payables, when evaluating whether a restructuring constitutes a troubled debt restructuring. The new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. The clarified guidance may affect the accounting for certain restructurings that were previously accounted for under the aforementioned debtor guidance on restructuring payables and provide for enhanced disclosure around such restructurings. The adoption of ASU 2011-02 did not have a material impact on the Company's financial condition and results of operations.

**Note 3. Portfolio Investments**

At September 30, 2014, 168.8% of net assets, or \$2.5 billion, was invested in 124 portfolio investments, including the Company's investment in subordinated notes and LLC equity interests in Senior Loan Fund JV I, LLC ("SLF JV I") with a fair value of \$54.0 million and \$5.6 million, respectively, and 5.9% of net assets, or \$86.7 million, was invested in cash and cash equivalents. In comparison, at September 30, 2013, 138.3% of net assets, or \$1.9 billion, was invested in 99 portfolio investments and 10.5% of net assets, or \$143.3 million, was invested in cash and cash equivalents. As of September 30, 2014, 78.7% 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 or limited liability company interests. These instruments generally do not produce a current return but are held for potential investment appreciation and capital gain.

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During the years ended September 30, 2014, 2013 and 2012, the Company recorded net realized gains (losses) of \$2.2 million, \$(26.5) million and \$(64.6) million, respectively. During the years ended September 30, 2014, 2013 and 2012, the Company recorded net unrealized appreciation (depreciation) on investments of \$(32.2) million, \$13.4 million and \$56.0 million, respectively.

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

	September 30, 2014		September 30, 2013	
	Cost	Fair Value	Cost	Fair Value
Investments in debt securities	\$ 2,309,405	\$ 2,291,459	\$ 1,779,201	\$ 1,793,463
Investments in equity securities	125,296	144,822	80,450	99,583
Debt investment in senior loan fund vehicle	53,984	53,984	—	—
Equity investment in senior loan fund vehicle	5,998	5,649	—	—
<b>Total</b>	<b>\$ 2,494,683</b>	<b>\$ 2,495,914</b>	<b>\$ 1,859,651</b>	<b>\$ 1,893,046</b>

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

	September 30, 2014		September 30, 2013	
	Fair Value	% of Debt Portfolio	Fair Value	% of Debt Portfolio
Fixed rate debt securities	\$ 703,967	30.01%	\$ 584,876	32.61%
Floating rate debt securities, including subordinated notes of SLF JV I	1,641,476	69.99	1,208,587	67.39
<b>Total</b>	<b>\$ 2,345,443</b>	<b>100.00%</b>	<b>\$ 1,793,463</b>	<b>100.00%</b>

The following table presents the financial instruments carried at fair value as of September 30, 2014, by caption on the Company's Consolidated Statement 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)	\$ —	\$ —	\$ 1,972,088	\$ 1,972,088
Investments in debt securities (subordinated, including subordinated notes of SLF JV I)	—	—	343,855	343,855
Investments in debt securities (Collateralized loan obligation, or CLO)	—	—	29,500	29,500
Investments in equity securities (preferred)	—	—	26,469	26,469
Investments in equity securities (common, including LLC equity interests of SLF JV I)	—	—	124,002	124,002
<b>Total investments at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,495,914</b>	<b>\$ 2,495,914</b>
Secured borrowings relating to senior secured debt investments	—	—	84,803	84,803
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 84,803</b>	<b>\$ 84,803</b>

The following table presents the financial instruments carried at fair value as of September 30, 2013, by caption on the Company's Consolidated Statement 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)	\$ —	\$ —	\$ 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)	—	—	73,935	73,935
<b>Total investments at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,893,046</b>	<b>\$ 1,893,046</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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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 September 30, 2013 to September 30, 2014, for all investments for which the Company determines fair value using unobservable (Level 3) factors:

	Investments						Liabilities
	Senior Secured Debt	Subordinated Debt (including subordinated notes of SLF JV I)	CLO Debt	Preferred Equity	Common Equity (including LLC equity interests of SLF JV I)	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	1,484,775	102,921	—	5,116	45,175	1,637,987	87,750
Redemptions/repayments	(962,924)	(56,100)	—	(1,379)	(3,581)	(1,023,984)	(3,000)
Net accrual of PIK interest income	9,571	4,927	—	1,673	—	16,171	—
Accretion of original issue discount	747	—	—	—	—	747	—
Net change in unearned income	1,525	411	—	—	—	1,936	—
Net unrealized appreciation (depreciation) on investments	(27,606)	(4,602)	—	(5,369)	5,413	(32,164)	—
Net unrealized depreciation on secured borrowings	—	—	—	—	—	—	53
Realized gain (loss) on investments	(1,665)	—	—	780	3,060	2,175	—
Transfer into (out of) Level 3	—	—	—	—	—	—	—
<b>Fair value as of September 30, 2014</b>	<b>\$ 1,972,088</b>	<b>\$ 343,855</b>	<b>\$ 29,500</b>	<b>\$ 26,469</b>	<b>\$ 124,002</b>	<b>\$ 2,495,914</b>	<b>\$ 84,803</b>
Net unrealized appreciation (depreciation) relating to Level 3 assets & liabilities still held at September 30, 2014 and reported within net unrealized appreciation (depreciation) in the Consolidated Statement of Operations for the year ended September 30, 2014	\$ (27,976)	\$ (4,327)	\$ —	\$ (5,369)	\$ 7,613	\$ (30,059)	\$ 53

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Senior Secured Debt	Subordinated Debt	CLO Debt	Preferred Equity	Common 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	1,102,143	119,093	29,500	6,010	38,282	1,295,028
Redemptions/repayments	(664,614)	(35,016)	—	(2,510)	—	(702,140)
Net accrual of PIK interest income	2,973	5,193	—	107	—	8,273
Accretion of original issue discount	612	—	—	—	—	612
Net change in unearned income	6,251	583	—	—	—	6,834
Net unrealized appreciation (depreciation)	(278)	(168)	—	(2,079)	16,301	13,776
Unrealized adjustments due to deal exits	(15,172)	1,166	—	(120)	(3,319)	(17,445)
Transfer into (out of) Level 3	—	—	—	—	—	—
<b>Fair value as of September 30, 2013</b>	<b>\$ 1,467,665</b>	<b>\$ 296,298</b>	<b>\$ 29,500</b>	<b>\$ 25,648</b>	<b>\$ 73,935</b>	<b>\$ 1,893,046</b>
Net unrealized appreciation (depreciation) relating to Level 3 assets still held at September 30, 2013 and reported within net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations for the year ended September 30, 2013	\$ (15,450)	\$ 998	\$ —	\$ (2,199)	\$ 12,982	\$ (3,669)

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.

*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 September 30, 2014:

FIFTH STREET FINANCE CORP.

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Asset	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average (c)
Senior secured debt	1,954,623	Bond yield approach	Capital structure premium	(a) 0.0% - 2.0%	0.9%
			Tranche specific risk premium/(discount)	(a) (4.3)% - 10.0%	1.4%
			Size premium	(a) 0.5% - 2.0%	1.2%
	17,465	Market and income approach	Industry premium/(discount)	(a) (1.3)% - 1.3%	0.3%
			Weighted average cost of capital	27.0% - 27.0%	27.0%
			Company specific risk premium	(a) 10.0% - 10.0%	10.0%
			Revenue growth rate	(29.5)% - (29.5)%	(29.5)%
Subordinated debt	289,871	Bond yield approach	Capital structure premium	(a) 2.0% - 2.0%	2.0%
			Tranche specific risk premium	(a) 1.0% - 11.5%	4.5%
			Size premium	(a) 0.5% - 2.0%	1.2%
			Industry premium/(discount)	(a) (0.6)% - 1.2%	0.4%
CLO debt	29,500	Bond yield approach	Market yield	13.3% - 13.8%	13.5%
Preferred & common equity	144,822	Market and income approach	Weighted average cost of capital	14.0% - 34.0%	17.8%
			Company specific risk premium	(a) 1.0% - 15.0%	2.8%
			Revenue growth rate	(29.5)% - 78.3%	10.0%
			EBITDA multiple	(b) 1.4x - 14.0x	9.3x
			Revenue multiple	(b) 3.5x - 5.2x	4.3x
			Book value multiple	(b) 0.9x - 1.1x	0.9x
<b>Total</b>	<b>\$ 2,436,281</b>				
Liability	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average (c)
Secured borrowings	84,803	Bond yield approach	Capital structure premium	(a) 0.0% - 0.0%	0.0%
			Tranche specific risk premium/(discount)	(a) (4.3)% - (3.8)%	(4.1)%
			Size premium	(a) 1.0% - 2.0%	1.3%
			Industry premium/(discount)	(a) 0.4% - 1.0%	0.9%
<b>Total</b>	<b>\$ 84,803</b>				

(a) Used when market participant would take into account this premium or discount when pricing the investment or secured borrowings.

(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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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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 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
<b>Total</b>	<b>\$ 1,893,046</b>				

(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 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 September 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	\$ 317,395	\$ 317,395	\$ —	\$ —	\$ 317,395
SBA debentures payable	225,000	197,126	—	—	197,126
Unsecured convertible notes payable	115,000	119,025	—	—	119,025
Unsecured notes payable	409,878	416,539	—	157,864	258,675
<b>Total</b>	<b>\$ 1,067,273</b>	<b>\$ 1,050,085</b>	<b>\$ —</b>	<b>\$ 157,864</b>	<b>\$ 892,221</b>

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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	—
<b>Total</b>	<b>\$ 646,000</b>	<b>\$ 617,412</b>	<b>\$ —</b>	<b>\$ 151,008</b>	<b>\$ 466,404</b>

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 4.875% unsecured notes due 2019 and Convertible Notes, 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 \$325.0 million and \$149.5 million of unfunded commitments to provide debt and equity financing to its portfolio companies or to fund limited partnership interests as of September 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 Consolidated Statements of Assets and Liabilities and are not reflected in the Company's Consolidated Statements of Assets and Liabilities. A summary of the composition of the unfunded commitments (consisting of revolvers, term loans and limited partnership interests) as of September 30, 2014 and September 30, 2013 is shown in the table below:

	September 30, 2014	September 30, 2013
Senior Loan Fund JV 1, LLC	\$ 115,018	\$ —
Lift Brands Holdings, Inc.	20,000	—
Yeti Acquisition, LLC	15,000	7,500
BMC Software Finance, Inc.	15,000	—
Drugtest, Inc.	10,900	20,000
RP Crown Parent, LLC	10,000	9,000
P2 Upstream Acquisition Co.	10,000	—
BeyondTrust Software, Inc.	9,375	—
First Choice ER, LLC (1)	9,181	—
InMotion Entertainment Group, LLC	7,916	—
Refac Optical Group	6,400	8,000
Thing5, LLC	6,000	—
Pingora MSR Opportunity Fund I, LP (limited partnership interest)	5,944	9,792
Integrated Petroleum Technologies, Inc.	5,397	—
First American Payment Systems, LP	5,000	5,000
Integral Development Corporation	5,000	—
Teaching Strategies, LLC	5,000	5,000
Adventure Interactive, Corp.	4,846	5,000
World 50, Inc.	4,000	4,000
Charter Brokerage, LLC	4,000	4,000

FIFTH STREET FINANCE CORP.

