UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2009

OR

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

For the transition period from: __________ to __________

Commission File Number: 01-33901

Fifth Street Finance Corp.
(Exact name of registrant as specified in its charter)

Delaware	**26-1219283**
(State or jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
10 Bank Street, 12th Floor White Plains, NY	**10606**
(Address of principal executive office)	*(Zip Code)*

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(914) 286-6800

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	New York Stock Exchange

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

None

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 o

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

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

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

The registrant had 44,923,407 shares of common stock outstanding as of January 31, 2010.

FIFTH STREET FINANCE CORP.

FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2009

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PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Fifth Street Finance Corp.
Consolidated Balance Sheets
(unaudited)

	December 31, 2009	September 30, 2009
Assets		
Investments at fair value:		
Control investments (cost 12/31/09: $12,045,029; cost 9/30/09: $12,045,029)	$ 7,684,329	$ 5,691,107
Affiliate investments (cost 12/31/09: $62,625,551; cost 9/30/09: $71,212,035)	56,819,541	64,748,560
Non-control/Non-affiliate investments (cost 12/31/09: $388,644,812; cost 9/30/09: $243,975,221)	372,189,670	229,171,470
Total investments at fair value	**436,693,540**	**299,611,137**
Cash and cash equivalents	11,782,316	113,205,287
Interest and fees receivable	3,442,616	2,866,991
Due from portfolio company	181,593	154,324
Prepaid expenses and other assets	1,034,028	49,609
Deferred offering costs	64,500	—
Total Assets	**$453,198,593**	**$415,887,348**
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 275,496	$ 723,856
Base management fee payable	1,539,936	1,552,160
Incentive fee payable	2,087,264	1,944,263
Due to FSC, Inc.	728,015	703,900
Interest payable	49,513	—
Payments received in advance from portfolio companies	249,018	190,378
Offering costs payable	12,000	216,720
Loan payable	38,000,000	—
Total Liabilities	**42,941,242**	**5,331,277**
Stockholders' Equity:		
Preferred stock, $0.01 par value, 200,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value, 49,800,000 shares authorized, 37,923,407 and 37,878,987 shares issued and outstanding at December 31, 2009 and September 30, 2009	379,234	378,790
Additional paid-in-capital	440,463,407	439,989,597
Net unrealized depreciation on investments	(26,621,853)	(27,621,147)
Net realized loss on investments	(14,204,713)	(14,310,713)
Accumulated undistributed net investment income	10,241,276	12,119,544
Total Stockholders' Equity	**410,257,351**	**410,556,071**
Total Liabilities and Stockholders' Equity	**$453,198,593**	**$415,887,348**

See notes to Consolidated Financial Statements.

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

	Three months ended December 31, 2009	Three months ended December 31, 2008
Interest income:		
Control investments	$ 224,746	$ —
Affiliate investments	2,259,501	2,718,486
Non-control/Non-affiliate investments	7,673,326	6,871,305
Interest on cash and cash equivalents	195,662	79,190
Total interest income	**10,353,235**	**9,668,981**
PIK interest income:		
Control investments	—	—
Affiliate investments	331,616	353,037
Non-control/Non-affiliate investments	1,630,158	1,463,748
Total PIK interest income	**1,961,774**	**1,816,785**
Fee income:		
Control investments	—	—
Affiliate investments	253,777	446,913
Non-control/Non-affiliate investments	661,364	616,610
Total fee income	**915,141**	**1,063,523**
Dividend and other income:		
Control investments	—	—
Affiliate investments	—	—
Non-control/Non-affiliate investments	11,333	—
Other income	—	35,396
Total dividend and other income	**11,333**	**35,396**
Total Investment Income	**13,241,483**	**12,584,685**
Expenses:		
Base management fee	2,267,003	1,370,675
Incentive fee	2,087,264	2,052,595
Professional fees	301,605	385,943
Board of Directors fees	38,000	39,250
Interest expense	91,179	40,158
Administrator expense	251,818	180,430
General and administrative expenses	582,623	305,252
Total expenses	**5,619,492**	**4,374,303**
Base management fee waived	(727,067)	—
Net Expenses	**4,892,425**	**4,374,303**
Net Investment Income	**8,349,058**	**8,210,382**
Unrealized appreciation (depreciation) on investments:		
Control investments	1,993,222	—
Affiliate investments	399,934	(5,869,425)
Non-control/Non-affiliate investments	(1,393,862)	(12,613,013)
Total unrealized appreciation (depreciation) on investments	**999,294**	**(18,482,438)**
Realized gain on investments:		
Control investments	—	—
Affiliate investments	—	—
Non-control/Non-affiliate investments	106,000	—
Total realized gain on investments	**106,000**	**—**
Net increase (decrease) in net assets resulting from operations	**$ 9,454,352**	**$(10,272,056)**
Net investment income per common share — basic and diluted	**$ 0.22**	**$ 0.36**
Unrealized appreciation (depreciation) per common share	**0.03**	**(0.82)**
Realized gain per common share	**—**	**—**
Earnings per common share — basic and diluted	**$ 0.25**	**$ (0.46)**
Weighted average common shares outstanding — basic and diluted	37,880,435	22,562,191

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

	Three months ended December 31, 2009	Three months ended December 31, 2008
Operations:		
Net investment income	$ 8,349,058	$ 8,210,382
Net unrealized appreciation (depreciation) on investments	999,294	(18,482,438)
Net realized gains on investments	106,000	—
Net increase (decrease) in net assets from operations	**9,454,352**	**(10,272,056)**
Stockholder transactions:		
Distributions to stockholders from net investment income	(10,227,326)	(15,815,427)
Net decrease in net assets from stockholder transactions	**(10,227,326)**	**(15,815,427)**
Capital share transactions:		
Issuance of common stock	(12,138)	—
Issuance of common stock under dividend reinvestment plan	486,392	762,557
Repurchases of common stock	—	(462,482)
Net increase in net assets from capital share transactions	**474,254**	**300,075**
Total decrease in net assets	**(298,720)**	**(25,787,408)**
Net assets at beginning of period	410,556,071	294,335,839
Net assets at end of period	**$410,257,351**	**$268,548,431**
Net asset value per common share	**$ 10.82**	**$ 11.86**
Common shares outstanding at end of period	37,923,407	22,641,615

See notes to Consolidated Financial Statements.

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

	Three months ended December 31, 2009	Three months ended December 31, 2008
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	$ 9,454,352	$(10,272,056)
Change in unrealized (appreciation) depreciation on investments	(999,294)	18,482,438
Realized gains on investments	(106,000)	—
PIK interest income, net of cash received	(1,436,580)	(1,696,351)
Recognition of fee income	(915,141)	(1,063,524)
Fee income received	4,834,926	982,763
Accretion of original issue discount on investments	(220,943)	(195,922)
Other income	—	(35,396)
Change in operating assets and liabilities:		
Increase in interest and fees receivable	(575,625)	(230,409)
(Increase) decrease in due from portfolio company	(27,269)	14,679
Increase in prepaid expenses and other assets	(984,419)	(224,877)
Decrease in accounts payable, accrued expenses and other liabilities	(448,360)	(206,812)
Decrease in base management fee payable	(12,224)	(10,537)
Increase in incentive fee payable	143,001	238,582
Increase (decrease) in due to FSC, Inc.	24,115	(271,844)
Increase (decrease) in interest payable	49,513	(38,333)
Increase (decrease) in payments received in advance from portfolio companies	58,640	(43,635)
Purchase of investments	(144,203,972)	(23,650,000)
Proceeds from the sale of investments	106,000	—
Principal payments received on investments (scheduled repayments and revolver paydowns)	1,973,601	1,588,600
Principal payments received on investments (payoffs)	3,885,000	8,100,000
Net cash used by operating activities	**(129,400,679)**	**(8,532,634)**
Cash flows from financing activities:		
Dividends paid in cash	(9,740,934)	(6,449,056)
Repurchases of common stock	—	(462,482)
Borrowings	38,000,000	—
Offering costs paid	(281,358)	(268,065)
Net cash provided (used) by financing activities	**27,977,708**	**(7,179,603)**
Net decrease in cash and cash equivalents	**(101,422,971)**	**(15,712,237)**
Cash and cash equivalents, beginning of period	113,205,287	22,906,376
Cash and cash equivalents, end of period	**$ 11,782,316**	**$ 7,194,139**
Supplemental Information:		
Cash paid for interest	$ —	$ 78,491
Non-cash financing activities:		
Issuance of shares of common stock under dividend reinvestment plan	$ 486,392	$ 762,557

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.
Consolidated Schedule of Investments
December 31, 2009
(unaudited)

Portfolio Company /Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Control Investments (3)				
Lighting By Gregory, LLC	Housewares & Specialties			
First Lien Term Loan A, 9.75% due 2/28/2013		$ 4,800,003	$ 4,728,589	$ 3,127,062
First Lien Term Loan B, 14.5% due 2/28/2013		7,149,491	6,906,440	4,557,267
97.38% membership interest			410,000	—
			12,045,029	**7,684,329**
Total Control Investments			**$ 12,045,029**	**$ 7,684,329**
Affiliate Investments (4)				
O'Currance, Inc.	Data Processing & Outsourced Services			
First Lien Term Loan A, 16.875% due 3/21/2012		10,634,486	10,494,238	10,349,447
First Lien Term B, 16.875%, 3/21/2012		2,541,222	2,503,000	2,621,304
1.75% Preferred Membership interest in O'Currance Holding Co., LLC			130,413	130,413
3.3% Membership Interest in O'Currance Holding Co., LLC			250,000	32,544
			13,377,651	**13,133,708**
CPAC, Inc. (9)	Household Products & Specialty Chemicals			
Second Lien Term Loan, 17.5% due 4/13/2012		11,529,260	9,506,805	4,533,635
Charge-off of cost basis of impaired loan (12)			(4,000,000)	—
2,297 Shares of Common Stock			2,297,000	—
			7,803,805	**4,533,635**
MK Network, LLC	Healthcare technology			
First Lien Term Loan A, 13.5% due 6/1/2012		9,500,000	9,246,350	9,174,370
First Lien Term Loan B, 17.5% due 6/1/2012		5,132,300	4,909,388	4,967,708
First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010 (10)		—	—	—
11,030 Membership Units (6)			771,575	—
			14,927,313	**14,142,078**
Martini Park, LLC (9)	Restaurants			
First Lien Term Loan, 14% due 2/20/2013		4,481,179	3,408,351	2,163,318
5% membership interest			650,000	—
			4,058,351	**2,163,318**
Caregiver Services, Inc.	Healthcare services			
Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013		8,213,244	7,773,472	7,930,944
Second Lien Term Loan B, 16.5% due 2/25/2013		14,354,020	13,604,561	13,632,445
1,080,399 shares of Series A Preferred Stock			1,080,398	1,283,413
			22,458,431	**22,846,802**
Total Affiliate Investments			**$ 62,625,551**	**$ 56,819,541**
Non-Control/Non-Affiliate Investments (7)				
Best Vinyl Acquisition Corporation (9)	Building Products			
Second Lien Term Loan, 12% due 3/30/2013		7,000,000	6,795,756	6,215,211
25,641 Shares of Series A Preferred Stock			253,846	—
25,641 Shares of Common Stock			2,564	—
			7,052,166	**6,215,211**
Repechage Investments Limited	Restaurants			
First Lien Term Loan, 15.5% due 10/16/2011		4,078,392	3,732,828	3,713,772
7,500 shares of Series A Preferred Stock of Elephant & Castle, Inc.			750,000	450,391
			4,482,828	**4,164,163**
Traffic Control & Safety Corporation	Construction and Engineering			
Second Lien Term Loan, 15% due 6/29/2014		19,455,418	19,166,095	17,998,409
24,750 shares of Series B Preferred Stock			247,500	22,267
25,000 shares of Common Stock			2,500	—
			19,416,095	**18,020,676**
Nicos Polymers & Grinding Inc. (9)	Environmental & facilities services			
First Lien Term Loan A, LIBOR+5% (10% floor), due 7/17/2012		3,107,802	3,040,465	2,012,718
First Lien Term Loan B, 13.5% due 7/17/2012		6,029,934	5,713,125	3,672,544
3.32% Interest in Crownbrook Acquisition I LLC			168,086	—
			8,921,676	**5,685,262**
TBA Global, LLC (9)	Media: Advertising			
Second Lien Term Loan A, LIBOR+5% (10% floor), due 8/3/2010		2,597,034	2,591,616	2,592,839
Second Lien Term Loan B, 14.5% due 8/3/2012		10,908,692	10,563,343	10,475,280
53,994 Senior Preferred Shares			215,975	68,194
191,977 Shares A Shares			191,977	—
			13,562,911	**13,136,313**
Fitness Edge, LLC	Leisure Facilities			
First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012		1,625,000	1,616,481	1,631,352
First Lien Term Loan B, 15% due 8/8/2012		5,525,898	5,446,967	5,415,939
1,000 Common Units			42,908	78,516
			7,106,356	**7,125,807**
Filet of Chicken (9)	Food Distributors			
Second Lien Term Loan, 14.5% due 7/31/2012		9,355,200	9,002,871	8,879,569
			9,002,871	**8,879,569**
Boot Barn (9)	Footwear and Apparel			

Second Lien Term Loan, 14.5% due 10/3/2013		22,777,049	22,456,116	22,411,307
24,706 shares of Series A Preferred Stock			247,060	3,563
1,308 shares of Common Stock			131	—
			22,703,307	**22,414,870**
Premier Trailer Leasing, Inc.	Trailer Leasing Services			
Second Lien Term Loan, 16.5% due 10/23/2012		18,004,329	17,063,645	9,029,545
285 shares of Common Stock			1,140	—
			17,064,785	**9,029,545**
Pacific Press Technologies, Inc.				
Second Lien Term Loan, 14.75% due 1/10/2013	Capital Goods	9,883,125	9,704,723	9,558,931
33,463 shares of Common Stock			344,513	186,927
			10,049,236	**9,745,858**
Rose Tarlow, Inc. (9)	Home Furnishing Retail			
First Lien Term Loan, 12% due 1/25/2014		10,256,438	10,090,286	8,833,012
First Lien Revolver, LIBOR+4% (9% floor) due 1/25/2014 (10)		1,550,000	1,539,451	1,362,433
0.00% membership interest in RTMH Acquisition Company (14)			1,275,000	—
0.00% membership interest in RTMH Acquisition Company (14)			25,000	—
			12,929,737	**10,195,445**
Goldco, LLC				
Second Lien Term Loan, 17.5% due 1/31/2013	Restaurants	8,106,452	7,978,514	8,037,316
			7,978,514	**8,037,316**
Rail Acquisition Corp.	Manufacturing - Mechanical Products			
First Lien Term Loan, 17% due 4/1/2013		15,547,535	15,309,653	14,907,004
			15,309,653	**14,907,004**
Western Emulsions, Inc.	Emulsions Manufacturing			
Second Lien Term Loan, 15% due 6/30/2014		17,637,889	17,377,502	18,026,589
			17,377,502	**18,026,589**
Storytellers Theaters Corporation	Entertainment - Theaters			
First Lien Term Loan, 15% due 7/16/2014		7,321,893	7,219,043	7,276,577
First Lien Revolver, LIBOR+3.5% (10% floor), due 7/16/2014		500,000	485,001	419,783
1,692 shares of Common Stock			169	—
20,000 shares of Preferred Stock			200,000	150,831
			7,904,213	**7,847,191**
HealthDrive Corporation (9)	Healthcare services			
First Lien Term Loan A, 10% due 7/17/2013		7,700,000	7,489,893	7,857,789
First Lien Term Loan B, 13% due 7/17/2013		10,101,861	9,961,861	9,470,380
First Lien Revolver, 12% due 7/17/2013		500,000	486,000	565,603
			17,937,754	**17,893,772**
idX Corporation	Merchandise Display			
Second Lien Term Loan, 14.5% due 7/1/2014		13,384,423	13,098,630	12,932,749
			13,098,630	**12,932,749**
Cenegenics, LLC	Healthcare services			
First Lien Term Loan, 17% due 10/27/2013		10,125,354	9,848,237	9,997,392
116,237 Common Units (6)			151,108	556,487
			9,999,345	**10,553,879**
IZI Medical Products, Inc.	Healthcare technology			
First Lien Term Loan A, 12% due 3/31/2014		5,400,000	5,313,407	5,397,055
First Lien Term Loan B, 16% due 3/31/2014		17,043,917	16,369,225	16,615,099
First Lien Revolver, 10% due 3/31/2014 (11)		—	(42,500)	(42,500)
453,755 Preferred units of IZI Holdings, LLC			453,755	552,751
			22,093,887	**22,522,405**
Trans-Trade, Inc.	Air freight & logistics			
First Lien Term Loan, 15.5% due 9/10/2014		11,086,572	10,905,626	11,108,326
First Lien Revolver, 12% due 9/10/2014 (11)			(37,333)	(37,333)
			10,868,293	**11,070,993**
Riverlake Equity Partners II, LP	Multi-sector holdings			
1.63% limited partnership interest (13)			—	—
Riverside Fund IV, LP	Multi-sector holdings			
0.25% limited partnership interest			153,972	153,972
			153,972	**153,972**
ADAPCO, Inc.	Fertilizers & agricultural chemicals			
First Lien Term Loan A, 10% due 12/17/2014		10,000,000	9,718,695	9,718,695
First Lien Term Loan B, 14% due 12/17/2014		14,011,667	13,618,912	13,618,912
First Lien Term Revolver, 10% due 12/17/2014		4,250,000	3,969,461	3,969,461
			27,307,068	**27,307,068**
Ambath/Rebath Holdings, Inc.	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (10% floor) due 12/30/2014		10,000,000	9,715,375	9,715,375
First Lien Term Loan B, 15% due 12/30/2014		22,003,056	21,385,956	21,385,956
First Lien Term Revolver, LIBOR+6.5% (9.5% floor) due 12/30/2014 (11)			(79,650)	(79,650)
			31,021,681	**31,021,681**
JTC Education, Inc.	Education services			
First Lien Term Loan, LIBOR+9.5% (12.5% floor) due 12/31/2014		31,250,000	30,308,777	30,308,777
First Lien Revolver, LIBOR+9.5% (12.5% floor) due 12/31/2014 (11)		—	(295,000)	(295,000)
			30,013,777	**30,013,777**
Tegra Medical, LLC	Healthcare equipment			
First Lien Term Loan A, LIBOR+7% (10% floor) due 12/31/2014		28,000,000	27,431,767	27,431,767
First Lien Term Loan B, 14% due 12/31/2014		18,301,017	17,935,455	17,935,455
First Lien Revolver, LIBOR+7% (10% floor) due 12/31/2014 (11)		—	(78,667)	(78,667)
			45,288,555	**45,288,555**
Total Non-Control/Non-Affiliate Investments			**$388,644,812**	**$372,189,670**

Total Portfolio Investments	**$463,315,392**	**$436,693,540**

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

(2) See Note 3 for summary geographic location.

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

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

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

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

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

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

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

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

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

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

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

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

(14) Represents a de minimis membership interest percentage.

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.
Consolidated Schedule of Investments
September 30, 2009

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Control Investments(3)				
Lighting by Gregory, LLC	Housewares & Specialties			
First Lien Term Loan A, 9.75% due 2/28/2013		$ 4,800,003	$ 4,728,589	$ 2,419,627
First Lien Term Loan B, 14.5% due 2/28/2013		7,115,649	6,906,440	3,271,480
97.38% membership interest			410,000	—
			12,045,029	**5,691,107**
Total Control Investments			**$ 12,045,029**	**$ 5,691,107**
Affiliate Investments(4)				
O'Currance, Inc.	Data Processing & Outsourced Services			
First Lien Term Loan A, 16.875% due 3/21/2012		$10,526,514	$ 10,370,246	$ 10,186,501
First Lien Term Loan B, 16.875% due 3/21/2012		2,765,422	2,722,952	2,919,071
1.75% Preferred Membership Interest in O'Currance Holding Co., LLC			130,413	130,413
3.3% Membership Interest in O'Currance Holding Co., LLC			250,000	53,831
			13,473,611	**13,289,816**
CPAC, Inc.(9)	Household Products & Specialty Chemicals			
Second Lien Term Loan, 17.5% due 4/13/2012		11,398,948	9,506,805	4,448,661
Charge-off of cost basis of impaired loan(12)			(4,000,000)	—
2,297 shares of Common Stock			2,297,000	—
			7,803,805	**4,448,661**
Elephant & Castle, Inc.	Restaurants			
Second Lien Term Loan, 15.5% due 4/20/2012		8,030,061	7,553,247	7,311,604
7,500 shares of Series A Preferred Stock			750,000	492,469
			8,303,247	**7,804,073**
MK Network, LLC	Healthcare technology			
First Lien Term Loan A, 13.5% due 6/1/2012		9,500,000	9,220,111	9,033,826
First Lien Term Loan B, 17.5% due 6/1/2012		5,212,692	4,967,578	5,163,544
First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010(10)		—	—	—
11,030 Membership Units(6)			771,575	—
			14,959,264	**14,197,370**
Martini Park, LLC(9)	Restaurants			
First Lien Term Loan, 14% due 2/20/2013		4,390,798	3,408,351	2,068,303
5% membership interest			650,000	—
			4,058,351	**2,068,303**
Caregiver Services, Inc.	Healthcare services			
Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013		8,570,595	8,092,364	8,225,400
Second Lien Term Loan B, 16.5% due 2/25/2013		14,242,034	13,440,995	13,508,338
1,080,399 shares of Series A Preferred Stock			1,080,398	1,206,599
			22,613,757	**22,940,337**
Total Affiliate Investments			**$ 71,212,035**	**$ 64,748,560**
Non-Control/Non-Affiliate Investments(7)				
Best Vinyl Acquisition Corporation(9)	Building Products			
Second Lien Term Loan, 12% due 3/30/2013		$ 7,000,000	$ 6,779,947	$ 6,138,582
25,641 Shares of Series A Preferred Stock			253,846	20,326
25,641 Shares of Common Stock			2,564	—
			7,036,357	**6,158,908**
Traffic Control & Safety Corporation	Construction and Engineering			
Second Lien Term Loan, 15% due 6/29/2014		19,310,587	19,025,031	17,693,780
24,750 shares of Series B Preferred Stock			247,500	158,512
25,000 shares of Common Stock			2,500	—
			19,275,031	**17,852,292**
Nicos Polymers & Grinding Inc.(9)	Environmental & facilities services			
First Lien Term Loan A, LIBOR+5% (10% floor), due 7/17/2012		3,091,972	3,040,465	2,162,593
First Lien Term Loan B, 13.5% due 7/17/2012		5,980,128	5,716,250	3,959,643
3.32% Interest in Crownbrook Acquisition I LLC			168,086	—
			8,924,801	**6,122,236**
TBA Global, LLC(9)	Media: Advertising			
Second Lien Term Loan A, LIBOR+5% (10% floor), due 8/3/2010		2,583,805	2,576,304	2,565,305
Second Lien Term Loan B, 14.5% due 8/3/2012		10,797,936	10,419,185	10,371,277
53,994 Senior Preferred Shares			215,975	162,621
191,977 Shares A Shares			191,977	—
			13,403,441	**13,099,203**
Fitness Edge, LLC	Leisure Facilities			
First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012		1,750,000	1,740,069	1,753,262
First Lien Term Loan B, 15% due 8/8/2012		5,490,743	5,404,192	5,321,281
1,000 Common Units			42,908	70,354
			7,187,169	**7,144,897**
Filet of Chicken(9)	Food Distributors			
Second Lien Term Loan, 14.5% due 7/31/2012		9,307,547	8,922,946	8,979,657
			8,922,946	**8,979,657**
Boot Barn(9)	Footwear and Apparel			
Second Lien Term Loan, 14.5% due 10/3/2013		22,518,091	22,175,818	22,050,462