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All Web Leads, Inc.	3,500	—
Deltak, Inc.	3,213	8,667
OnCourse Learning Corporation	3,000	—
Discovery Practice Management, Inc.	2,682	1,000
CPASS Acquisition Company	2,500	2,500
OmniSYS Acquisition Corporation	2,500	—
TransTrade Operators, Inc.	2,255	—
Chicago Growth Partners L.P. (limited partnership interest)	2,000	2,000
Webster Capital III, L.P. (limited partnership interest)	2,000	—
Eagle Hospital Physicians, Inc.	1,820	1,867
Tailwind (limited partnership interest)	1,726	—
Olson + Co., Inc.	1,673	2,105
CCCG, LLC	1,520	1,520
Enhanced Recovery Company, LLC	1,500	3,500
Beecken Petty O'Keefe Fund IV, L.P. (limited partnership interest)	1,433	2,000
Riverside Fund V, LP (limited partnership interest)	1,422	1,712
SPC Partners V, L.P. (limited partnership interest)	1,415	—
Phoenix Brands Merger Sub LLC	1,286	3,429
Moelis Capital Partners Opportunity Fund I-B, L.P. (limited partnership interest)	1,285	—
Ansira Partners, Inc.	1,190	1,190
Sterling Capital Partners IV, L.P. (limited partnership interest)	1,126	1,528
Psilos Group Partners IV, LP (limited partnership interest)	1,000	1,000
L Squared Capital Partners (limited partnership interest)	1,000	—
RCP Direct II, LP (limited partnership interest)	990	—
Milestone Partners IV, LP (limited partnership interest)	869	1,414
Garretson Firm Resolution Group, Inc.	859	—
Total Military Management, Inc.	857	—
2Checkout.com, Inc.	850	2,850
HealthDrive Corporation	734	734
Bunker Hill Capital II (QP), LP (limited partnership interest)	632	786
ACON Equity Partners III, LP (limited partnership interest)	502	671
American Cadastre, LLC	405	—
Riverlake Equity Partners II, LP (limited partnership interest)	358	638
Riverside Fund IV, LP (limited partnership interest)	357	287
RCP Direct, LP (limited partnership interest)	344	524
Baird Capital Partners V, LP (limited partnership interest)	174	351
ISG Services, LLC	—	6,000
I Drive Safely, LLC	—	5,000
HealthEdge Software, Inc.	—	5,000
Personable Holdings, Inc.	—	3,409
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
Genoa Healthcare Holdings, LLC	—	1,000
<b>Total</b>	<b>\$ 324,954</b>	<b>\$ 149,474</b>

(1) In addition to its revolving commitment, the Company has extended a \$105.2 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 September 30, 2014, the total amount available to the borrower under this delayed draw facility was \$22.4 million, and the facility was drawn at \$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:

FIFTH STREET FINANCE CORP.

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	September 30, 2014		September 30, 2013	
<b>Cost:</b>				
Senior secured debt	\$ 1,988,739	79.72%	\$ 1,456,710	78.33%
Subordinated debt	291,166	11.67	292,991	15.76
CLO debt	29,500	1.18	29,500	1.59
Subordinated notes of SLF JV I	53,984	2.16	—	—
LLC equity interests of SLF JV I	5,998	0.24		
Purchased equity	107,465	4.31	71,835	3.86
Equity grants	5,409	0.22	4,316	0.23
Limited partnership interests	12,422	0.50	4,299	0.23
<b>Total</b>	<b>\$ 2,494,683</b>	<b>100.00%</b>	<b>\$ 1,859,651</b>	<b>100.00%</b>
<b>Fair Value:</b>				
Senior secured debt	\$ 1,972,088	79.01%	\$ 1,467,665	77.53%
Subordinated debt	289,871	11.61	296,298	15.65
CLO debt	29,500	1.18	29,500	1.56
Subordinated notes of SLF JV I	53,984	2.16	—	—
LLC equity interests of SLF JV I	5,649	0.23	—	—
Purchased equity	125,834	5.04	89,688	4.74
Equity grants	7,384	0.30	5,599	0.30
Limited partnership interests	11,604	0.47	4,296	0.22
<b>Total</b>	<b>\$ 2,495,914</b>	<b>100.00%</b>	<b>\$ 1,893,046</b>	<b>100.00%</b>

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:

	September 30, 2014		September 30, 2013	
<b>Cost:</b>				
Northeast U.S.	\$ 729,792	29.25%	\$ 744,582	40.04%
Southwest U.S.	537,232	21.54	279,369	15.02
Midwest U.S.	428,577	17.18	314,653	16.92
Southeast U.S.	361,198	14.48	277,342	14.91
West U.S.	268,738	10.77	242,705	13.05
International	169,146	6.78	1,000	0.06
<b>Total</b>	<b>\$ 2,494,683</b>	<b>100.00%</b>	<b>\$ 1,859,651</b>	<b>100.00%</b>
<b>Fair Value:</b>				
Northeast U.S.	\$ 738,774	29.61%	\$ 753,263	39.79%
Southwest U.S.	526,115	21.08	280,247	14.80
Midwest U.S.	428,771	17.18	317,958	16.80
Southeast U.S.	369,007	14.78	285,648	15.09
West U.S.	260,173	10.42	252,730	13.35
International	173,074	6.93	3,200	0.17
<b>Total</b>	<b>\$ 2,495,914</b>	<b>100.00%</b>	<b>\$ 1,893,046</b>	<b>100.00%</b>

FIFTH STREET FINANCE CORP.

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

	September 30, 2014		September 30, 2013	
<b>Cost:</b>				
Healthcare services	\$ 374,684	15.03%	\$ 266,823	14.35%
Education services	233,203	9.35	166,750	8.97
Advertising	164,483	6.59	154,026	8.28
Internet software & services	157,348	6.31	109,170	5.87
Application software	139,008	5.57	12,879	0.69
Airlines	129,116	5.18	24,475	1.32
Specialized finance	118,726	4.76	124,232	6.68
Diversified support services	117,476	4.71	170,174	9.15
Oil & gas equipment services	96,312	3.86	75,426	4.06
IT consulting & other services	96,262	3.86	82,440	4.43
Healthcare equipment	75,767	3.04	70,494	3.79
Multi-sector holdings	68,348	2.74	4,091	0.20
Specialty stores	61,257	2.46	68,386	3.68
Data processing & outsourced services	60,292	2.42	23,200	1.25
Industrial machinery	53,329	2.14	16,883	0.91
Human resources & employment services	51,097	2.05	64,944	3.49
Leisure facilities	49,248	1.97	43	—
Integrated telecommunication services	46,567	1.87	—	—
Pharmaceuticals	46,380	1.86	51,538	2.77
Household products	37,975	1.52	29,677	1.60
Apparel, accessories & luxury goods	35,577	1.43	28,385	1.53
Construction & engineering	34,695	1.39	32,577	1.75
Air freight & logistics	32,522	1.30	16,693	0.90
Asset management & custody banks	29,500	1.18	29,500	1.59
Home improvement retail	27,531	1.10	28,726	1.54
Cable & satellite	27,000	1.08	—	—
Leisure products	20,747	0.83	47,222	2.54
Consumer electronics	18,992	0.76	—	—
Auto parts & equipment	16,500	0.66	33,061	1.78
Other diversified financial services	15,500	0.62	41,888	2.25
Research & consulting services	14,808	0.59	17,521	0.94
Specialty chemicals	13,500	0.54	20,000	1.08
Security & alarm services	13,285	0.53	13,124	0.71
Healthcare technology	8,000	0.32	—	—
Systems software	5,592	0.22	—	—
Thrift & mortgage finance	4,056	0.16	208	0.01
Food distributors	—	—	18,435	0.99
Environmental & facilities services	—	—	8,755	0.47
Construction materials	—	—	7,170	0.39
Building products	—	—	735	0.04
<b>Total</b>	<b>\$ 2,494,683</b>	<b>100.00%</b>	<b>\$ 1,859,651</b>	<b>100.00%</b>

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2014		September 30, 2013	
<b>Fair Value:</b>				
Healthcare services	\$ 380,347	15.23 %	\$ 273,880	14.47 %
Education services	231,678	9.28	168,492	8.90
Advertising	164,207	6.58	154,777	8.18
Internet software & services	160,509	6.43	114,077	6.03
Application software	140,262	5.62	13,500	0.71
Airlines	133,056	5.33	24,475	1.29
Specialized finance	128,721	5.16	124,400	6.57
Diversified support services	117,600	4.71	171,078	9.04
IT consulting & other services	97,027	3.89	83,916	4.43
Oil & gas equipment services	92,571	3.71	76,454	4.04
Healthcare equipment	76,296	3.06	70,866	3.74
Multi-sector holdings	67,273	2.70	4,158	0.21
Data processing & outsourced services	59,833	2.40	23,295	1.23
Specialty stores	59,485	2.38	69,024	3.65
Industrial machinery	54,830	2.20	18,197	0.96
Human resources & employment services	51,486	2.06	65,391	3.45
Leisure facilities	49,306	1.98	190	0.01
Pharmaceuticals	46,630	1.87	52,787	2.79
Integrated telecommunication services	46,488	1.86	—	—
Construction & engineering	38,582	1.55	40,919	2.16
Household products	36,678	1.47	29,264	1.55
Asset management & custody banks	29,500	1.18	29,500	1.56
Home improvement retail	27,897	1.12	28,677	1.51
Cable & satellite	27,019	1.08	—	—
Leisure products	23,583	0.94	49,952	2.64
Apparel, accessories & luxury goods	22,659	0.91	27,724	1.46
Air freight & logistics	20,868	0.84	14,063	0.74
Consumer electronics	19,220	0.77	—	—
Auto parts & equipment	17,507	0.70	36,004	1.90
Other diversified financial services	15,605	0.63	41,954	2.22
Research & consulting services	14,962	0.60	17,912	0.95
Specialty chemicals	13,580	0.54	20,000	1.06
Security & alarm services	13,255	0.53	13,104	0.69
Healthcare technology	8,083	0.32	—	—
Systems software	5,345	0.21	—	—
Thrift & mortgage finance	3,966	0.16	139	0.01
Food distributors	—	—	18,732	0.99
Environmental & facilities services	—	—	8,113	0.43
Construction materials	—	—	7,297	0.39
Building products	—	—	735	0.04
<b>Total</b>	<b>\$ 2,495,914</b>	<b>100.00 %</b>	<b>\$ 1,893,046</b>	<b>100.00 %</b>

The Company's investments are generally in small and mid-sized companies in a variety of industries. At September 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 years ended September 30, 2014, 2013 and 2012 no individual investment produced income that exceeded 10% of investment income.

*Unconsolidated Significant Subsidiaries*

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In accordance with SEC Regulation S-X Rules 3-09 and 4-08(g), the Company must determine which of its portfolio companies, if any, are considered "significant subsidiaries." After performing this analysis for all periods presented, the Company determined that HFG Holdings, LLC is a significant subsidiary for the years ended September 30, 2014 and September 30, 2013 under Rule 4-08(g). As such, the Company has provided summary financial information as shown below:

Balance sheet items	September 30, 2014	September 30, 2013
Cash	\$6,715	\$1,652
Loans receivable	381,091	298,906
Other assets	19,382	44,292
Total liabilities	307,652	323,351
Members' capital	99,536	21,499

Statement of operations items	For the Year ended September 30, 2014	For the period of June 12, 2013 (date of acquisition) through September 30, 2013
Revenues, net of interest expense and provision for loan losses	\$22,058	\$8,559
Total expenses	18,908	9,662
Net income	\$3,150	\$(1,103)

*Senior Loan Fund JV I:*

In May, 2014, the Company entered into an LLC agreement with Trinity Universal Insurance Company, a subsidiary of Kemper Corporation ("Kemper") to form SLF JV I. On July 1, 2014, SLF JV I began investing in senior secured loans of middle market companies and other corporate debt securities. The Company co-invests in these securities with Kemper through its investment in SLF JV I. SLF JV I is managed by a four person Board of Directors, two of whom are selected by the Company and two of whom are selected by Kemper. SLF JV I is capitalized pro rata with subordinated notes and LLC equity interests as transactions are completed. All portfolio decisions and investment decisions in respect of SLF JV I must be approved by the SLF JV I investment committee, which consists of one representative of the Company and one representative of Kemper (with approval from a representative of each required). The members provide capital to SLF JV I in the form of subordinated notes and LLC equity interests. As of September 30, 2014, the Company and Kemper owned, in the aggregate, 87.5% and 12.5%, respectively, of each of the outstanding subordinated notes and LLC equity interests.

The Company has determined that SLF JV I is an investment company under ASC 946, however, in accordance with such guidance, the Company will generally not consolidate its investment in a company other than a wholly owned investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company does not consolidate its noncontrolling interest in SLF JV I.

As of September 30, 2014, SLF JV I had total assets of \$186.0 million. The Company's investment in SLF JV I consisted of LLC equity interests of \$5.6 million and subordinated notes of \$54.0 million, at fair value as of September 30, 2014. The subordinated notes are junior in right of payment to the repayment of temporary contributions made by the Company to fund investments of SLF JV I. SLF JV I's portfolio consisted of middle-market and other corporate debt securities of 18 "eligible portfolio companies" (as defined in the Section 2(a)(46) of the 1940 Act) as of September 30, 2014. As of September 30, 2014, the largest investment in a single company in SLF JV I's portfolio in aggregate principal amount was \$20.0 million, and the five largest investments in portfolio companies in SLF JV I totaled \$60.0 million in aggregate principal amount. The portfolio companies in SLF JV I are in industries similar to those in which the Company may invest directly.

As of September 30, 2014, SLF JV I had total capital commitments of \$200.0 million, \$175.0 million of which was from the Company and the remaining \$25.0 million from Kemper. Approximately \$68.6 million was funded as of September 30, 2014 relating to these commitments, of which \$60.0 million was from the Company. Additionally, SLF JV I had a senior revolving credit facility with Deutsche Bank AG, New York Branch ("Deutsche Bank facility") with a stated maturity date of July 1, 2019, which permitted up to \$200.0 million of borrowings. As of September 30, 2014, the Company had commitments to fund subordinated notes to SLF JV I of \$157.5 million, of which \$103.5 million was unfunded. The subordinated notes mature on May 2, 2019. As of September 30, 2014, the Company had commitments to fund LLC equity interests in SLF JV I of \$17.5 million, of which \$11.5 million was unfunded. Under the Deutsche Bank facility, \$109.3 million was outstanding as of September 30, 2014.

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Below is a summary of SLF JV I's portfolio, followed by a listing of the individual loans in SLF JV I's portfolio as of September 30, 2014:

	September 30, 2014
Senior secured loans (1)	\$158,451
Weighted average current interest rate on senior secured loans (2)	8.09%
Number of borrowers in SLF JV I	18
Largest loan to a single borrower (1)	\$20,000
Total of five largest loans to borrowers (1)	\$60,000

(1) At principal amount.

(2) Computed as the (a) annual interest on accruing senior secured loans divided by (b) total senior secured loans at principal amount.

SLF JV I Loan Portfolio as of September 30, 2014

Portfolio Company	Business Description	Investment Type	Maturity Date	Current Interest Rate (1)	Principal	Cost	Fair Value (2)
All Web Leads, Inc.	Advertising	Senior Loan	11/2018	LIBOR+8% (1% floor)	9,937	9,937	9,867
Ansira Partners, Inc.	Advertising	Senior Loan	05/2017	LIBOR+5.0% (1.5% floor)	3,553	3,536	3,549
Drugtest, Inc.	Human resources & employment services	Senior Loan	06/2018	LIBOR+ 5.75% (1% floor)	9,859	9,924	9,940
First Choice ER, LLC	Healthcare services	Senior Loan	10/2018	LIBOR+7.5% (1% floor)	20,000	20,019	20,166
InMotion Entertainment Group, LLC	Consumer electronics	Senior Loan	10/2018	LIBOR+7.75% (1.25% floor)	10,000	10,038	10,043
Integrated Petroleum Technologies, Inc.	Oil & gas equipment services	Senior Loan	03/2019	LIBOR+7.5% (1% floor)	9,937	9,937	9,987
Lift Brands, Inc.	Leisure facilities	Senior Loan	12/2019	LIBOR+7.5% (1% floor)	9,937	9,937	9,881
MedTech Group, Inc.	Healthcare equipment	Senior Loan	09/2016	LIBOR+5.25% (1.25% floor)	4,663	4,667	4,644
Olson + Co., Inc.	Advertising	Senior Loan	09/2017	LIBOR+5.75% (1.5% floor)	4,257	4,257	4,257
OmniSYS Acquisition Corporation	Diversified support services	Senior Loan	11/2018	LIBOR+7.5% (1% floor)	9,937	9,937	9,887
OnCourse Learning Corporation	Education services	Senior Loan	02/2019	LIBOR+7.5% (1% floor)	10,000	10,000	10,030
Teaching Strategies, LLC	Education services	Senior Loan	12/2017	LIBOR+6% (1.25% floor)	9,490	9,592	9,490
Total Military Management, Inc.	Air freight and logistics	Senior Loan	03/2019	LIBOR+5.75% (1.25% floor)	3,343	3,343	3,346
Yeti Acquisition, LLC	Leisure products	Senior Loan	06/2017	LIBOR+7% (1.25% floor)	6,115	6,161	6,115
Yeti Acquisition, LLC	Leisure products	Senior Loan	06/2017	LIBOR+10.25% (1.25% floor) 1% PIK	3,710	3,731	3,710
TV Borrower US, LLC	Integrated telecommunications services	Senior Loan	01/2021	LIBOR+5.0% (1% floor)	10,000	10,000	10,000
Vitera Healthcare Solutions, LLC	Healthcare technology	Senior Loan	11/2020	LIBOR+5% (1% floor)	4,963	4,963	4,980
H.D. Vest, Inc.	Specialty Finance	Senior Loan	06/2019	LIBOR+8% (1.25% floor)	8,750	8,820	8,820
TravelClick, Inc.	Internet software & services	Senior Loan	11/2021	LIBOR+7.75% (1% floor)	10,000	10,000	9,971
					<u>\$ 158,451</u>	<u>\$ 158,799</u>	<u>\$ 158,683</u>

(1) Represents the current interest rate as of September 30, 2014. All interest rates are payable in cash, unless otherwise noted.

(2) Represents the fair value determined utilizing a similar process as the Company in accordance with ASC 820. However, the determination of such fair value is not included in the Company's Board of Directors' valuation process described elsewhere herein.