24,706 shares of Series A Preferred Stock			247,060	32,259
1,308 shares of Common Stock			131	—
			22,423,009	**22,082,721**
Premier Trailer Leasing, Inc.	Trailer Leasing Services			
Second Lien Term Loan, 16.5% due 10/23/2012		17,855,617	17,063,645	9,860,940
285 shares of Common Stock			1,140	—
			17,064,785	**9,860,940**
Pacific Press Technologies, Inc.	Capital Goods			
Second Lien Term Loan, 14.75% due 1/10/2013		9,813,993	9,621,279	9,606,186
33,463 shares of Common Stock			344,513	160,299
			9,965,792	**9,766,485**
Rose Tarlow, Inc.(9)	Home Furnishing Retail			
First Lien Term Loan, 12% due 1/25/2014		10,191,188	10,016,956	8,827,182
First Lien Revolver, LIBOR+4% (9% floor) due 1/25/2014(10)		1,550,000	1,538,806	1,509,219
0.00% membership interest in RTMH Acquisition Company(14)			1,275,000	—
0.00% membership interest in RTMH Acquisition Company(14)			25,000	—
			12,855,762	**10,336,401**
Goldco, LLC	Restaurants			
Second Lien Term Loan, 17.5% due 1/31/2013		8,024,147	7,926,647	7,938,639
			7,926,647	**7,938,639**
Rail Acquisition Corp.	Manufacturing - Mechanical Products			
First Lien Term Loan, 17% due 4/1/2013		15,668,956	15,416,411	15,081,138
			15,416,411	**15,081,138**
Western Emulsions, Inc.	Emulsions Manufacturing			
Second Lien Term Loan, 15% due 6/30/2014		11,928,600	11,743,630	12,130,945
			11,743,630	**12,130,945**
Storytellers Theaters Corporation	Entertainment - Theaters			
First Lien Term Loan, 15% due 7/16/2014		7,275,313	7,166,749	7,162,190
First Lien Revolver, LIBOR+3.5% (10% floor), due 7/16/2014		250,000	234,167	223,136
1,692 shares of Common Stock			169	—
20,000 shares of Preferred Stock			200,000	156,256
			7,601,085	**7,541,582**
HealthDrive Corporation(9)	Healthcare services			
First Lien Term Loan A, 10% due 7/17/2013		7,800,000	7,574,591	7,731,153
First Lien Term Loan B, 13% due 7/17/2013		10,076,089	9,926,089	9,587,523
First Lien Revolver, 12% due 7/17/2013		500,000	485,000	534,693
			17,985,680	**17,853,369**
idX Corporation	Merchandise Display			
Second Lien Term Loan, 14.5% due 7/1/2014		13,316,247	13,014,576	13,074,682
			13,014,576	**13,074,682**
Cenegenics, LLC	Healthcare services			
First Lien Term Loan, 17% due 10/27/2013		10,372,069	10,076,277	10,266,770
116,237 Common Units(6)			151,108	515,782
			10,227,385	**10,782,552**
IZI Medical Products, Inc.	Healthcare technology			
First Lien Term Loan A, 12% due 3/31/2014		5,600,000	5,504,943	5,547,944
First Lien Term Loan B, 16% due 3/31/2014		17,042,500	16,328,120	16,532,244
First Lien Revolver, 10% due 3/31/2014(11)		—	(45,000)	(45,000)
453,755 Preferred units of IZI Holdings, LLC			453,755	530,016
			22,241,818	**22,565,204**
Trans-Trade, Inc.	Air freight & logistics			
First Lien Term Loan, 15.5% due 9/10/2014		11,016,042	10,798,229	10,838,952
First Lien Revolver, 12% due 9/10/2014(11)		—	(39,333)	(39,333)
			10,758,896	**10,799,619**
Riverlake Equity Partners II, LP(13)	Multi-sector holdings			
0.14% limited partnership interest				
			—	—
Riverside Fund IV, LP(13)	Multi-sector holdings			
0.92% limited partnership interest				
			—	—
Total Non-Control/Non-Affiliate Investments			**$243,975,221**	**$229,171,470**
Total Portfolio Investments			**$327,232,285**	**$299,611,137**

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

(2) See Note 3 to Consolidated Financial Statements for summary geographic location.

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

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

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

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

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

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

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

Portfolio Company	**Effective date**	**Cash interest**	**PIK interest**	**Reason**
CPAC, Inc.	November 21, 2008	—	+ 1.0% on Term Loan	Per waiver agreement
Rose Tarlow, Inc.	January 1, 2009	+0.5% on Term Loan, + 3.0% on Revolver	+ 2.5% on Term Loan	Tier pricing per waiver agreement

Martini Park, LLC	October 1, 2008	- 6.0% on Term Loan	+ 6.0% on Term Loan	Per waiver agreement
Best Vinyl Acquisition Corporation	April 1, 2008	+ 0.5% on Term Loan	—	Per loan amendment
Nicos Polymers & Grinding, Inc.	February 10, 2008	—	+ 2.0% on Term Loan A & B	Per waiver agreement
TBA Global, LLC	February 15, 2008	—	+ 2.0% on Term Loan A & B	Per waiver agreement
Filet of Chicken	January 1, 2009	+ 1.0% on Term Loan	—	Tier pricing per waiver agreement
Boot Barn	January 1, 2009	+ 1.0% on Term Loan	+ 2.5% on Term Loan	Tier pricing per waiver agreement
HealthDrive Corporation	April 30, 2009	+ 2.0% on Term Loan A	—	Per waiver agreement

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

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

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

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

(14) Represents a de minimis membership interest percentage.

See notes to Consolidated Financial Statements.

Note 1. Organization

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

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

The Company also has certain wholly-owned subsidiaries which hold certain portfolio investments of the Company. The subsidiaries are consolidated with the Company, and the portfolio investments held by the subsidiaries are included in the Company’s consolidated financial statements. All significant intercompany balances and transactions have been eliminated.

On June 17, 2008, the Company completed an initial public offering of 10,000,000 shares of its common stock at the offering price of $14.12 per share. On July 21, 2009, the Company completed a follow-on public offering of 9,487,500 shares of its common stock at the offering price of $9.25 per share. On September 25, 2009, the Company completed a follow-on public offering of 5,520,000 shares of its common stock at the offering price of $10.50 per share. On January 27, 2010, the Company completed a follow-on public offering of 7,000,000 shares of its common stock at the offering price of $11.20 per share. The Company’s shares are currently listed on the New York Stock Exchange under the symbol “FSC.”

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

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

SBA regulations currently limit the amount that the Company’s SBIC subsidiary may borrow up to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of December 31, 2009, the Company’s SBIC subsidiary had funded four pre-licensing investments for a total of $73 million and held $2 million in cash, which is included as regulatory capital. The SBA is expected to issue a capital commitment to the Company’s SBIC subsidiary in the near future, at which point the SBIC subsidiary would be able to access a portion of the capital commitment. However, the Company cannot predict the timing for completion of an examination by the SBA, at which time the SBA reviews the Company’s SBIC subsidiary and determines whether it conforms with SBA rules and regulations. The Company expects to have access to the full amount over time.

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

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

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

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

The Company cannot assure you that it will receive the exemptive relief from the SEC or a capital commitment from the SBA necessary to begin issuing SBA-guaranteed debentures.

Note 2. Significant Accounting Policies

FASB Accounting Standards Codification

The issuance of *FASB Accounting Standards Codification* ™ (the “Codification”) on July 1, 2009 (effective for interim or annual reporting periods ending after September 15, 2009), changes the way that U.S. generally accepted accounting principles (“GAAP”) are referenced. Beginning on that date, the Codification officially became the single source of authoritative nongovernmental GAAP; however, SEC registrants must also consider rules, regulations, and interpretive guidance issued by the SEC or its staff. The switch affects the way companies refer to GAAP in financial statements and in their accounting policies. All existing standards that were used to create the Codification became superseded. Instead, references to standards will consist solely of the number used in the Codification’s structural organization. For example, it is no longer proper to refer to FASB Statement No. 157, *Fair Value Measurement* , which is now Codification Topic 820 *Fair Value Measurements and Disclosures* (“ASC 820”).

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

Basis of Presentation and Liquidity:

The Consolidated Financial Statements of the Company have been prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X. The financial results of the Company's portfolio investments are not consolidated in the Company's financial statements.

The Company has evaluated all subsequent events through February 9, 2010, the date of this filing.

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

Use of Estimates:

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

The consolidated financial statements include portfolio investments at fair value of $436.7 million and $299.6 million at December 31, 2009 and September 30, 2009, respectively. The portfolio investments represent 106.4% and 73.0% of stockholders' equity at December 31, 2009 and September 30, 2009, respectively, and their fair values have been determined by the Company's Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. The illiquidity of these portfolio investments may make it difficult for the Company to sell these investments when desired and, if the Company is required to sell these investments, it may realize significantly less than the investments' recorded value.

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

Significant Accounting Policies:

a) Valuation:

As described below, effective October 1, 2008, the Company adopted ASC Topic 820 *Fair Value Measurements and Disclosures* ("ASC 820"). In accordance with that standard, the Company changed its presentation for all periods presented to net unearned fees against the associated debt investments. Prior to the adoption of ASC 820 on October 1, 2008, the Company reported unearned fees as a single line item on the Consolidated Balance Sheets and Consolidated Schedules of Investments. This change in presentation had no impact on the overall net cost or fair value of the Company's investment portfolio and had no impact on the Company's financial position or results of operations.

b) Fair Value Measurements:

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

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

- Level 1 — Unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data at the measurement date for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Realized gain or loss on the sale of investments is the difference between the proceeds received from dispositions of portfolio investments and their stated costs. Realized losses may also be recorded in connection with the Company's determination that certain investments are permanently impaired.

Interest income, adjusted for amortization of premium and accretion of original issue discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on investments when it is determined that interest is no longer collectible.

Distributions of earnings from portfolio companies are recorded as dividend income when the distribution is received.

The Company has investments in debt securities which contain a payment-in-kind or "PIK" interest provision. PIK interest is computed at the contractual rate specified in each investment agreement and added to the principal balance of the investment and recorded as income.

Fee income consists of the monthly collateral management fees that the Company receives in connection with its debt investments and the accreted portion of the debt origination and exit fees.

The Company capitalizes upfront loan origination fees received in connection with investments. The unearned fee income from such fees is accreted into fee income based on the effective interest method over the life of the investment. In connection with its investment, the Company sometimes receives nominal cost equity that is valued as part of the negotiation process with the particular portfolio company. When the Company receives nominal cost equity, the Company allocates its cost basis in its investment between its debt securities and its nominal cost equity at the time of origination. Any resulting discount from recording the loan is accreted into fee income over the life of the loan.

As of December 31, 2009, the Company was entitled to receive exit fees upon the future exit of certain investments. These fees will typically be paid to the Company upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees, which are contractually payable by borrowers to the Company, previously were to be recognized by the Company on a cash basis when received and not accrued or otherwise included in net investment income until received. None of the loans with exit fees, all of which were originated in 2008 and 2009, have been exited and, as a result, no exit fees were recognized. Beginning with the quarter ended December 31, 2009, the Company recognizes income pertaining to contractual exit fees on an accrual basis and adds exit fee income to the principal balance of the related loan to the extent the Company determines that collection of the exit fee income is probable. Additionally, the Company includes the cash flows of contractual exit fees that it determines are probable of collection in determining the fair value of its loans. The Company believes the effect of this cumulative adjustment in the quarter ended December 31, 2009 is not material to its financial statements as of any date or for any period.

Cash and Cash Equivalents:

Cash and cash equivalents consist of demand deposits and highly liquid investments with maturities of three months or less, when acquired. The Company places its cash and cash equivalents with financial institutions and, at times, cash held in bank accounts may exceed the Federal Deposit Insurance Corporation insured limit.

Offering Costs:

Offering costs consist of fees paid to the underwriters, in addition to legal, accounting, regulatory and printing fees that are related to the Company's follow-on offerings which closed on July 21, 2009 and September 25, 2009. Accordingly, approximately $12,000 of offering costs (net of the underwriting fees) were charged to capital during the three months ended December 31, 2009.