The amortized cost and fair value of the subordinated notes held by the Company was \$54.0 million as of September 30, 2014. The subordinated notes bear interest at a rate of LIBOR plus 8.0% and the Company earned interest income of \$1.0 million on its investments in these notes for the period from July 1, 2014 through September 30, 2014. The cost and fair value of the LLC equity interests held by the Company was \$6.0 million and \$5.6 million, respectively. The Company earned dividend income of \$1.3 million with respect to its LLC equity interests. The LLC equity interest are dividend producing to the extent there is residual income to be distributed on a quarterly basis.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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Below is certain summarized financial information for SLF JV I as of September 30, 2014 and for the period from July 1, 2014 (commencement of operations) through September 30, 2014:

	As of September 30, 2014
<b>Selected Balance Sheet Information:</b>	
Investments in loans at fair value (cost: \$158,799)	\$ 158,683
Receivables from secured financing arrangements at fair value (cost: \$20,070)	19,970
Cash	2,276
Other assets	5,039
<b>Total assets</b>	<b>\$ 185,968</b>
Senior credit facility payable	109,334
Payable for unsettled transaction	4,750
Subordinated notes payable at fair value (proceeds: \$61,696)	61,696
Other liabilities	3,634
<b>Total liabilities</b>	<b>\$ 179,414</b>
Members' equity	6,554
<b>Total liabilities and net assets</b>	<b>\$ 185,968</b>

	Period from July 1, 2014 through September 30, 2014
<b>Selected Statement of Operations Information:</b>	
Total revenues	\$ 3,677
Total expenses	2,249
Net unrealized depreciation	(209)
Net realized losses	(20)
<b>Net income</b>	<b>\$ 1,199</b>

SLF JV I has elected to fair value the subordinated notes issued to the Company and Kemper under ASC Topic 825 — Financial Instruments, or ASC Topic 825. The subordinated notes are valued by calculating the net present value of the future expected cash flow streams using an appropriate risk-adjusted discount rate model.

During the period from July 1, 2014 through September 30, 2014, the Company transferred \$160.2 million of senior secured debt investments and \$20.1 million of receivables from secured financing arrangements to SLF JV I at fair value in exchange for \$118.6 million of cash consideration, \$51.3 million of subordinated notes, \$5.7 million of LLC equity interests in SLF JV I, \$4.7 million of receivables from unsettled transactions. The Company recognized a realized gain of \$0.3 million on this transaction.

#### 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 September 30, 2014 and September 30, 2013 were \$3.0 million and \$5.0 million, respectively.

As of September 30, 2014, the Company had structured \$3.8 million in aggregate exit fees across five 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 Company also continues to generate liquidity through public and private stock offerings.

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 per share. The net proceeds totaled \$129.7 million after deducting underwriting commissions of \$1.9 million and offering costs of \$0.3 million.

On August 22, 2014, the Company entered into an at-the-market offering ("ATM Program") with KeyBanc Capital Markets Inc. through which the Company may sell, from time to time at the Company's sole discretion, up to \$100,000,000 of its common stock. During the period from September 2, 2014 to September 30, 2014, the Company sold 841,456 shares of its common stock at an average price of \$9.86 per share, and raised \$8.3 million of net proceeds, under the ATM Program. Commissions to the broker-dealer on shares sold and offering costs were approximately \$50,000.

The following table sets forth the computation of basic and diluted earnings per share, pursuant to ASC 260-10 *Earnings per Share*, for the years ended September 30, 2014, 2013 and 2012:

	Year ended September 30, 2014	Year ended September 30, 2013	Year ended September 30, 2012
<b>Earnings per common share — basic:</b>			
Net increase in net assets resulting from operations	\$ 112,532	\$ 101,821	\$ 79,401
Weighted average common shares outstanding — basic	141,992	110,270	79,570
<b>Earnings per common share — basic</b>	<b>0.79</b>	<b>0.92</b>	<b>1.00</b>
<b>Earnings per common share — diluted:</b>			
Net increase in net assets resulting from operations, before adjustments	\$ 112,532	\$ 101,821	\$ 79,401
Adjustments for interest on convertible notes, base management fees, incentive fees and gain on extinguishment of convertible notes	5,451	4,079	5,855
Net increase in net assets resulting from operations, as adjusted	\$ 117,983	\$ 105,900	\$ 85,256
Weighted average common shares outstanding — basic	141,992	110,270	79,570
Adjustments for dilutive effect of convertible notes	7,791	7,791	8,149
Weighted average common shares outstanding — diluted	149,783	118,061	87,719
<b>Earnings per common share — diluted</b>	<b>\$ 0.79</b>	<b>\$ 0.90</b>	<b>\$ 0.97</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The following table reflects the distributions per share that the Board of Directors of the Company has paid, including shares issued under the dividend reinvestment plan (“DRIP”), on its common stock from October 1, 2012 to September 30, 2014:

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
February 6, 2014	July 15, 2014	July 31, 2014	0.0833	12.2 million	54,739 (1)	0.5 million
February 6, 2014	August 15, 2014	August 29, 2014	0.0833	12.1 million	59,466	0.6 million
July 2, 2014	September 15, 2014	September 30, 2014	0.0917	13.4 million	73,141 (1)	0.7 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. Under this program, any stock repurchases were to be made through the open market at times and in such amounts as management deemed appropriate, provided they were below the most recently published net asset value per share.

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 year ended September 30, 2014.

On November 20, 2014, the Company's Board of Directors terminated the Company's previous \$100 million stock repurchase program and approved a new \$100 million stock repurchase plan through November 20, 2015. Any stock repurchases under the new \$100 million stock repurchase program will be made through the open market at times, and in such amounts, as management deems appropriate. This program may be limited or terminated at any time without prior notice.

#### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 2.6931% for the year ended September 30, 2014. For the years ended September 30, 2014, 2013 and 2012 the Company recorded interest expense of \$1.8 million, \$3.1 million and \$2.8 million, respectively 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 September 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 September 30, 2014, the ING facility permitted up to \$705 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 September 30, 2014, the Company had \$267.4 million of borrowings outstanding under the ING facility, which had a fair value of \$267.4 million. The Company's borrowings under the ING facility bore interest at a weighted average interest rate of 2.675% for the year ended September 30, 2014. For the years ended September 30, 2014, 2013 and 2012 the Company recorded interest expense of \$13.0 million, \$7.7 million and \$5.7 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 September 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 September 30, 2014, the Company had \$50.0 million of borrowings outstanding under the Sumitomo facility which had a fair value of \$50.0 million. The Company's borrowings under the Sumitomo facility bore interest at a weighted average interest rate of 2.533% for the year ended September 30, 2014. For the years ended September 30, 2014, 2013 and 2012, the Company recorded interest expense of \$2.0 million, \$1.7 million and \$1.2 million, respectively, related to the Sumitomo facility.

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As of September 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 years ended September 30, 2014, 2013 and 2012 was \$51.5 million, \$33.5 million and \$23.2 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 of income from portfolio companies are recorded as dividend income on the ex-dividend date.

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 years ended September 30, 2014 and September 30, 2013 was as follows:

	Year ended September 30, 2014	Year ended September 30, 2013
PIK balance at beginning of period	\$ 23,934	\$ 18,431
Gross PIK interest accrued	24,323	17,532
PIK income reserves(1)	(182)	(745)
PIK interest received in cash	(7,969)	(8,514)
Loan exits and other PIK adjustments	(420)	(2,769)
<b>PIK balance at end of period</b>	<b>\$ 39,686</b>	<b>\$ 23,935</b>

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

As of September 30, 2014, there was one investment on which the Company had stopped accruing cash interest, PIK interest or OID income. As of September 30, 2013, there were no investments on which the Company had stopped accruing cash and/or PIK interest and OID income. As of September 30, 2012, the Company had stopped accruing PIK interest on one investment.

The percentages of the Company's debt investments at cost and fair value by accrual status for the years ended September 30, 2014, September 30, 2013 and September 30, 2012 were as follows:

	September 30, 2014				September 30, 2013				September 30, 2012			
	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	\$ 2,345,637	99.25%	\$ 2,339,087	99.73%	\$ 1,779,201	100.00%	\$ 1,793,463	100.00%	\$ 1,217,393	99.26%	\$ 1,237,961	99.74%
PIK non-accrual	—	—	—	—	—	—	—	—	9,096	0.74	3,236	0.26
Cash non-accrual(1)	17,752	0.75	6,356	0.27	—	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 2,363,389</b>	<b>100.00%</b>	<b>\$ 2,345,443</b>	<b>100.00%</b>	<b>\$ 1,779,201</b>	<b>100.00%</b>	<b>\$ 1,793,463</b>	<b>100.00%</b>	<b>\$ 1,226,489</b>	<b>100.00%</b>	<b>\$ 1,241,197</b>	<b>100.00%</b>

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

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The non-accrual status of the Company's portfolio investments as of September 30, 2014, September 30, 2013 and September 30, 2012 was as follows:

	September 30, 2014	September 30, 2013	September 30, 2012
Coll Materials Group LLC(1)	—	—	PIK non-accrual
Miche Bag, LLC	Cash non-accrual	—	—

(1) The Company no longer holds this investment as of September 30, 2014. See Note 9 for a discussion of the Company's recent realization events.

Income non-accrual amounts for the years ended September 30, 2014, 2013 and 2012 were as follows:

	Year ended September 30, 2014 (1)	Year ended September 30, 2013 (1)	Year ended September 30, 2012 (1)
Cash interest income	\$ 786	\$ 280	\$ 3,068
PIK interest income	181	745	4,198
OID income	250	—	96
<b>Total</b>	<b>\$ 1,217</b>	<b>\$ 1,025</b>	<b>\$ 7,362</b>

(1) Income non-accrual amounts for the year include amounts for investments that were no longer held at the end of the period.

### 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, 2014, the Company had net loss carryforwards of \$123.4 million to offset net capital gains, to the extent provided by U.S. federal income 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 \$111.6 million will not expire, of which \$2.2 million are available to offset future short-term capital gains and \$109.4 million are available to offset future long-term capital gains.

Listed below is a reconciliation of "net increase in net assets resulting from operations" to taxable income for the year ended September 30, 2014.

Net increase in net assets resulting from operations	\$ 112,532
Net unrealized depreciation on investments and secured borrowings	32,217
Book/tax difference due to loan fees	(8,279)
Book/tax difference due to organizational and deferred offering costs	(87)
Book/tax difference due to interest income on certain loans	—
Book/tax difference due to capital losses not recognized	(2,175)
Other book-tax differences	(224)
<b>Taxable/Distributable Income(1)</b>	<b>\$ 133,984</b>

(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.

As of September 30, 2014, the components of accumulated undistributed income on a tax basis were as follows:

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Undistributed ordinary income, net (RIC status)	\$	—
Realized capital losses		(123,407)
Unrealized gains, net		75

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 \$8.5 million. However, this amount has been fully offset by a valuation allowance of \$8.5 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 U.S. federal 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 U.S. federal excise tax based on distributive requirements of its taxable income on a calendar year basis. The Company did not incur a U.S. federal excise tax for calendar years 2012 and 2013 and does not expect to incur a U.S. 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 year ended September 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;

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

- 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;
- 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;
- In July 2014, the Company received a payment of \$132.2 million from Desert NDT, 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 July 2014, the Company received a payment of \$21.1 million from Genoa Healthcare 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. The Company also received an additional \$1.2 million in connection with the sale of its preferred and common equity investments, realizing a gain of \$0.8 million;

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

- In July 2014, the Company received a payment of \$27.0 million from I Drive Safely, 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 August 2014, the Company received a payment of \$13.4 million from Specialty Bakers 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 August 2014, the Company received a payment of \$10.7 million from Personable 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 the transaction;
- In September 2014, the Company received a payment of \$13.5 million from Insight Pharmaceuticals 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 September 2014, the Company received a payment of \$28.7 million from Med-Data, Incorporated 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 September 2014, the Company received a payment of \$7.6 million from CPASS Acquisition 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 September 2014, the Company received a payment of \$20.0 million from SumTotal Systems, 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;
- During the period from July 1, 2014 through September 30, 2014, the Company transferred \$160.2 million of senior secured debt investments and \$20.1 million of receivables from secured financing arrangements to SLF JV I at fair value in exchange for \$118.6 million of cash consideration, \$51.3 million of subordinated notes, \$5.7 million of LLC equity interests in SLF JV I, and \$4.7 million of receivables from unsettled transactions. The Company recorded a realized gain of \$0.3 million on this transaction; and
- During the year ended September 30, 2014, the Company received payments of \$329.6 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 \$1.4 million on these transactions.

During the year ended September 30, 2013, the Company recorded investment realization events, including the following:

- In October 2012, the Company received a cash 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 cash 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 cash 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 cash 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 cash 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;

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- 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 of \$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 the 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.
- 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;

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- 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;
- In July 2013, the Company received a cash payment of \$9.1 million from U.S. Collections, 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 July 2013, the Company received a cash payment of \$9.9 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 this transaction;
- In July 2013, the Company received a cash payment of \$5.5 million from Miche Bag, LLC in full satisfaction of all obligations related to the Term Loan A under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In July 2013, the Company received a cash payment of \$43.9 million from Tegra Medical, 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 July 2013, the Company received a cash payment of \$27.0 million from MX USA, 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 August 2013, the Company restructured its investment in Eagle Hospital Physicians, Inc. As part of the restructuring, the Company exchanged cash and its debt securities for debt and equity securities in the successor entity, Eagle Hospital Physicians, LLC, and recorded a realized loss in the amount of \$9.8 million on this transaction;
- In August 2013, the Company received a cash payment of \$43.5 million from InvestRx 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 September 2013, the Company received a cash payment of \$43.1 million from Titan Fitness, 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; and
- During the year ended September 30, 2013, the Company received cash payments of \$59.9 million in connection with partial sales of debt investments in the open market and recorded a net realized gain of \$0.4 million.

During the year ended September 30, 2012, the Company recorded investment realization events, including the following:

- In November 2011, the Company recorded a realized loss in the amount of \$18.1 million as a result of a Delaware bankruptcy court judge ruling which confirmed a Chapter 11 plan of reorganization that provided no recovery on the Company's investment in Premier Trailer Leasing, Inc.;
- In November 2011, the Company received a cash payment of \$20.2 million from IZI Medical Products, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par (plus additional fees) and the Company received an additional \$1.3 million proceeds from its equity investment, realizing a gain of \$0.8 million;
- In December 2011, the Company received a cash payment of \$23.0 million from ADAPCO, 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 December 2011, the Company received a cash payment of \$2.0 million from Best Vinyl Fence & Deck, LLC in full satisfaction of all obligations related to the Term Loan A under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;

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- In December 2011, the Company received a cash payment of \$9.2 million from Actient Pharmaceuticals 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 this transaction;
- In January 2012, the Company received a cash payment of \$18.5 million from IOS Acquisitions, 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 2012, the Company received a cash payment of \$2.1 million from O'Curran, Inc. The debt investment was exited below par and the Company recorded a realized loss in the amount of \$10.7 million on this transaction;
- In February 2012, the Company received a cash payment of \$25.0 million from Ernest Health, 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 2012, the Company received a cash payment of \$47.7 million from CRGT, 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 2012, the Company received a cash payment of \$24.5 million from Epic 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 this transaction;
- In March 2012, the Company received a cash payment of \$48.8 million from Dominion Diagnostics, 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 March 2012, the Company received a cash payment of \$5.0 million from Genoa Healthcare Holdings, LLC in full satisfaction of all obligations under the senior loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In May 2012, the Company received a cash payment of \$28.9 million from JTC Education, Inc. in full satisfaction of all obligations under the first lien loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In May 2012, the Company received a cash payment of \$6.1 million from Fitness Edge, 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 this transaction;
- In June 2012, the Company received a cash payment of \$20.2 million from Caregiver Services, 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 July 2012, the Company received a cash payment of \$1.0 million from Best Vinyl Fence & Deck, LLC. The Term Loan B debt investment was exited below par and the Company recorded a realized loss in the amount of \$3.3 million on this transaction;
- In July 2012, the Company received a cash payment of \$8.7 million from Pacific Architects & Engineers, 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 August 2012, the Company restructured its investment in Traffic Control & Safety Corp. As part of the restructuring, the Company exchanged cash and its debt and equity securities for debt and equity securities in the successor entity, Statewide Holdings, Inc., and recorded a realized loss in the amount of \$10.9 million on this transaction;
- In August 2012, the Company received a cash payment of \$18.0 million from Stackpole Powertrain International ULC 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 September 2012, the Company received a cash payment of \$0.1 million in connection with the sale of its investment in Lighting by Gregory, LLC. The investment was exited below par and the Company recorded a realized loss in the amount of \$5.3 million on this transaction;

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- In September 2012, the Company received total consideration of \$0.6 million in connection with the exit of its investment in Repechage Investments Limited. The investment was exited below par and the Company recorded a realized loss in the amount of \$3.6 million on this transaction; and
- In September 2012, the Company received a total consideration of \$1.8 million in connection with the sale of its Rail Acquisition Corp. term loan investment. The debt investment was exited below par and the Company recorded a realized loss in the amount of \$13.9 million on this transaction. The proceeds related to this sale had not yet been received as of September 30, 2012 and were recorded as receivables from unsettled transactions in the Consolidated Statement of Assets and Liabilities.

During the years ended September 30, 2014, 2013 and 2012, the Company recorded net unrealized appreciation (depreciation) on investments of \$(32.2) million, \$13.4 million and \$56.0 million, respectively. For the year ended September 30, 2014, the Company's net unrealized depreciation consisted of \$31.9 million of net unrealized depreciation on debt investments and \$3.4 million of net reclassifications to realized gains on debt and equity investments (resulting in unrealized depreciation), offset by \$3.1 million of net unrealized appreciation on equity investments.

For the year ended September 30, 2013, the Company's net unrealized appreciation consisted of \$16.4 million of net reclassifications to realized losses on debt and equity investments (resulting in unrealized appreciation) and \$10.9 million of net unrealized appreciation on equity investments, offset by \$13.9 million of net unrealized depreciation on debt investments.

For the year ended September 30, 2012, the Company's net unrealized appreciation consisted of \$66.6 million of net reclassifications to realized losses on debt and equity investments (resulting in unrealized appreciation), \$0.1 million of net unrealized appreciation on equity investments, offset by \$10.7 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 year ended September 30, 2014, the Investment Adviser voluntarily waived a portion of the base management fee, which resulted in aggregate waivers of \$0.7 million.

For the years ended September 30, 2014, 2013 and 2012, base management fees (net of waivers) were \$51.0 million, \$33.4 million and \$23.8 million, respectively. At September 30, 2014 and September 30, 2013, the Company had liabilities on its Consolidated Statements of Assets and Liabilities in the amounts of \$12.4 million and \$9.6 million, respectively, 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

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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 years ended September 30, 2014, 2013 and 2012, incentive fees were \$35.5 million, \$28.2 million and \$22.0 million, respectively. At September 30, 2014 and September 30, 2013, the Company had liabilities on its Consolidated Statements of Assets and Liabilities in the amounts of \$9.3 million and \$7.2 million, respectively, reflecting the unpaid portion of the incentive fee payable to the Investment Adviser.

### ***Indemnification***

The investment advisory agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of their respective duties or by reason of the reckless disregard of their respective duties and obligations, the Company's Investment Adviser and its officers, managers, agents, 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., which has since converted into FSC CT LLC ("FSC CT"), a wholly-owned subsidiary of the Company's investment adviser, under substantially similar terms as its prior administration agreement with FSC, Inc. Under the administration agreement with FSC CT, administrative services are provided to the Company, including its principal executive offices and equipment, and clerical, bookkeeping and recordkeeping services at such facilities. Under the administration agreement, FSC CT 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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 at market rates 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. FSC CT may also provide, on the Company's behalf, managerial assistance to the Company's portfolio companies. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For the year ended September 30, 2014, the Company accrued administrative expenses of \$5.7 million, including \$2.9 million of general and administrative expenses, which are due to FSC CT. At September 30, 2014, \$2.5 million was included in Due to FSC CT in the Consolidated Statement of Assets and Liabilities.