Income Taxes:

Prior to the merger of the Partnership with and into the Company, the Partnership was treated as a partnership for federal and state income tax purposes. The Partnership generally did not record a provision for income taxes because the partners report their shares of the partnership income or loss on their income tax returns. Accordingly, the taxable income was passed through to the partners and the Partnership was not subject to an entity level tax as of December 31, 2007.

As a partnership, Fifth Street Mezzanine Partners III, LP filed a calendar year tax return for a short year initial period from February 15, 2007 through December 31, 2007. Upon the merger, Fifth Street Finance Corp., the surviving C-Corporation, made an election to be treated as a RIC under the Code and adopted a September 30 tax year-end. Accordingly, the first RIC tax return has been filed for the tax year beginning January 1, 2008 and ended September 30, 2008.

As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed currently to its stockholders as a dividend. The Company anticipates distributing between 90% and 100% of its taxable income and gains, within the Subchapter M rules, and thus the Company anticipates that it will not incur any federal or state income tax at the RIC level. As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis (e.g., calendar year 2009). The Company anticipates timely distribution of its taxable income within the tax rules; however, the Company incurred a de minimis federal excise tax for calendar year 2008 and has accrued a de minimis federal excise tax for calendar year 2009. In addition, the Company may incur a federal excise tax in future years.

The purpose of the Company's taxable subsidiaries is to permit the Company to hold equity investments in portfolio companies which are "pass through" entities for federal tax purposes in order to comply with the "source income" requirements contained in the RIC tax requirements. The taxable subsidiaries are not consolidated with the Company for income tax purposes and may generate income tax expense as a result of their ownership of certain portfolio investments. This income tax expense, if any, is reflected in the Company's Consolidated Statements of Operations. The Company uses the asset and liability method to account for its taxable subsidiaries' income taxes. Using this method, the Company recognizes deferred tax assets and liabilities for the estimated future tax effects attributable to temporary differences between financial reporting and tax bases of assets and liabilities. In addition, the Company recognizes deferred tax benefits associated with net operating carry forwards that it may use to offset future tax obligations. The Company measures deferred tax assets and liabilities using the enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences.

The Company adopted Financial Accounting Standards Board ASC Topic 740 *Accounting for Uncertainty in Income Taxes* ("ASC 740") at inception on February 15, 2007. ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. Adoption of ASC 740 was applied to all open taxable years as of the effective date. The adoption of ASC 740 did not have an effect on the financial position or results of operations of the Company as there was no liability for unrecognized tax benefits and no change to the beginning capital of the Company. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof.

Guarantees and Indemnification Agreements:

The Company follows ASC 460 *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("ASC 460"). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees. The Interpretation has had no impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

In January 2010, the FASB issued *Improving Disclosures about Fair Value Measurements* (ASC 820) which is effective for interim and annual reporting periods beginning after December 15, 2009. The main provisions of the update relate to transfers in and out of Levels 1 and 2 and activity within Level 3 fair value measurements. The Company is evaluating the impact of the statement on its business.

In October 2009, the FASB issued Accounting Standards Update 2009-13, *Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements* which addresses accounting for multiple deliverable arrangements to enable vendors to account for products separately rather than as a combined unit. The amendments are effective prospectively for fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of this guidance to have a material impact on either its financial position or results of operations.

In September 2009, the FASB issued Accounting Standards Update 2009-12, *Fair Value Measurements and Disclosures (Topic 820) — Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which provides guidance on estimating the fair value of an alternative investment, amending ASC 820-10. The amendment is effective for interim and annual periods ending after December 15, 2009. The adoption of this guidance did not have a material impact on either the Company's financial position or results of operations.

In February 2007, the FASB issued ASC Topic 825-10 *Financial Instruments* (“ASC 825-10”) , which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of ASC 825-10 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently, and is effective as of the beginning of an entity’s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of ASC 820. While ASC 825-10 became effective for the Company’s 2009 fiscal year, the Company did not elect the fair value measurement option for any of its financial assets or liabilities.

In December 2007, the FASB issued ASC Topic 810 *Noncontrolling Interests in Consolidated Financial* (“ASC 810”). ASC 810 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. ASC 810 requires that noncontrolling interests in subsidiaries be reported in the equity section of the controlling company’s balance sheet. It also changes the manner in which the net income of the subsidiary is reported and disclosed in the controlling company’s income statement. ASC 810 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of ASC 810 did not have any impact on either the Company’s financial position or results of operations.

Effective January 1, 2009 the Company adopted the guidance included in ASC Topic 815 *Derivatives and Hedging* (“ASC 815”), which requires additional disclosures for derivative instruments and hedging activities. The Company does not have any derivative instruments nor has it engaged in any hedging activities. ASC 815 has no impact on the Company’s financial statements.

Effective July 1, 2009 the Company adopted the provisions of ASC Topic 855 *Subsequent Events* (“ASC 855”). ASC 855 incorporates the subsequent events guidance contained in the auditing standards literature into authoritative accounting literature. It also requires entities to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. See Note 2 — “Significant Accounting Policies — Basis of Presentation and Liquidity” for this new disclosure.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140” (“SFAS 166”) (to be included in ASC 860 “Transfers and Servicing”). SFAS 166 will require more information about transfers of financial assets, eliminates the qualifying special purpose entity (QSPE) concept, changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS 166 is effective for the first annual reporting period that begins after November 15, 2009. The Company does not anticipate that SFAS 166 will have a material impact on the Company’s financial statements. This statement has not yet been codified.

Note 3. Portfolio Investments

At December 31, 2009, 106.4% of stockholders’ equity or $436.7 million was invested in 32 long-term portfolio investments and 2.9% of stockholders’ equity or $11.8 million was invested in cash and cash equivalents. In comparison, at September 30, 2009, 73.0% of stockholders’ equity or $299.6 million was invested in 28 long-term portfolio investments and 27.6% of stockholders’ equity or $113.2 million was invested in cash and cash equivalents. As of December 31, 2009, all of the Company’s debt investments were secured by first or second priority liens on the assets of the portfolio companies. Moreover, the Company held equity investments in certain of its portfolio companies consisting of common stock, preferred stock or limited liability company interests designed to provide the Company with an opportunity for an enhanced rate of return. These instruments generally do not produce a current return, but are held for potential investment appreciation and capital gain.

At December 31, 2009 and September 30, 2009, $351.4 million and $281.0 million, respectively, of the Company's portfolio debt investments at fair value were at fixed rates, which represented approximately 81% and 95%, respectively, of the Company's total portfolio of debt investments at fair value. During the three months ended December 31, 2009, the Company recorded a $106,000 reduction to a previously recorded realized loss. During the three months ended December 31, 2008, the Company recorded no realized gains or losses on investments. During the three months ended December 31, 2009 and 2008, the Company recorded unrealized appreciation (depreciation) of $1.0 million and ($18.5 million), respectively.

The composition of the Company's investments as of December 31, 2009 and September 30, 2009 at cost and fair value was as follows:

	December 31, 2009		September 30, 2009	
	Cost	FV	Cost	FV
Investments in debt securities	$452,998,802	$433,023,271	$317,069,667	$295,921,400
Investments in equity securities	10,316,590	3,670,269	10,162,618	3,689,737
Total	**$463,315,392**	**$436,693,540**	**$327,232,285**	**$299,611,137**

The following table presents the financial instruments carried at fair value as of December 31, 2009, by caption on the Company's Consolidated Balance Sheet for each of the three levels of hierarchy established by ASC 820.

	Level 1	Level 2	Level 3	Total
Control investments	$ —	$ —	$ 7,684,329	$ 7,684,329
Affiliate investments	—	—	56,819,541	56,819,541
NC/NA investments	—	—	372,189,670	372,189,670
Total investments at fair value	**$ —**	**$ —**	**$436,693,540**	**$436,693,540**

The following table provides a roll-forward in the changes in fair value from September 30, 2009 to December 31, 2009, for all investments for which the Company determines fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the fact that the unobservable factors are the most significant to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated by external sources). Accordingly, the appreciation (depreciation) in the table below includes changes in fair value due in part to observable factors that are part of the valuation methodology.

	Control investments	Affiliate investments	Non-control/Non-Affiliate investments	Total
Fair value as of September 30, 2009	$ 5,691,107	$ 64,748,560	$229,171,470	$299,611,137
Total realized gains (losses)	—	—	—	—
Change in unrealized appreciation (depreciation)	1,993,222	399,934	(1,393,862)	999,294
Purchases, issuances, settlements and other, net	—	(8,328,953)	144,412,062	136,083,109
Transfers in (out) of Level 3	—	—	—	—
Fair value as of December 31, 2009	**$ 7,684,329**	**$ 56,819,541**	**$372,189,670**	**$436,693,540**

Concurrent with its adoption of ASC 820, effective October 1, 2008, the Company augmented the valuation techniques it uses to estimate the fair value of its debt investments where there is not a readily available market value (Level 3). Prior to October 1, 2008, the Company estimated the fair value of its Level 3 debt investments by first estimating the enterprise value of the portfolio company which issued the debt investment. To estimate the enterprise value of a portfolio company, the Company analyzed various factors, including the portfolio companies historical and projected financial results. Typically, private companies are valued based on multiples of EBITDA (Earning Before Interest, Taxes, Depreciation and Amortization), cash flow, net income, revenues or, in limited instances, book value.

In estimating a multiple to use for valuation purposes, the Company looked to private merger and acquisition statistics, discounted public trading multiples or industry practices. In some cases, the best valuation methodology may have been a discounted cash flow analysis based on future projections. If a portfolio company was distressed, a liquidation analysis may have provided the best indication of enterprise value.

If there was adequate enterprise value to support the repayment of the Company's debt, the fair value of the Level 3 loan or debt security normally corresponded to cost plus the amortized original issue discount unless the borrower's condition or other factors lead to a determination of fair value at a different amount.

Beginning on October 1, 2008, the Company also introduced a bond yield model to value these investments based on the present value of expected cash flows. The primary inputs into the model are market interest rates for debt with similar characteristics and an adjustment for the portfolio company's credit risk. The credit risk component of the valuation considers several factors including financial performance, business outlook, debt priority and collateral position. During the three months ended December 31, 2009 and 2008, the Company recorded net unrealized appreciation (depreciation) of $1.0 million and ($18.5 million), respectively, on its investments. For the three months ended December 31, 2009, the Company's net unrealized appreciation consisted of $1.0 million resulting from the adoption of ASC 820 and $0.2 million of fair value adjustments resulting from the recognition of exit fees, offset by unrealized depreciation of ($0.2 million) resulting from declines in EBITDA or market multiples of its portfolio companies requiring closer monitoring or performing below expectations.

The table below summarizes the changes in the Company's investment portfolio from September 30, 2009 to December 31, 2009.

	Debt	Equity	Total
Fair value at September 30, 2009	$295,921,400	$3,689,737	$299,611,137
New investments	144,050,000	153,972	144,203,972
Redemptions/repayments	(5,858,601)	—	(5,858,601)
Net accrual of PIK interest income	1,436,580	—	1,436,580
Accretion of original issue discount	220,943	—	220,943
Recognition of unearned income	(3,946,778)	—	(3,946,778)
Recognition of exit fee income	26,993	—	26,993
Net unrealized appreciation (depreciation)	1,172,734	(173,440)	999,294
Net changes from unrealized to realized	—	—	—
Fair value at December 31, 2009	**$433,023,271**	**$3,670,269**	**$436,693,540**

The Company's off-balance sheet arrangements consisted of $32.1 million and $9.8 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of December 31, 2009 and September 30, 2009, respectively. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet and are not reflected on the Company's Consolidated Balance Sheets.

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

	December 31, 2009	September 30, 2009
Storyteller Theaters Corporation	$ 1,500,000	$1,750,000
HealthDrive Corporation	1,500,000	1,500,000
IZI Medical Products, Inc.	2,500,000	2,500,000
Trans-Trade, Inc.	2,000,000	2,000,000
Riverlake Equity Partners II, LP (limited partnership interest)	1,000,000	1,000,000
Riverside Fund IV, LP (limited partnership interest)	846,028	1,000,000
ADAPCO, Inc.	5,750,000	—
AmBath/ReBath Holdings, Inc.	3,000,000	—
JTC Education, Inc.	10,000,000	—
Tegra Medical, LLC	4,000,000	—
Total	**$32,096,028**	**$9,750,000**

Summaries of the composition of the Company's investment portfolio at cost and fair value as a percentage of total investments are shown in the following tables:

	December 31, 2009		September 30, 2009	
Cost:				
First lien debt	$290,315,153	62.66%	$153,207,248	46.82%
Second lien debt	162,683,649	35.11%	163,862,419	50.08%
Purchased equity	4,170,368	0.90%	4,170,368	1.27%
Equity grants	5,992,250	1.29%	5,992,250	1.83%
Limited partnership interests	153,972	0.04%	—	0.00%
Total	**$463,315,392**	**100.00%**	**$327,232,285**	**100.00%**

	December 31, 2009		September 30, 2009	
Fair value:				
First lien debt	$280,768,502	64.29%	$142,016,942	47.40%
Second lien debt	152,254,769	34.87%	153,904,458	51.37%
Purchased equity	344,851	0.08%	517,181	0.17%
Equity grants	3,171,446	0.73%	3,172,556	1.06%
Limited partnership interests	153,972	0.03%	—	0.00%
Total	**$436,693,540**	**100.00%**	**$299,611,137**	**100.00%**

The Company invests in portfolio companies located in the United States. The following tables show the portfolio composition by geographic region at cost and fair value as a percentage of total investments. The geographic composition is determined by the location of the corporate headquarters of the portfolio company, which may not be indicative of the primary source of the portfolio company's business.

	December 31, 2009		September 30, 2009	
Cost:				
Northeast	$144,819,526	31.26%	$103,509,164	31.63%
West	99,041,212	21.38%	98,694,596	30.16%
Southeast	66,746,884	14.41%	39,463,350	12.06%
Midwest	53,161,643	11.47%	22,980,368	7.02%
Southwest	99,546,127	21.48%	62,584,807	19.13%
Total	**$463,315,392**	**100.00%**	**$327,232,285**	**100.00%**

	December 31, 2009		September 30, 2009	
Fair value:				
Northeast	$131,357,296	30.08%	$ 87,895,220	29.34%
West	93,670,102	21.45%	93,601,893	31.24%
Southeast	67,070,755	15.36%	39,858,633	13.30%
Midwest	52,692,384	12.07%	22,841,167	7.62%
Southwest	91,903,003	21.04%	55,414,224	18.50%
Total	**$436,693,540**	**100.00%**	**$299,611,137**	**100.00%**

The composition of the Company's portfolio by industry at cost and fair value as of December 31, 2009 and September 30, 2009 were as follows:

	December 31, 2009		September 30, 2009	
Cost:				
Healthcare services	$ 50,395,530	10.88%	$ 50,826,822	15.53%
Healthcare equipment	45,288,555	9.77%	—	0.00%
Healthcare technology	37,021,200	7.99%	37,201,082	11.37%
Home improvement retail	31,021,681	6.70%	—	0.00%
Education services	30,013,777	6.48%	—	0.00%
Fertilizers & agricultural chemicals	27,307,068	5.89%	—	0.00%
Footwear and apparel	22,703,307	4.90%	22,423,009	6.85%
Construction and engineering	19,416,095	4.19%	19,275,031	5.89%
Emulsions manufacturing	17,377,502	3.75%	11,743,630	3.59%
Trailer leasing services	17,064,785	3.68%	17,064,785	5.21%
Restaurants	16,519,693	3.57%	20,288,245	6.20%
Manufacturing — mechanical products	15,309,653	3.30%	15,416,411	4.71%
Media — Advertising	13,562,911	2.93%	13,403,441	4.10%
Data processing and outsourced services	13,377,651	2.89%	13,473,611	4.12%
Merchandise display	13,098,630	2.83%	13,014,576	3.98%
Home furnishing retail	12,929,737	2.79%	12,855,762	3.93%
Housewares & specialties	12,045,029	2.60%	12,045,029	3.68%
Air freight and logistics	10,868,293	2.35%	10,758,896	3.29%
Capital goods	10,049,236	2.17%	9,965,792	3.05%
Food distributors	9,002,871	1.94%	8,922,946	2.73%
Environmental & facilities services	8,921,676	1.93%	8,924,801	2.73%
Entertainment — theaters	7,904,213	1.71%	7,601,085	2.32%
Household products/ specialty chemicals	7,803,805	1.68%	7,803,805	2.38%
Leisure facilities	7,106,356	1.53%	7,187,169	2.20%
Building products	7,052,166	1.52%	7,036,357	2.14%
Multi-sector holdings	153,972	0.03%	—	0.00%
Total	**$463,315,392**	**100.00%**	**$327,232,285**	**100.00%**

	December 31, 2009		September 30, 2009	
Fair value:				
Healthcare services	$ 51,294,453	11.75%	$ 51,576,258	17.21%
Healthcare equipment	45,288,555	10.37%	—	0.00%
Healthcare technology	36,664,483	8.40%	36,762,574	12.27%
Home improvement retail	31,021,681	7.10%	—	0.00%
Education services	30,013,777	6.87%	—	0.00%
Fertilizers & agricultural chemicals	27,307,068	6.25%	—	0.00%
Footwear and apparel	22,414,870	5.13%	22,082,721	7.37%
Emulsions manufacturing	18,026,589	4.13%	12,130,945	4.05%
Construction and engineering	18,020,676	4.13%	17,852,292	5.96%
Manufacturing — mechanical products	14,907,004	3.41%	15,081,138	5.03%
Restaurants	14,364,797	3.29%	17,811,015	5.94%
Media — Advertising	13,136,313	3.01%	13,099,203	4.37%
Data processing and outsourced services	13,133,708	3.01%	13,289,816	4.44%
Merchandise display	12,932,749	2.96%	13,074,682	4.36%
Air freight and logistics	11,070,993	2.54%	10,799,619	3.60%
Home furnishing retail	10,195,445	2.33%	10,336,401	3.45%
Capital goods	9,745,858	2.23%	9,766,485	3.26%
Trailer leasing services	9,029,545	2.07%	9,860,940	3.29%
Food distributors	8,879,569	2.03%	8,979,657	3.00%
Entertainment — theaters	7,847,191	1.80%	7,541,582	2.52%
Housewares & specialties	7,684,329	1.76%	5,691,107	1.90%
Leisure facilities	7,125,807	1.63%	7,144,897	2.38%
Building products	6,215,211	1.42%	6,158,908	2.06%
Environmental & facilities services	5,685,262	1.30%	6,122,236	2.04%
Household products/ specialty chemicals	4,533,635	1.04%	4,448,661	1.50%
Multi-sector holdings	153,972	0.04%	—	0.00%
Total	**$436,693,540**	**100.00%**	**$299,611,137**	**100.00%**

The Company's investments are generally in small and mid-sized companies in a variety of industries. At December 31, 2009 and September 30, 2009, the Company had one investment that was greater than 10% of the total investment portfolio at fair value. This investment comprised 10.4% of the total portfolio at fair value. Income, consisting of interest, dividends, fees, other investment income, and realization of gains or losses on equity interests, can fluctuate upon repayment of an investment or sale of an equity interest and in any given year can be highly concentrated among several investments. For the three months ended December 31, 2009 and September 30, 2009, no individual investment produced income that exceeded 10% of investment income.

Note 4. Fee Income

The Company receives a variety of fees in the ordinary course of business, including origination fees. The Company accounts for fee income in accordance with ASC Topic 605-25 *Multiple-Element Arrangements* ("ASC 605-25"), which addresses certain aspects of a company's accounting for arrangements containing multiple revenue-generating activities. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable and there exists sufficient evidence of their fair values to separately account for some or all of the deliverables (i.e., there are separate units of accounting). ASC 605-25 states that the total consideration received for the arrangement be allocated to each unit based upon each unit's relative fair value. In other arrangements, some or all of the deliverables are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. The timing of revenue recognition for a given unit of accounting depends on the nature of the deliverable(s) in that accounting unit (and the corresponding revenue recognition model) and whether the general conditions for revenue recognition have been met. Fee income for which fair value cannot be reasonably ascertained is recognized using the interest method in accordance with ASC 310-20 *Nonrefundable Fees and Other Costs.*

The Company capitalizes upfront debt origination fees received in connection with financings and the unearned income from such fees is accreted into fee income over the life of the financing. In accordance with ASC 820, the net balance is reflected as unearned income in the cost and fair value of the respective investments.

Accumulated unearned fee income activity for the three months ended December 31, 2009 and 2008 was as follows:

	Three months ended December 31, 2009	Three months ended December 31, 2008
Beginning unearned fee income balance	$5,589,630	$ 5,236,265
Net fees received	4,861,907	982,763
Unearned fee income recognized	(915,129)	(1,063,524)
Ending unearned fee income balance	**$9,536,408**	**$ 5,155,504**

As of December 31, 2009, the Company was entitled to receive approximately $7.8 million in aggregate exit fees across 12 portfolio investments upon the future exit of those investments. These fees will typically be paid to the Company upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees, which are contractually payable by borrowers to the Company, previously were to be recognized on a cash basis when received and not accrued or otherwise included in net investment income until received. None of the loans with exit fees, all of which were originated in 2008 and 2009, have been exited and, as a result, no exit fees were recognized. Beginning with the quarter ended December 31, 2009, the Company recognizes income pertaining to contractual exit fees on an accrual basis and adds exit fee income to the principal balance of the related loan to the extent the Company determines that collection of the exit fee income is probable. Additionally, the Company includes the cash flows of contractual exit fees that it determines are probable of collection in determining the fair value of its loans. The Company believes the effect of this cumulative adjustment in the quarter ended December 31, 2009 is not material to its financial statements as of any date or for any period. For the three months ended December 31, 2009, fee income included approximately $27,000 of income from accrued exit fees.

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

Note 5. Share Data and Stockholders' Equity

Effective January 2, 2008, the Partnership merged with and into the Company. At the time of the merger, all outstanding partnership interests in the Partnership were exchanged for 12,480,972 shares of common stock of the Company. An additional 26 fractional shares were payable to the stockholders in cash.

On June 17, 2008, the Company completed an initial public offering of 10,000,000 shares of its common stock at the offering price of $14.12 per share. The net proceeds totaled approximately $129.5 million net of investment banking commissions of approximately $9.9 million and offering costs of approximately $1.8 million.

On July 21, 2009, the Company completed a follow-on public offering of 9,487,500 shares of its common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $9.25. The net proceeds totaled approximately $82.7 million after deducting investment banking commissions of approximately $4.4 million and offering costs of $0.7 million.

On September 25, 2009, the Company completed a follow-on public offering of 5,520,000 shares of its common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $10.50. The net proceeds totaled approximately $54.9 million after deducting investment banking commissions of approximately $2.8 million and offering costs of approximately $0.3 million.

No dilutive instruments were outstanding and reflected in the Company's Consolidated Balance Sheet at December 31, 2009 or September 30, 2009. The following table sets forth the weighted average shares outstanding for computing basic and diluted earnings per common share for the three months ended December 31, 2009 and December 31, 2008.