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

**Note 12. Financial Highlights**

	Year Ended September 30, 2014	Year Ended September 30, 2013	Year Ended September 30, 2012	Year Ended September 30, 2011	Year Ended September 30, 2010
Net asset value at beginning of period	\$9.85	\$9.92	\$10.07	\$10.43	\$10.84
Net investment income (4)	1.00	1.04	1.11	1.05	0.95
Net unrealized appreciation (depreciation) on investments and secured borrowings (4)	(0.23)	0.12	0.70	(0.10)	(0.04)
Net realized gain (loss) on investments and interest rate swap (4)	0.02	(0.24)	(0.81)	(0.47)	(0.42)
Distributions of ordinary income (4)	(0.94)	(0.90)	(1.04)	(1.20)	(0.96)
Tax return of capital (4)	(0.06)	(0.25)	(0.14)	(0.06)	—
Net issuance of common stock (4)	—	0.16	0.03	0.42	0.06
<b>Net asset value at end of period</b>	<b>\$9.64</b>	<b>\$9.85</b>	<b>\$9.92</b>	<b>\$10.07</b>	<b>\$10.43</b>
Per share market value at beginning of period	\$10.29	\$10.98	\$9.32	\$11.14	\$10.93
Per share market value at end of period	\$9.18	\$10.29	\$10.98	\$9.32	\$11.14
Total return (1)	(0.97)%	4.89%	32.59%	(6.76)%	11.22%
Common shares outstanding at beginning of period	139,041	91,048	72,376	54,550	37,879
Common shares outstanding at end of period	153,340	139,041	91,048	72,376	54,550
Net assets at beginning of period	\$1,368,872	\$903,570	\$728,627	\$569,172	\$410,556
Net assets at end of period	\$1,478,475	\$1,368,872	\$903,570	\$728,627	\$569,172
Average net assets (2)	\$1,393,635	\$1,095,225	\$790,921	\$677,354	\$479,004
Ratio of net investment income to average net assets	10.23%	10.50%	11.13%	9.91%	8.98%
Ratio of total expenses to average net assets (excluding base management fee waiver)	10.91%	9.95%	9.95%	8.79%	5.74%
Base management fee waiver effect	(0.05)%	(0.21)%	—%	—%	—%
Ratio of net expenses to average net assets	10.86%	9.74%	9.95%	8.79%	5.74%
Ratio of portfolio turnover to average investments at fair value	25.50%	38.22%	29.74%	7.26%	2.24%
Weighted average outstanding debt (3)	\$1,110,021	\$597,596	\$421,366	\$247,549	\$22,592
Average debt per share (4)	\$7.82	\$5.42	\$5.30	\$3.86	\$0.50

- (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.
- (2) Calculated based upon the weighted average net assets for the period.
- (3) Calculated based upon the weighted average of loans payable for the period.
- (4) 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 September 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 years ended September 30, 2014, 2013 and 2012, the Company recorded interest expense of \$6.8 million, \$6.8 million, and \$7.1 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 years ended September 30, 2014 or September 30, 2013. During the year ended September 30, 2012, the Company repurchased \$20.0 million principal of the Convertible Notes in the open market for an aggregate purchase price of \$17.9 million and surrendered them to the Trustee for cancellation. The Company recorded a gain on the extinguishment of these Convertible Notes in the amount of the difference between the reacquisition price and the net carrying amount, net of the proportionate amount of unamortized debt issuance costs. The net gain recorded was \$1.6 million.

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

As of September 30, 2014, there were \$115.0 million Convertible Notes outstanding, which had a fair value of \$119.0 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 \$244.4 million after deducting original issue discount of \$1.4 million, underwriting commissions and discounts of \$3.7 million and offering costs of \$0.5 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 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 year ended September 30, 2014, the Company did not repurchase any of the 2019 Notes in the open market.

For the year ended September 30, 2014, the Company recorded interest expense of \$7.8 million related to the 2019 Notes.

As of September 30, 2014, there were \$250.0 million 2019 Notes outstanding, which had a fair value of \$258.7 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 years ended September 30, 2014 and 2013, the Company did not repurchase any of the 2024 Notes in the open market.

For the years ended September 30, 2014 and 2013, the Company recorded interest expense of \$4.6 million and \$4.4 million, respectively, related to the 2024 Notes.

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

As of September 30, 2014, there were \$75.0 million 2024 Notes outstanding, which had a fair value of \$73.7 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 years ended September 30, 2014 and 2013, the Company did not repurchase any of the 2028 Notes in the open market.

For the years ended September 30, 2014 and 2013, the Company recorded interest expense of \$5.5 million and \$2.7 million respectively, related to the 2028 Notes.

As of September 30, 2014, there were \$86.3 million 2028 Notes outstanding, which had a fair value of \$84.2 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 September 30, 2014, secured borrowings at fair value totaled \$84.8 million and the fair value of the investments that are associated with these secured borrowings was \$154.0 million. These secured borrowings were the result of the Company's completion of partial loan sales of two senior secured debt investments totaling \$87.8 million during the year ended September 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 year ended September 30, 2014, there were \$3.0 million of repayments on secured borrowings.

As of September 30, 2014, there were \$84.8 million of secured borrowings outstanding, which had a fair value of \$84.8 million.

For the year ended September 30, 2014, the Company recorded interest expense of \$1.3 million related its secured borrowings.

#### **Note 16. Subsequent Events**

The Company's management evaluated subsequent events through the date of issuance of these 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 year ended September 30, 2014.

**Fifth Street Finance Corp.**  
(in thousands, except share and per share amounts, percentages and as otherwise indicated)  
**Schedule of Investments in and Advances to Affiliates Year ended September 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 September 30, 2014
<b>Control Investments</b>					
<b>Traffic Solutions Holdings, Inc.</b>					
Second Lien Term Loan, 12% cash 3% PIK due 12/31/2016	\$ 2,671	\$ 14,499	\$ 921	\$ (515)	\$ 14,905
LC Facility, 8.5% cash due 12/31/2016	199	—	8	(8)	—
746,114 Series A Preferred Units	1,673	15,891	1,673	—	17,564
746,114 Common Stock Units	—	10,529	762	(5,178)	6,113
<b>TransTrade Operators, Inc.</b>					
First Lien Term Loan, 11% cash 3% PIK due 5/31/2016	1,946	13,524	1,948	(4,363)	11,109
First Lien Revolver, 8% cash due 5/31/2016	56	—	—	—	—
596.67 Series A Common Units in TransTrade Holdings LLC	—	—	—	—	—
1,403,922 Series A Preferred Units in TransTrade Holdings LLC	—	—	2,000	(2,000)	—
5,200,000 Preferred Units in TransTrade Holding LLC	—	539	2,167	(2,706)	—
<b>HFG Holdings, LLC</b>					
First Lien Term Loan, 6% cash 4% PIK due 6/10/2019	9,955	93,297	4,150	(512)	96,935
860,000 Class A Units	—	22,346	9,440	—	31,786
<b>First Star Aviation, LLC</b>					
First Lien Term Loan, 9% cash 3% PIK due 1/9/2018	6,501	19,211	16,399	(19,054)	16,556
10,104,401 Common Units	—	5,264	8,671	(3,607)	10,328
<b>First Star Speir Aviation 1 Limited</b>					
First Lien Term Loan, 9% cash due 12/15/2015	5,069	—	64,639	(3,484)	61,155
2,058,411.64 Common Units	—	—	3,572	—	3,572
<b>First Star Bermuda Aviation Limited</b>					
First Lien Term Loan, 9% cash 3% PIK due 8/19/2018	3,210	—	38,121	(2,515)	35,606
4,293,736 Common Units	—	—	5,839	—	5,839
<b>Eagle Hospital Physicians, LLC</b>					
First Lien Term Loan A, 8% PIK due 8/1/2016	939	11,149	942	(167)	11,924
First Lien Term Loan B, 8.1% PIK due 8/1/2016	260	3,050	260	(48)	3,262
First Lien Revolver, 8% cash due 8/1/2016	195	—	2,911	(64)	2,847
4,100,000 Class A Common Units	—	6,203	87	(552)	5,738
<b>Senior Loan Fund JV I, LLC</b>					
Subordinated Note, LIBOR+8% cash due 5/2/2021	992	—	53,984	—	53,984
87.5% equity interest (5)	1,312	—	5,998	(349)	5,649
<b>Total Control Investments</b>	<b>\$ 34,978</b>	<b>\$ 215,502</b>	<b>\$ 224,492</b>	<b>\$ (45,122)</b>	<b>\$ 394,872</b>
<b>Affiliate Investments</b>					
<b>Caregiver Services, Inc.</b>					
Second Lien Term Loan, 10% cash 2% PIK due 6/30/2019	1,053	—	9,353	(291)	9,062
1,080,399 shares of Series A Preferred Stock	—	3,256	549	—	3,805
<b>AmBath/ReBath Holdings, Inc.</b>					
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2016	248	3,272	36	(2,086)	1,222
First Lien Term Loan B, 12.5% cash 2.5% PIK due 4/30/2016	3,979	25,317	1,044	(329)	26,032
4,668,788 shares of Preferred Stock	—	87	640	(84)	643
<b>Total Affiliate Investments</b>	<b>\$ 5,280</b>	<b>\$ 31,932</b>	<b>\$ 11,622</b>	<b>\$ (2,790)</b>	<b>\$ 40,764</b>
<b>Total Control &amp; Affiliate Investments</b>	<b>\$ 40,258</b>	<b>\$ 247,434</b>	<b>\$ 236,114</b>	<b>\$ (47,912)</b>	<b>\$ 435,636</b>

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.

- (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.
- (5) Together with Trinity Universal Insurance, the Company co-invests through SLF JV I. SLF JV I is capitalized as transactions are completed and all portfolio and investment decisions in respect to SLF JV I must be approved by the SLF JV I investment committee consisting of representatives of the Company and Kemper (with approval from a representative of each required).