	Three months ended December 31, 2009	Three months ended December 31, 2008
Weighted average common shares outstanding, basic and diluted	37,880,435	22,562,191

On December 13, 2007, the Company adopted a dividend reinvestment plan that provides for reinvestment of its distributions on behalf of its stockholders, unless a stockholder elects to receive cash. As a result, if the Board of Directors authorizes, and the Company declares, a cash distribution, then its stockholders who have not "opted out" of the dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of common stock, rather than receiving the cash distributions. On May 1, 2008, the Company declared a dividend of $0.30 per share to stockholders of record on May 19, 2008. On June 3, 2008, the Company paid a cash dividend of approximately $1.9 million and issued 133,317 common shares totaling approximately $1.9 million under the dividend reinvestment plan. On August 6, 2008, the Company declared a dividend of $0.31 per share to stockholders of record on September 10, 2008. On September 26, 2008, the Company paid a cash dividend of $5.1 million, and purchased and distributed a total of 196,786 shares ($1.9 million) of its common stock under the dividend reinvestment plan. On December 9, 2008, the Company declared a dividend of $0.32 per share to stockholders of record on December 19, 2008, and a $0.33 per share dividend to stockholders of record on December 30, 2008. On December 18, 2008, the Company declared a special dividend of $0.05 per share to stockholders of record on December 30, 2008. On December 29, 2008, the Company paid a cash dividend of approximately $6.4 million and issued 105,326 common shares totaling approximately $0.8 million under the dividend reinvestment plan. On January 29, 2009, the Company paid a cash dividend of approximately $7.6 million and issued 161,206 common shares totaling approximately $1.0 million under the dividend reinvestment plan. On April 14, 2009, the Company declared a dividend of $0.25 per share to stockholders of record as of May 26, 2009. On June 25, 2009, the Company paid a cash dividend of approximately $5.6 million and issued 11,776 common shares totaling approximately $0.1 million under the dividend reinvestment plan. On August 3, 2009, the Company declared a dividend of $0.25 per share to stockholders of record as of September 8, 2009. On September 25, 2009, the Company paid a cash dividend of approximately $7.5 million and issued 56,890 common shares totaling approximately $0.6 million under the dividend reinvestment plan. On November 21, 2009, the Company declared a dividend of $0.27 per share to stockholders of record as of December 10, 2009. On December 29, 2009, the Company paid a cash dividend of approximately $9.7 million and issued 44,420 common shares totaling approximately $0.5 million under the dividend reinvestment plan.

In October 2008, the Company's Board of Directors authorized a stock repurchase program to acquire up to $8 million of the Company's outstanding common stock. Stock repurchases under this program were made through the open market at times and in such amounts as Company management deemed appropriate. The stock repurchase program expired in December 2009. In October 2008, the Company repurchased 78,000 shares of common stock on the open market as part of its share repurchase program.

Note 6. Line of Credit

On November 16, 2009, Fifth Street Funding, LLC, a wholly-owned bankruptcy remote, special purpose subsidiary ("Funding"), and the Company entered into a Loan and Servicing Agreement ("Agreement"), with respect to a three-year credit facility ("Facility") with Wachovia Bank, National Association ("Wachovia"), Wells Fargo Securities, LLC, as administrative agent ("Wells Fargo"), each of the additional institutional and conduit lenders party thereto from time to time, and each of the lender agents party thereto from time to time, in the amount of $50 million with an accordion feature, which allows for potential future expansion of the Facility up to $100 million. The Facility is secured by all of the assets of Funding, and all of the Company's equity interest in Funding. The Facility bears interest at LIBOR plus 4.00% per annum and has a maturity date of November 16, 2012. The Facility may be extended for up to two additional years upon the mutual consent of Wells Fargo and each of the lender parties thereto. The Company intends to use the net proceeds of the Facility to fund a portion of its loan origination activities and for general corporate purposes.

During the three months ended December 31, 2009, the Company borrowed $38.0 million under the Facility. This amount remained outstanding at December 31, 2009.

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

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

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

On January 15, 2008, the Company entered into a $50 million secured revolving credit facility with the Bank of Montreal, at a rate of LIBOR plus 1.5%, with a one year maturity date. The credit facility was secured by the Company's existing investments. On December 30, 2008, Bank of Montreal renewed the Company's $50 million credit facility. The terms included a 50 basis points commitment fee, an interest rate of LIBOR +3.25% and a term of 364 days. The Company gave notice of termination, effective September 16, 2009, to Bank of Montreal with respect to this revolving credit facility.

Prior to the merger of the Partnership with and into the Company, the Partnership entered into a $50 million unsecured revolving line of credit with Wachovia Bank, N.A. ("Loan Agreement") which had a final maturity date of April 1, 2008. Borrowings under the Loan Agreement were at a variable interest rate of LIBOR plus 0.75% per annum. In connection with the Loan Agreement, the General Partner, a former member of the Board of Directors of Fifth Street Finance Corp. and an officer of Fifth Street Finance Corp. (collectively "guarantors"), entered into a guaranty agreement (the "Guaranty") with the Partnership. Under the terms of the Guaranty, the guarantors agreed to guarantee the Partnership's obligations under the Loan Agreement. In consideration for the guaranty, the Partnership was obligated to pay a former member of the Board of Directors of Fifth Street Finance Corp. a fee of $41,667 per month so long as the Loan Agreement was in effect. For the period from October 1, 2007 to November 27, 2007, the Partnership paid $83,333 under this Guaranty. In October 2007, the Partnership drew $28.25 million under the Loan Agreement. These loans were paid back in full with interest in November 2007. As of November 27, 2007, the Partnership terminated the Loan Agreement and the Guaranty.

Interest expense for the three months ended December 31, 2009 and 2008 was $91,179 and $40,158, respectively.

Note 7. Interest and Dividend Income

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. In accordance with the Company's policy, accrued interest is evaluated periodically for collectibility. The Company stops accruing interest on investments when it is determined that interest is no longer collectible. Distributions from portfolio companies are recorded as dividend income when the distribution is received.

The Company holds debt in its portfolio that contains a payment-in-kind ("PIK") interest provision. The PIK interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. The Company generally ceases accruing PIK interest if there is insufficient value to support the accrual or if the Company does not expect the portfolio company to be able to pay all principal and interest due. The Company's decision to cease accruing PIK interest involves subjective judgments and determinations based on available information about a particular portfolio company, including whether the portfolio company is current with respect to its payment of principal and interest on its loans and debt securities; monthly and quarterly financial statements and financial projections for the portfolio company; the Company's assessment of the portfolio company's business development success, including product development, profitability and the portfolio company's overall adherence to its business plan; information obtained by the Company in connection with periodic formal update interviews with the portfolio company's management and, if appropriate, the private equity sponsor; and information about the general economic and market conditions in which the portfolio company operates. Based on this and other information, the Company determines whether to cease accruing PIK interest on a loan or debt security. The Company's determination to cease accruing PIK interest on a loan or debt security is generally made well before the Company's full write-down of such loan or debt security.

Accumulated PIK interest activity for the three months ended December 31, 2009 and December 31, 2008 was as follows:

	Three months ended December 31, 2009	Three months ended December 31, 2008
PIK balance at beginning of period	$12,059,478	$5,367,032
Gross PIK interest accrued	2,430,657	2,021,186
PIK income reserves	(468,883)	(204,401)
PIK interest received in cash	(525,194)	(120,434)
Loan exits and other PIK adjustments	(530,061)	—
PIK balance at end of period	**$12,965,997**	**$7,063,383**

Two investments did not pay all of their scheduled monthly cash interest payments for the period ended December 31, 2009. As of December 31, 2009, the Company had stopped accruing PIK interest and original issue discount ("OID") on five investments, including the two investments that had not paid all of their scheduled monthly cash interest payments. As of December 31, 2008, the Company had stopped accruing PIK interest and OID on three investments, including one investment that had not paid all of its scheduled monthly cash interest payments.

Income non-accrual amounts for the three months ended December 31, 2009 and December 31, 2008 were as follows:

	Three months ended December 31, 2009	Three months ended December 31, 2008
Cash interest income	$ 1,134,564	$ 270,507
PIK interest income	468,883	204,401
OID income	103,911	97,350
Total	**$ 1,707,358**	**$ 572,258**

Note 8. Taxable/Distributable Income and Dividend Distributions

Taxable income differs from net increase (decrease) in net assets resulting from operations primarily due to: (1) unrealized appreciation (depreciation) on investments, as investment gains and losses are not included in taxable income until they are realized; (2) origination fees received in connection with investments in portfolio companies, which are amortized into interest income over the life of the investment for book purposes, are treated as taxable income upon receipt; (3) organizational and deferred offering costs; (4) recognition of interest income on certain loans; and (5) income or loss recognition on exited investments.

At December 31, 2009, the Company had a net loss carryforward of $1.5 million to offset net capital gains, to the extent provided by federal tax law. The capital loss carryforward will expire in the Company's tax year ending September 30, 2017.

Listed below is a reconciliation of "net increase in net assets resulting from operations" to taxable income for the three months ended December 31, 2009.

Net increase in net assets resulting from operations	$ 9,454,000
Net change in unrealized appreciation from investments	(999,000)
Book/tax difference due to deferred loan origination fees, net	3,974,000
Book/tax difference due to organizational and deferred offering costs	(22,000)
Book/tax difference due to interest income on certain loans	787,000
Book/tax difference due to reduction of capital loss carryforward	(106,000)
Other book-tax differences	78,000
Taxable/Distributable Income (1)	**$13,166,000**

(1) The Company's taxable income for 2010 is an estimate and will not be finally determined until the Company files its tax return for the fiscal year ended September 30, 2010. Therefore, the final taxable income may be different than the estimate.

The Company uses the asset and liability method to account for its taxable subsidiaries' income taxes. Using this method, the Company recognizes deferred tax assets and liabilities for the estimated future tax effects attributable to temporary differences between financial reporting and tax bases of assets and liabilities. In addition, the Company recognizes deferred tax benefits associated with net operating carry forwards that it may use to offset future tax obligations. The Company measures deferred tax assets and liabilities using the enacted tax rates expected to apply to taxable income in the years in which it expects to recover or settle those temporary differences. The Company has recorded a deferred tax asset for the difference in the book and tax basis of certain equity investments and tax net operating losses held by its taxable subsidiaries of $1.7 million. However, this amount has been fully offset by a valuation allowance of $1.7 million, since it is more likely than not that these deferred tax assets will not be realized.

Distributions to stockholders are recorded on the declaration date. The Company is required to distribute annually to its stockholders at least 90% of its net ordinary income and net realized short-term capital gains in excess of net realized long-term capital losses for each taxable year in order to be eligible for the tax benefits allowed to a RIC under Subchapter M of the Code. The Company anticipates paying out as a dividend all or substantially all of those amounts. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based on management's estimate of the Company's annual taxable income. Based on that, a dividend is declared and paid each quarter. The Company maintains an "opt out" dividend reimbursement plan for its stockholders.

To date, the Company's Board of Directors declared, and the Company paid, the following distributions:

Dividend Type	Date Declared	Record Date	Payment Date	Amount
Quarterly	5/1/2008	5/19/2008	6/3/2008	$ 0.30
Quarterly	8/6/2008	9/10/2008	9/26/2008	$ 0.31
Quarterly	12/9/2008	12/19/2008	12/29/2008	$ 0.32
Quarterly	12/9/2008	12/30/2008	1/29/2009	$ 0.33
Special	12/18/2008	12/30/2008	1/29/2009	$ 0.05
Quarterly	4/14/2009	5/26/2009	6/25/2009	$ 0.25
Quarterly	8/3/2009	9/8/2009	9/25/2009	$ 0.25
Quarterly	11/12/2009	12/10/2009	12/29/2009	$ 0.27

For income tax purposes, the Company estimates that these distributions will be composed entirely of ordinary income, and will be reflected as such on the Form 1099-DIV for the calendar year 2009. The Company anticipates declaring further distributions to its stockholders to meet the RIC distribution requirements.

As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis. As a result, the Company has accrued a de minimis federal excise tax for calendar year 2009.

Note 9. Realized Gains or Losses from Investments and Net Change in Unrealized Appreciation or Depreciation from Investments

Realized gains or losses are measured by the difference between the net proceeds from the sale or redemption and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and includes investments written-off during the period, net of recoveries. Net change in unrealized appreciation or depreciation from investments reflects the net change in the valuation of the portfolio pursuant to the Company's valuation guidelines and the reclassification of any prior period unrealized appreciation or depreciation on exited investments.

During the three months ended December 31, 2009, the Company received a cash payment in the amount of $0.1 million, representing a payment in full of all amounts due in connection with the cancellation of its loan agreement with American Hardwoods Industries, LLC. The Company recorded a $0.1 million reduction to the previously recorded $10.4 million realized loss on this investment. During the three months ended December 31, 2008, the Company recorded no realized gains or losses on 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.

Note 11. Related Party Transactions

The Company has entered into an investment advisory agreement with the Investment Adviser. Under the investment advisory agreement, the Company pays the Investment Adviser a fee for its services under the investment advisory agreement consisting of the following two components: a base management fee and an incentive fee.

Base management Fee

The base management fee is calculated at an annual rate of 2% of the Company's gross assets, which includes any borrowings for investment purposes. The base management fee is payable quarterly in arrears, and will be calculated based on the value of the Company's gross assets at the end of each fiscal quarter, and appropriately adjusted on a pro rata basis for any equity capital raises or repurchases during such quarter. The base management fee for any partial month or quarter will be appropriately prorated.

On January 6, 2010, the Company announced that the Investment Adviser has voluntarily agreed to take the following actions:

- To waive the portion of its base management fee for the quarter ended December 31, 2009 attributable to four new portfolio investments, as well as cash and cash equivalents. The amount of the management fee being waived is approximately $727,000; and
- To permanently waive that portion of its base management fee attributable to the Company's assets held in the form of cash and cash equivalents as of the end of each quarter beginning March 31, 2010.

For purposes of the waiver, cash and cash equivalents is as defined in the notes to the Company's Consolidated Financial Statements.

Prior to the merger of the Partnership with and into the Company, which occurred on January 2, 2008, the Partnership paid the Investment Adviser a management fee (the "Management Fee"), subject to the adjustments as described in the Partnership Agreement, for investment advice equal to an annual rate of 2% of the aggregate capital commitments of all limited partners (other than affiliated limited partners) for each fiscal year (or portion thereof) provided, however, that commencing on the earlier of (1) the first day of the fiscal quarter immediately following the expiration of the commitment period, or (2) if a temporary suspension period became permanent in accordance with the Partnership Agreement, on the first day of the fiscal quarter immediately following the date of such permanent suspension, the Management Fee for each subsequent twelve month period was equal to 1.75% of the NAV of the Partnership (exclusive of the portion thereof attributable to the General Partner and the affiliated limited partners, based upon respective capital percentages).

For the three months ended December 31, 2009 and December 31, 2008, net base management fees were approximately $1.5 million and $1.4 million, respectively. At December 31, 2009, approximately $1.5 million was included in base management fee payable on the Company's Consolidated Balance Sheet.

Incentive Fee

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

- no incentive fee is payable to the Investment Adviser in any fiscal quarter in which the Company's Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 2% (the "preferred return" or "hurdle").
- 100% of the Company's Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than or equal to 2.5% in any fiscal quarter (10% annualized) is payable to the Investment Adviser. The Company refers to this portion of its Pre-Incentive Fee Net Investment Income (which exceeds the hurdle rate but is less than or equal to 2.5%) as the "catch-up." The "catch-up" provision is intended to provide the Investment Adviser with an incentive fee of 20% on all of the Company's Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when the Company's Pre-Incentive Fee Net Investment Income exceeds 2.5% in any fiscal quarter.

- 20% of the amount of the Company's Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.5% in any fiscal quarter (10% annualized) is payable to the Investment Adviser once the hurdle is reached and the catch-up is achieved (20% of all Pre-Incentive Fee Net Investment Income thereafter is allocated to the Investment Adviser).

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

For the three months ended December 31, 2009 and December 31, 2008, incentive fees were approximately $2.1 million and $2.1 million, respectively. At December 31, 2009, approximately $2.1 million was included in incentive fee payable on the Company's Consolidated Balance Sheet.

Indemnification

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

Administration Agreement

The Company has also entered into an administration agreement with FSC, Inc. under which FSC, Inc. provides administrative services for the Company, including office facilities and equipment, and clerical, bookkeeping and recordkeeping services at such facilities. Under the administration agreement, FSC, Inc. also performs or oversees the performance of the Company's required administrative services, which includes being responsible for the financial records which the Company is required to maintain and preparing reports to the Company's stockholders and reports filed with the SEC. In addition, FSC, Inc. assists the Company in determining and publishing the Company's net asset value, overseeing the preparation and filing of the Company's tax returns and the printing and dissemination of reports to the Company's stockholders, and generally overseeing the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. For providing these services, facilities and personnel, the Company reimburses FSC, Inc. the allocable portion of overhead and other expenses incurred by FSC, Inc. in performing its obligations under the administration agreement, including rent and the Company's allocable portion of the costs of compensation and related expenses of the Company's chief financial officer and his staff, and the staff of our chief compliance officer. FSC, Inc. may also provide, on the Company's behalf, managerial assistance to the Company's portfolio companies. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For the three months ended December 31, 2009, the Company incurred administrative expenses of approximately $0.4 million. At December 31, 2009, approximately $728,000 was included in due to FSC, Inc. on the Company's Consolidated Balance Sheet.

Note 12. Financial Highlights

Per share data (2):	**Three months ended December 31, 2009 (1)**	**Three months ended December 31, 2008 (1)**
Net asset value at beginning of period	$ 10.84	$ 13.02
Dividends declared	(0.27)	(0.66)
Issuance of common stock	—	(0.02)
Repurchases of common stock	—	(0.02)
Net investment income	0.22	0.36
Unrealized appreciation (depreciation) on investments	0.03	(0.82)
Realized gain (loss) on investments	—	—
Net asset value at end of period	**$ 10.82**	**$ 11.86**
Stockholders' equity at beginning of period	$ 410,556,071	$ 294,335,839
Stockholders' equity at end of period	$ 410,257,351	$ 268,548,431
Average stockholders' equity (3)	$ 409,840,589	$ 285,101,506
Ratio of total expenses, excluding interest and line of credit guarantee expenses, to average stockholders' equity (4)	1.17%	1.52%
Ratio of total expenses to average stockholders' equity (4)	1.19%	1.53%
Ratio of net increase in net assets resulting from operations to ending stockholders' equity (4)	2.30%	-3.83%
Ratio of unrealized appreciation (depreciation) on investments to ending stockholders' equity (4)	0.24%	-6.88%
Total return to stockholders based on average stockholders' equity	2.31%	-3.60%
Weighted average outstanding debt (5)	$ 500,000	$ —

(1) The amounts reflected in the financial highlights above represent net assets, income and expense ratios for all stockholders.

(2) Based on actual shares outstanding at the end of the corresponding period or weighted average shares outstanding for the period, as appropriate.

(3) Calculated based upon the daily weighted average stockholders' equity for the period.

(4) Interim periods are not annualized.

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

Note 13. Preferred Stock

The Company's restated certificate of incorporation had not authorized any shares of preferred stock. However, on April 4, 2008, the Company's Board of Directors approved a certificate of amendment to its restated certificate of incorporation reclassifying 200,000 shares of its common stock as shares of non-convertible, non-participating preferred stock, with a par value of $0.01 and a liquidation preference of $500 per share ("Series A Preferred Stock") and authorizing the issuance of up to 200,000 shares of Series A Preferred Stock. The Company's certificate of amendment was also approved by the holders of a majority of the shares of its outstanding common stock through a written consent first solicited on April 7, 2008. On April 24, 2008, the Company filed its certificate of amendment and on April 25, 2008, it sold 30,000 shares of Series A Preferred Stock to a company controlled by Bruce E. Toll, one of the Company's directors at that time. For the three months ended June 30, 2008, the Company paid dividends of approximately $234,000 on the 30,000 shares of Series A Preferred Stock. The dividend payment is considered and included in interest expense for accounting purposes since the preferred stock has a mandatory redemption feature. On June 30, 2008, the Company redeemed 30,000 shares of Series A Preferred Stock at the mandatory redemption price of 101% of the liquidation preference or $15,150,000. The $150,000 is considered and included in interest expense for accounting purposes due to the stock's mandatory redemption feature. No preferred stock is currently outstanding.

Note 14. Subsequent Events

On January 6, 2010, the Company announced that the Investment Adviser has voluntarily agreed to take the following actions:

- To waive the portion of its base management fee for the quarter ended December 31, 2009 attributable to four new portfolio investments, as well as cash and cash equivalents. The amount of the management fee being waived is approximately $727,000; and
- To permanently waive that portion of its base management fee attributable to the Company's assets held in the form of cash and cash equivalents as of the end of each quarter beginning March 31, 2010.

For purposes of the waiver, cash and cash equivalents is as defined in the notes to the Company's Consolidated Financial Statements.

On January 6, 2010, the Company filed a preliminary proxy statement with the Securities and Exchange Commission, or SEC, for its 2010 Annual Meeting of Stockholders. Among other things, the Company plans to seek stockholder approval to increase the number of authorized shares of its common stock and to remove its authority to issue shares of Series A Preferred Stock. The Company also announced that it does not intend to seek additional approval of its stockholders at its 2010 Annual Meeting of Stockholders to sell or otherwise issue shares of its common stock at a price below the then-current net asset value per share.

On January 6, 2010, AmBath/ReBath Holdings, Inc. drew $0.8 million on its previously undrawn credit line. Prior to the draw, the Company's unfunded commitment was $3.0 million.

On January 12, 2010, the Company's Board of Directors declared a distribution of $0.30 per share, payable on March 30, 2010 to stockholders of record on March 3, 2010. In connection with the distribution declaration, the Company also announced that as it originates more deals, the Company expects its quarterly distribution to continue to increase during the fiscal year. The timing and amount of any distribution is at the discretion of the Board of Directors.

On January 14, 2010, the Company provided a $2.5 million revolving credit line to Vanguard Vinyl, Inc. (formerly known as Best Vinyl Acquisition Corporation), of which $1.25 million was drawn at closing. This investment, along with the proceeds from the sale of a non-core asset and an additional investment by the equity sponsor, were utilized to pay off the company's existing senior debt. In connection with this transaction, the Company received a first lien security interest on all of the assets of the company. On January 21, 2010, Vanguard Vinyl, Inc. drew an additional $0.25 million on this credit line.

On January 15, 2010, the Company repaid $0.2 million of the outstanding balance on its secured revolving credit facility with Wachovia. On January 28, 2010, the Company repaid $25.0 million of the outstanding balance on the facility. On January 29, 2010, the Company repaid in full the outstanding balance of $12.8 million on the facility.

On January 21, 2010, the Company announced that it had received a non-binding term sheet from a lender in connection with a potential additional credit line of up to $100 million. The term sheet is subject to completion of due diligence and execution of definitive documents. The Company cannot assure you that it will enter into any additional new financings.

On January 27, 2010, the Company completed a public offering of 7,000,000 shares of its common stock at a price of $11.20 per share. The net proceeds totaled approximately $74.9 million after deducting investment banking commissions of approximately $3.5 million.

On January 29, 2010, the Company closed a $21.8 million senior secured debt facility to support the acquisition of a specialty food company. The investment is backed by a private equity sponsor and $20.3 million was funded at closing. The terms of this investment include a $1.5 million revolver at an interest rate of 10% per annum, a $7.6 million Term Loan A at an interest rate of 10% per annum, and a $12.7 million Term Loan B at an interest rate of 12% per annum in cash and 3% PIK. This is a first lien facility with a scheduled maturity of five years.

On February 1, 2010, TBA Global, LLC repaid $2.5 million of principal outstanding under its Term Loan A.

On February 3, 2010, the Company's wholly-owned subsidiary, Fifth Street Mezzanine Partners IV, L.P., received a license, effective February 1, 2010, from the SBA to operate as an SBIC under Section 301(c) of the Small Business Investment Act of 1958.

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

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

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this quarterly report on Form 10-Q may include statements as to:

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

In addition, words such as "anticipate," "believe," "expect" and "intend" indicate a forward-looking statement, although not all forward-looking statements include these words. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" in our annual report on Form 10-K for the year ended September 30, 2009 and elsewhere in this quarterly report on Form 10-Q. 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 and RICs; and
- other considerations that may be disclosed from time to time in our publicly disseminated documents and filings.

We have based the forward-looking statements included in this quarterly report on Form 10-Q on information available to us on the date of this quarterly report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the Securities and Exchange Commission, or the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

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

Overview

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

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

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

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

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

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

On January 27, 2010, we completed a follow-on public offering of 7,000,000 shares of our common stock, which did not include the underwriters' exercise of their over-allotment option, at the offering price of $11.20 per share.