**Fifth Street Finance Corp.**  
(in thousands, except share and per share amounts, percentages and as otherwise indicated)  
**Schedule of Investments in and Advances to Affiliates**  
Year ended September 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 September 30, 2013
<b>Control Investments</b>					
<b>Coll Materials Group LLC</b>					
Second Lien Term Loan A, 12% cash due 11/1/2014	\$ 230	\$ 1,238	\$ —	\$ (1,238)	\$ —
Second Lien Term Loan B, 14% PIK due 11/1/2014	58	1,999	—	(1,999)	—
50% interest in CD HOLDCO, LLC	—	—	—	—	—
<b>Traffic Solutions Holdings, Inc. (formerly Statewide Holdings, Inc.)</b>					
First Lien Term Loan A, L+8.5% (1.25% floor) cash due 8/10/2015	1,326	15,023	524	(15,547)	—
Second Lien Term Loan, 12% cash 3% PIK due 12/31/2016	2,283	14,068	607	(176)	14,499
First Lien Revolver, L+8.5% (1.25% floor) cash due 8/10/2015	35	—	146	(146)	—
LC Facility, 8.5% cash due 12/31/2016	341	—	14	(14)	—
746,114 Series A Preferred Units	778	14,377	1,514	—	15,891
746,114 Common Stock Units	—	6,535	4,920	(926)	10,529
<b>TransTrade Operators, Inc.</b>					
First Lien Term Loan, 11% cash 3% PIK due 5/31/2016	655	—	13,666	(142)	13,524
596.67 Series A Common Units in TransTrade Holding LLC	—	—	—	—	—
3,033,333.33 Preferred Units in TransTrade Holding LLC	—	—	3,033	(2,494)	539
<b>HFG Holdings, LLC</b>					
First Lien Term Loan, 6% cash 4% PIK due 6/10/2019	5,837	—	96,297	(3,000)	93,297
860,000 Class A Units	—	—	22,347	(1)	22,346
<b>First Star Aviation, LLC</b>					
First Lien Term Loan, 9% cash 3% PIK due 1/9/2018	874	—	19,742	(531)	19,211
5,264,207 Common Units	—	—	5,264	—	5,264
<b>Eagle Hospital Physicians, LLC</b>					
First Lien Term Loan A, 8% PIK due 8/1/2016	150	—	11,150	(1)	11,149
First Lien Term Loan B, 8.1% PIK due 8/1/2016	41	—	3,050	—	3,050
First Lien Revolver, 8% cash due 8/1/2016	41	—	—	—	—
4,100,000 Class A Common Units	—	—	6,203	—	6,203
<b>Total Control Investments</b>	<b>\$ 12,649</b>	<b>\$ 53,240</b>	<b>\$ 188,477</b>	<b>\$ (26,215)</b>	<b>\$ 215,502</b>
<b>Affiliate Investments</b>					
<b>Caregiver Services, Inc.</b>					
1,080,399 shares of Series A Preferred Stock	—	2,924	350	(18)	3,256
<b>AmBath/ReBath Holdings, Inc.</b>					
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2016	438	4,268	112	(1,108)	3,272
First Lien Term Loan B, 12.5% cash 2.5% PIK due 4/30/2016	3,806	23,995	1,415	(93)	25,317
4,668,788 shares of Preferred Stock	—	—	87	—	87
<b>Total Affiliate Investments</b>	<b>\$ 4,244</b>	<b>\$ 31,187</b>	<b>\$ 1,964</b>	<b>\$ (1,219)</b>	<b>\$ 31,932</b>
<b>Total Control &amp; Affiliate Investments</b>	<b>\$ 16,893</b>	<b>\$ 84,427</b>	<b>\$ 190,441</b>	<b>\$ (27,434)</b>	<b>\$ 247,434</b>

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.

- (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.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures****(a) Evaluation of Disclosure Controls and Procedures**

As of September 30, 2014 (the end of the period covered by this report), management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at the end of such period, our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

**(b) Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rules 13a-15(f), and for performing an assessment of the effectiveness of internal control over financial reporting as of September 30, 2014. Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our Board of Directors, management and other personnel, 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. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2014 based upon the criteria set forth in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that our internal control over financial reporting was effective as of September 30, 2014.

**(c) Report of the Independent Registered Public Accounting Firm**

The effectiveness of our internal control over financial reporting as of September 30, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

**(d) Changes in Internal Controls Over Financial Reporting**

There have been no changes in our internal control over financing reporting that occurred during the fourth fiscal quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

We will file a definitive Proxy Statement for our 2015 Annual Meeting of Stockholders with the Securities and Exchange Commission, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of our definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by Item 10 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

**Item 11. Executive Compensation**

The information required by Item 11 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by Item 12 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by Item 13 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

**Item 14. Principal Accountant Fees and Services**

The information required by Item 14 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

**PART IV****Item 15. Exhibits and Financial Statement Schedules**

The following documents are filed or incorporated by reference as part of this Annual Report:

**1. Consolidated Financial Statements**

	<u>Page</u>
Reports of Independent Registered Public Accounting Firms	<a href="#">85</a>
Consolidated Statements of Assets and Liabilities as of September 30, 2014 and 2013	<a href="#">86</a>
Consolidated Statements of Operations for the Years Ended September 30, 2014, 2013 and 2012	<a href="#">87</a>
Consolidated Statements of Changes in Net Assets for the Years Ended September 30, 2014, 2013 and 2012	<a href="#">88</a>
Consolidated Statements of Cash Flows for the Years Ended September 30, 2014, 2013 and 2012	<a href="#">89</a>
Consolidated Schedule of Investments as of September 30, 2014	<a href="#">90</a>
Consolidated Schedule of Investments as of September 30, 2013	<a href="#">102</a>
Notes to Consolidated Financial Statements	<a href="#">112</a>

## 2. Financial Statement Schedule

The following financial statement schedule is filed herewith:

Schedule 12-14 — Investments in and advances to affiliates

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## 3. Exhibits required to be filed by Item 601 of Regulation S-K

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC:

- 3.1 Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 filed with Registrant's Form 8-A (File No. 001-33901) filed on January 2, 2008).
- 3.2 Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 filed with Registrant's Form 8-A (File No. 001-33901) filed on January 2, 2008).
- 3.3 Certificate of Amendment to the Registrant's Restated Certificate of Incorporation (Incorporated by reference to Exhibit(a)(2) filed with Registrant's Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008).
- 3.4 Certificate of Correction to the Certificate of Amendment to the Registrant's Restated Certificate of Incorporation (Incorporated by reference to Exhibit(a)(3) filed with Registrant's Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008).
- 3.5 Certificate of Amendment to Registrant's Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 filed with Registrant's Quarterly Report on Form 10-Q (File No. 001-33901) filed on May 5, 2010).
- 3.6 Certificate of Amendment to Registrant's Certificate of Incorporation (Incorporated by reference to Exhibit (a)(5) filed with the Registrant's Registration Statement on Form N-2 (File No. 333-180267) filed on April 2, 2013).
- 4.1 Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 filed with Registrant's Form 8-A (File No. 001-33901) filed on January 2, 2008).
- 4.2 Indenture, dated April 12, 2011, relating to the 5.375% Convertible Notes due 2016, between Registrant and Deutsche Bank Trust Company Americas, as trustee (Incorporated by reference to Exhibit 4.1 filed with Registrant's Form 8-K (File No. 001-33901) filed on April 12, 2011).
- 4.3 Form of 5.375% Convertible Notes due 2016 (Incorporated by reference to Exhibit 4.2 filed with Registrant's Form 8-K (File No. 001-33901) filed on April 12, 2011).
- 4.4 Indenture, dated April 30, 2012, between Registrant and Deutsche Bank Trust Company Americas, as trustee (Incorporated by reference to Exhibit(d)(4) filed with Registrant's Registration Statement on Form N-2 (File No. 333-180267) filed on July 27, 2012).
- 4.5 Form of First Supplemental Indenture relating to the 5.875% Notes due 2024, between the Registrant and Deutsche Bank Trust Company Americas, as trustee (including Form of 5.875% Notes due 2024) (Incorporated by reference to Exhibit (d) (5) filed with the Registrant's Registration Statement on Form N-2 (File No. 333-180267) filed on October 18, 2012).
- 4.6 Form of Second Supplemental Indenture relating to the 6.125% Notes due 2028, between the Registrant and Deutsche Bank Trust Company Americas, as trustee (including Form of 6.125% Notes due 2028) (Incorporated by reference to Exhibit (d)(7) filed with the Registrant's Registration Statement on Form N-2 (File No. 333-180267) filed on April 2, 2013).
- 4.7 Form of Third Supplemental Indenture relating to the 4.875% Notes due 2019, between the Registrant and Deutsche Bank Trust Company Americas, as trustee (including Form of 4.875% Notes due 2019) (Incorporated by reference to Exhibit (d) (6) filed with the Registrant's Registration Statement on Form N-2 (File No. 333-192770) filed on February 10, 2014).
- 4.8 Statement of Eligibility of Trustee on Form T-1 (Incorporated by reference to Exhibit (d)(6) filed with the Registrant's Registration Statement on Form N-2 (File No. 333-192770) filed on February 10, 2014).

- 10.1 Second Amended and Restated Investment Advisory Agreement by and between Registrant and Fifth Street Management LLC (Incorporated by reference to Exhibit 10.5 filed with Registrant's Quarterly Report on Form 10-Q (File No. 001-33901) filed on May 4, 2011).
- 10.2 Amended and Restated Administration Agreement by and between Registrant and FSC, Inc. (Incorporated by reference to Exhibit 10.6 filed with Registrant's Quarterly Report on Form 10-Q (File No. 001-33901) filed on May 4, 2011).
- 10.3 Form of License Agreement by and between Registrant and Fifth Street Capital LLC (Incorporated by reference to Exhibit(k)(2) filed with Registrant's Registration Statement on Form N-2 (File No. 333-146743) filed on May 8, 2008).
- 10.4 Custody Agreement (Incorporated by reference to Exhibit 10.1 filed with Registrant's Form 10-Q (File No. 001-33901) filed on January 31, 2011).
- 10.5 Amended and Restated Dividend Reinvestment Plan (Incorporated by reference to Exhibit(10.1) filed with Registrant's Form 8-K (File No. 001-33901) filed on October 28, 2010).
- 10.6 Purchase and Sale Agreement by and between Registrant and Fifth Street Funding, LLC, dated as of November 16, 2009 (Incorporated by reference to Exhibit 10.7 filed with Registrant's Annual Report on Form 10-K (File No. 001-33901) filed on December 9, 2009).
- 10.7 Amendment No. 1 to the Purchase and Sale Agreement by and between Registrant and Fifth Street Funding, LLC, dated as of November 30, 2011 (Incorporated by reference to Exhibit 10.2 filed with Registrant's Form 8-K (File No. 001-33901) filed on December 5, 2011).
- 10.8 Pledge Agreement by and between Registrant and Wells Fargo Bank, N.A., dated as of November 16, 2009 (Incorporated by reference to Exhibit 10.8 filed with Registrant's Annual Report on Form 10-K (File No. 001-33901) filed on December 9, 2009).
- 10.9 Omnibus Amendment No. 1 relating to Registrant's credit facility with Wells Fargo Bank, N.A., dated as of May 26, 2010 (Incorporated by reference to Exhibit(k)(6) filed with Registrant's Registration Statement on Form N-2 (File No. 333-166012) filed on June 4, 2010).
- 10.10 Amended and Restated Loan and Servicing Agreement among Fifth Street Funding, LLC, Registrant, Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A., dated as of November 5, 2010 (Incorporated by reference to Exhibit 10.6 filed with Registrant's Annual Report on Form 10-K (File No. 001-33901) filed on December 2, 2010).
- 10.11 Amendment No. 1 to the Amended and Restated Loan and Servicing Agreement among Registrant, Fifth Street Funding, LLC, Wells Fargo Securities, LLC and Wells Fargo Bank, N.A., dated as of February 25, 2011. (Incorporated by reference to Exhibit(k)(4) filed with Registrant's Registration Statement on Form N-2 (File No. 333-166012) filed on March 30, 2011).
- 10.12 Amendment No. 3 to the Amended and Restated Loan and Servicing Agreement among Registrant, Fifth Street Funding, LLC, Wells Fargo Securities, LLC and Wells Fargo Bank, N.A., dated as of November 30, 2011. (Incorporated by reference to Exhibit 10.1 filed with Registrant's Form 8-K (File No. 001-33901) filed on December 5, 2011).
- 10.13 Amendment No. 4 to the Amended and Restated Loan and Servicing Agreement among Registrant, Fifth Street Funding, LLC, Wells Fargo Securities, LLC and Wells Fargo Bank, N.A., dated as of April 23, 2012 (Incorporated by reference to Exhibit 10.1 filed with Registrant's Form 8-K (File No. 001-33901) filed on April 25, 2012).
- 10.14 Amendment No. 6 to the Amended and Restated Loan and Servicing Agreement among Registrant, Fifth Street Funding, LLC, Wells Fargo Securities, LLC and Wells Fargo Bank, N.A., dated as of June 20, 2013 (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Form 8-K (File No. 001-33901) filed on June 24, 2013).
- 10.15 Guarantee, Pledge and Security Agreement among Registrant, FSFC Holdings, Inc., and ING Capital LLC, dated as of May 27, 2010 (Incorporated by reference to Exhibit(k)(8) filed with Registrant's Registration Statement on Form N-2 (File No. 333-166012) filed on June 4, 2010).
- 10.16 Amended and Restated Senior Secured Revolving Credit Agreement among Registrant, ING Capital LLC, Royal Bank of Canada, UBS Loan Finance, LLC, Morgan Stanley Bank, N.A., Key Equipment Finance Inc., Deutsche Bank Trust Company Americas and Patriot National Bank, dated as of February 22, 2011 (Incorporated by reference to Exhibit(k)(8) filed with Registrant's Registration Statement on Form N-2 (File No. 333-166012) filed on March 30, 2011).
- 10.17 Amendment and Reaffirmation Agreement among Registrant, FSFC Holdings, Inc., Fifth Street Fund of Funds LLC and ING Capital LLC, dated as of February 22, 2011 (Incorporated by reference to Exhibit(k)(10) filed with Registrant's Registration Statement on Form N-2 (File No. 333-166012) filed on March 30, 2011).

- 10.18 Amendment No. 1 to Amended and Restated Senior Secured Revolving Credit Agreement and Amendment No. 2 to the Guarantee, Pledge and Security Agreement, among Registrant, FSFC Holdings, Inc., Fifth Street Fund of Funds LLC, ING Capital LLC, Royal Bank of Canada, UBS Loan Finance LLC, Morgan Stanley Bank, N.A., Key Equipment Finance, Inc., Deutsche Bank Trust Company Americas and Patriot National Bank, dated as of July 8, 2011 (Incorporated by reference to Exhibit 10.1 filed with Registrant's Form 8-K (File No. 001-33901) filed on July 14, 2011).
- 10.19 Amendment No. 2 to Amended and Restated Senior Secured Revolving Credit Agreement among Registrant, FSFC Holdings, Inc., Fifth Street Fund of Funds LLC, ING Capital LLC, Key Equipment Finance, Inc. and UBS Loan Finance LLC, dated as of November 29, 2011 (Incorporated by reference to Exhibit 10.15 filed with Registrant's Annual Report on Form 10-K (File No. 814-00755) filed on November 29, 2011).
- 10.20 Amendment No. 3 to Amended and Restated Senior Secured Revolving Credit Agreement among Registrant, FSFC Holdings, Inc., Fifth Street Fund of Funds LLC, ING Capital LLC, and the lenders party thereto, dated as of February 29, 2012 (Incorporated by reference to Exhibit 10.1 filed with Registrant's Form 8-K (File No. 001-33901) filed on March 2, 2012).
- 10.21 Amendment No. 4 to Amended and Restated Senior Secured Revolving Credit Agreement among the Registrant, FSFC Holdings, Inc., Fifth Street Fund of Funds LLC, ING Capital LLC, and the lenders party thereto, dated as of November 30, 2012 (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Form 8-K (File No. 001-33901) filed on December 4, 2012).
- 10.22 Amendment No. 5 to Amended and Restated Senior Secured Revolving Credit Agreement among the Registrant, FSFC Holdings, Inc., Fifth Street Fund of Funds LLC, ING Capital LLC, and the lenders party thereto, dated as of August 6, 2013 (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Form 10-Q (File No. 814-00755) filed on August 7, 2013).
- 10.23 Amendment No. 6 to Amended and Restated Senior Secured Revolving Credit Agreement among the Registrant, FSFC Holdings, Inc., Fifth Street Fund of Funds LLC, ING Capital LLC, and the lenders party thereto, dated as of September 13, 2013 (Incorporated by reference to Exhibit(k)(20) filed with Registrant's Registration Statement on Form N-2 (File No. 333-186101) filed on September 26, 2013).
- 10.24 Form of Incremental Assumption Agreement among Registrant, FSFC Holdings, Inc., Fifth Street Fund of Funds LLC, ING Capital LLC and Increasing/Assuming Lender (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Form 8-K (File No. 001-33901) filed on October 24, 2013).
- 10.25 Waiver Letter among Registrant, FSFC Holdings, Inc., Fifth Street Fund of Funds LLC, ING Capital LLC, Royal Bank of Canada and Key Equipment Finance, Inc., dated as of August 3, 2011 (Incorporated by reference to Exhibit 10.17 filed with Registrant's Annual Report on Form 10-K (File No. 814-00755) filed on November 29, 2011).
- 10.26 Loan and Servicing Agreement among Registrant, Fifth Street Funding II, LLC and Sumitomo Mitsui Banking Corporation, dated as of September 16, 2011 (Incorporated by reference to Exhibit 10.18 filed with Registrant's Annual Report on Form 10-K (File No. 814-00755) filed on November 29, 2011).
- 10.27 Amendment No. 1 and Waiver to the Loan and Servicing Agreement among Registrant, Fifth Street Funding II, LLC and Sumitomo Mitsui Banking Corporation, dated as of March 16, 2012 (Incorporated by reference to Exhibit 10.2 filed with Registrant's Form 10-Q (File No. 001-33901) filed on May 8, 2012).
- 10.28 Amendment No. 2 to the Loan and Servicing Agreement among Registrant, Fifth Street Funding II, LLC and Sumitomo Mitsui Banking Corporation, dated as of October 30, 2013 (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Form 8-K (File No. 001-33901) filed on October 24, 2013).
- 10.29 Purchase and Sale Agreement by and between Registrant and Fifth Street Funding II, LLC, dated as of September 16, 2011 (Incorporated by reference to Exhibit 10.19 filed with Registrant's Annual Report on Form 10-K (File No. 814-00755) filed on November 29, 2011).
- 10.30 Senior Loan Fund JVI, LLC Limited Liability Company Agreement, dated May 2, 2014, by and between Fifth Street Finance Corp. and Trinity Universal Insurance Company (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Form 8-K (File No. 001-33901) filed on May 7, 2014).
- 14.1 Joint Code of Ethics of the Registrant and Fifth Street Senior Floating Rate Corp. (Incorporated by reference to Exhibit(r) (1) filed with Registrant's Registration Statement on Form N-2 (File No. 333-186101) filed on September 26, 2013).

- 14.2 Code of Ethics of Fifth Street Management LLC (Incorporated by reference to Exhibit(r)(2) filed with Registrant's Registration Statement on Form N-2 (File No. 333-159720) filed on June 4, 2009).
- 21 Subsidiaries of Registrant and jurisdiction of incorporation/organizations:  
Fifth Street Funding, LLC — Delaware  
Fifth Street Funding II, LLC — Delaware  
Fifth Street Fund of Funds LLC — Delaware  
Fifth Street Mezzanine Partners IV, L.P. — Delaware  
Fifth Street Mezzanine Partners V, L.P. — Delaware  
FSMP IV GP, LLC — Delaware  
FSMP V GP, LLC — Delaware  
FSFC Holdings, Inc. — Delaware
- 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 Section 13 or 15(d) 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.

By: /s/ Leonard M. Tannenbaum  
Leonard M. Tannenbaum  
Chief Executive Officer

By: /s/ Richard A. Petrocelli  
Richard A. Petrocelli  
Chief Financial Officer

Date: November 28, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ LEONARD M. TANNENBAUM</u> Leonard M. Tannenbaum	Chief Executive Officer (principal executive officer)	November 28, 2014
<u>/s/ RICHARD A. PETROCELLI</u> Richard A. Petrocelli	Chief Financial Officer (principal financial officer and principal accounting officer)	November 28, 2014
<u>/s/ BERNARD D. BERMAN</u> Bernard D. Berman	Chairman	November 28, 2014
<u>/s/ TODD G. OWENS</u> Todd G. Owens	President	November 28, 2014
<u>/s/ BRIAN S. DUNN</u> Brian S. Dunn	Director	November 28, 2014
<u>/s/ RICHARD P. DUTKIEWICZ</u> Richard P. Dutkiewicz	Director	November 28, 2014
<u>/s/ BYRON J. HANEY</u> Byron J. Haney	Director	November 28, 2014
<u>/s/ DOUGLAS F. RAY</u> Douglas F. Ray	Director	November 28, 2014
<u>/s/ JAMES CASTRO-BLANCO</u> James Castro-Blanco	Director	November 28, 2014

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

1. I have reviewed this annual report on Form 10-K for the year ended September 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 period 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 consolidated 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 fourth fiscal quarter in the case of an annual 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 28<sup>th</sup> day of November, 2014.

By: /s/ Leonard M. Tannenbaum

Leonard M. Tannenbaum  
Chief Executive Officer



**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 annual report on Form 10-K for the year ended **September 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

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Name: Leonard M. Tannenbaum

Date: November 28, 2014

**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 annual report on Form 10-K for the year ended **September 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

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Name: Richard A. Petrocelli

Date: November 28, 2014