Current Market Conditions

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

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

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

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

Critical Accounting Policies

FASB Accounting Standards Codification

The issuance of *FASB Accounting Standards Codification*, TM or the Codification, on July 1, 2009 (effective for interim or annual reporting periods ending after September 15, 2009), changes the way that U.S. generally accepted accounting principles, or GAAP, are referenced. Beginning on that date, the Codification officially became the single source of authoritative nongovernmental GAAP; however, SEC registrants must also consider rules, regulations, and interpretive guidance issued by the SEC or its staff. The switch affects the way companies refer to U.S. GAAP in financial statements and in their accounting policies. All existing standards that were used to create the Codification were superseded by the Codification. Instead, references to standards will consist solely of the number used in the Codification's structural organization. For example, it is no longer proper to refer to FASB Statement No. 157, *Fair Value Measurement* , which is now ASC Topic 820 *Fair Value Measurements and Disclosures* ("ASC 820").

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

Basis of Presentation

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

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

Investment Valuation

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2009 and September 30, 2009, approximately 96.4% and 72.0%, respectively, of our total assets represented investments in portfolio companies valued at fair value.

Effective October 1, 2008, we adopted ASC 820. In accordance with that standard, we changed our presentation for all periods presented to net unearned fees against the associated debt investments. Prior to the adoption of ASC 820 on October 1, 2008, we reported unearned fees as a single line item on our Consolidated Balance Sheets and Consolidated Schedule of Investments. This change in presentation had no impact on the overall net cost or fair value of our investment portfolio and had no impact on our financial position or results of operations.

Revenue Recognition

Interest and Distribution Income

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

Fee Income

We receive a variety of fees in the ordinary course of our business, including origination fees. We account for our fee income in accordance with ASC Topic 605-25 *Multiple-Element Arrangements* (“ASC 605-25”), which addresses certain aspects of a company’s accounting for arrangements containing multiple revenue-generating activities. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable and there exists sufficient evidence of their fair values to separately account for some or all of the deliverables (i.e., there are separate units of accounting). ASC 605-25 states that the total consideration received for the arrangement be allocated to each unit based upon each unit's relative fair value. In other arrangements, some or all of the deliverables are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. The timing of revenue recognition for a given unit of accounting depends on the nature of the deliverable(s) in that accounting unit (and the corresponding revenue recognition model) and whether the general conditions for revenue recognition have been met. Fee income for which fair value cannot be reasonably ascertained is recognized using the interest method in accordance with ASC 310-20 *Nonrefundable Fees and Other Costs.*

As of December 31, 2009, we were entitled to receive approximately $7.8 million in aggregate exit fees across 12 portfolio investments upon the future exit of those investments. These fees will typically be paid to us upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees, which are contractually payable by borrowers to us, previously were to be recognized by us on a cash basis when received and not accrued or otherwise included in net investment income until received. None of the loans with exit fees, all of which were originated in 2008 and 2009, have been exited and, as a result, no exit fees were recognized. Beginning with the quarter ended December 31, 2009, we recognize income pertaining to contractual exit fees on an accrual basis and add exit fee income to the principal balance of the related loan to the extent we determine that collection of the exit fee income is probable. Additionally, we include the cash flows of contractual exit fees that we determine are probable of collection in determining the fair value of our loans. We believe the effect of this cumulative adjustment in the quarter ended December 31, 2009 is not material to our financial statements as of any date or for any period.

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

Payment-in-Kind (PIK) Interest

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

To maintain our status as a RIC, PIK income must be paid out to our stockholders in the form of dividends even though we have not yet collected the cash and may never collect the cash relating to the PIK interest. Accumulated PIK interest was approximately $13.0 million and represented 3% of the fair value of our portfolio of investments as of December 31, 2009 and approximately $12.1 million or 4% as of September 30, 2009. The net increase in loan balances as a result of contracted PIK arrangements are separately identified in our Consolidated Statements of Cash Flows.

Portfolio Composition

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

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

	December 31, 2009	September 30, 2009
Cost:		
First lien debt	62.66%	46.82%
Second lien debt	35.11%	50.08%
Purchased equity	0.90%	1.27%
Equity grants	1.29%	1.83%
Limited partnership interests	0.04%	0.00%
Total	**100.00%**	**100.00%**

	December 31, 2009	September 30, 2009
Fair value:		
First lien debt	64.29%	47.40%
Second lien debt	34.87%	51.37%
Purchased equity	0.08%	0.17%
Equity grants	0.73%	1.06%
Limited partnership interests	0.03%	0.00%
Total	**100.00%**	**100.00%**

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

	December 31, 2009	September 30, 2009
Cost:		
Healthcare services	10.88%	15.53%
Healthcare equipment	9.77%	0.00%
Healthcare technology	7.99%	11.37%
Home improvement retail	6.70%	0.00%
Education services	6.48%	0.00%
Fertilizers & agricultural chemicals	5.89%	0.00%
Footwear and apparel	4.90%	6.85%
Construction and engineering	4.19%	5.89%
Emulsions manufacturing	3.75%	3.59%
Trailer leasing services	3.68%	5.21%
Restaurants	3.57%	6.20%
Manufacturing — mechanical products	3.30%	4.71%
Media — Advertising	2.93%	4.10%
Data processing and outsourced services	2.89%	4.12%
Merchandise display	2.83%	3.98%
Home furnishing retail	2.79%	3.93%
Housewares & specialties	2.60%	3.68%
Air freight and logistics	2.35%	3.29%
Capital goods	2.17%	3.05%
Food distributors	1.94%	2.73%
Environmental & facilities services	1.93%	2.73%
Entertainment — theaters	1.71%	2.32%
Household products/ specialty chemicals	1.68%	2.38%
Leisure facilities	1.53%	2.20%
Building products	1.52%	2.14%
Multi-sector holdings	0.03%	0.00%
Total	**100.00%**	**100.00%**

	December 31, 2009	September 30, 2009
Fair value:		
Healthcare services	11.75%	17.21%
Healthcare equipment	10.37%	0.00%
Healthcare technology	8.40%	12.27%
Home improvement retail	7.10%	0.00%
Education services	6.87%	0.00%
Fertilizers & agricultural chemicals	6.25%	0.00%
Footwear and apparel	5.13%	7.37%
Emulsions manufacturing	4.13%	4.05%
Construction and engineering	4.13%	5.96%
Manufacturing — mechanical products	3.41%	5.03%
Restaurants	3.29%	5.94%
Media — Advertising	3.01%	4.37%
Data processing and outsourced services	3.01%	4.44%
Merchandise display	2.96%	4.36%
Air freight and logistics	2.54%	3.60%
Home furnishing retail	2.33%	3.45%
Capital goods	2.23%	3.26%
Trailer leasing services	2.07%	3.29%
Food distributors	2.03%	3.00%
Entertainment — theaters	1.80%	2.52%
Housewares & specialties	1.76%	1.90%
Leisure facilities	1.63%	2.38%
Building products	1.42%	2.06%
Environmental & facilities services	1.30%	2.04%
Household products/ specialty chemicals	1.04%	1.50%
Multi-sector holdings	0.04%	0.00%
Total	**100.00%**	**100.00%**

Portfolio Asset Quality

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

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

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

	December 31, 2009			September 30, 2009		
Investment Rating	**Fair Value**	**% of Portfolio**	**Leverage ratio**	**Fair Value**	**% of Portfolio**	**Leverage ratio**
1	$ 28,580,468	6.54%	1.88	$ 22,913,497	7.65%	1.70
2	379,016,983	86.79%	4.24	248,506,393	82.94%	4.34
3	5,685,262	1.30%	12.87	6,122,236	2.04%	10.04
4	15,726,498	3.60%	7.73	16,377,904	5.47%	8.31
5	7,684,329	1.77%	NM(1)	5,691,107	1.90%	NM(1)
Total	**$436,693,540**	**100.00%**	**4.05**	**$299,611,137**	**100.00%**	**4.42**

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

As a result of current economic conditions and their impact on certain of our portfolio companies, we have agreed to modify the payment terms of our investments in nine of our portfolio companies as of December 31, 2009. Such modified terms include increased PIK interest provisions and reduced cash interest rates. These modifications, and any future modifications to our loan agreements as a result of the current economic conditions or otherwise, may limit the amount of interest income that we recognize from the modified investments, which may, in turn, limit our ability to make distributions to our stockholders.

Loans and Debt Securities on Non-Accrual Status

As of December 31, 2009, we had stopped accruing PIK interest and original issue discount ("OID") on five investments, including two investments that had not paid their scheduled monthly cash interest payments. As of December 31, 2008, we had stopped accruing PIK interest and OID on three investments, including one investment that had not paid its scheduled monthly cash interest payments.

Income non-accrual amounts for the three months ended December 31, 2009 and December 31, 2008 were as follows:

	Three months ended December 31, 2009	**Three months ended December 31, 2008**
Cash interest income	$1,134,564	$270,507
PIK interest income	468,883	204,401
OID income	103,911	97,350
Total	**$1,707,358**	**$572,258**

Discussion and Analysis of Results and Operations

Results of Operations

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

Comparison of the three months ended December 31, 2009 and December 31, 2008

Total Investment Income

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

Total investment income for the three months ended December 31, 2009 and December 31, 2008 was approximately $13.2 million and $12.6 million, respectively. For the three months ended December 31, 2009, this amount primarily consisted of approximately $12.1 million of interest income from portfolio investments (which included approximately $2.0 million of PIK interest), and $0.9 million of fee income. For the three months ended December 31, 2009, fee income included approximately $27,000 of income from accrued exit fees. For the three months ended December 31, 2008, total investment income primarily consisted of approximately $11.4 million of interest income from portfolio investments (which included approximately $1.8 million of PIK interest), and $1.1 million of fee income. No exit fee income was recognized during the three months ended December 31, 2008.

The increase in our total investment income for the three months ended December 31, 2009 as compared to the three months ended December 31, 2008 was primarily attributable to higher average levels of outstanding debt investments, which was principally due to an increase of seven investments in our portfolio in the year-over-year period, partially offset by debt repayments received during the same period.

Expenses

Expenses (net of the waived portion of the base management fee) for the three months ended December 31, 2009 and December 31, 2008 were approximately $4.9 million and $4.4 million, respectively. Expenses increased for the three months ended December 31, 2009 as compared to the three months ended December 31, 2008 by approximately $0.5 million, primarily as a result of increases in the base management fee, the incentive fee and other general and administrative expenses.

The increase in the base management fee resulted from an increase in our total assets as reflected in the growth of the investment portfolio offset partially by our investment adviser’s unilateral decision to waive approximately $727,000 of the base management fee for the three months ended December 31, 2009. Incentive fees were implemented effective January 2, 2008 when Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp., and reflect the growth of our net investment income before such fees.

Net Investment Income

As a result of the $0.6 million increase in total investment income as compared to the $0.5 million increase in total expenses, net investment income for the three months ended December 31, 2009 reflected a $0.1 million, or 1.7%, increase compared to the three months ended December 31, 2008.

Realized Gain (Loss) on Sale of Investments

Net realized gain (loss) on the sale of investments is the difference between the proceeds received from dispositions of portfolio investments and their stated costs. During the three months ended December 31, 2009, we received a cash payment in the amount of $0.1 million, representing a payment in full of all amounts due in connection with the cancellation of our loan agreement with American Hardwoods Industries, LLC. We recorded a $0.1 million reduction to the previously recorded $10.4 million realized loss on this investment. During the three months ended December 31, 2008, we recorded no realized gains or losses on investments.

Net Change in Unrealized Appreciation or Depreciation on Investments

Net unrealized appreciation or depreciation on investments is the net change in the fair value of our investment portfolio during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. During the three months ended December 31, 2009, we recorded net unrealized appreciation of $1.0 million. This consisted of $1.2 million of net unrealized appreciation on debt investments, partially offset by $0.2 million of net unrealized depreciation on equity investments. During the three months ended December 31, 2008, we recorded net unrealized depreciation of $18.5 million. This consisted of $16.7 million of net unrealized depreciation on debt investments and $1.8 million of net unrealized depreciation on equity investments.

Financial Condition, Liquidity and Capital Resources

Cash Flows

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

For the three months ended December 31, 2009, we experienced a net decrease in cash and cash equivalents of $101.4 million. During that period, we used $129.4 million of cash in operating activities, primarily for the funding of $144.2 million of investments, partially offset by $5.9 million of principal payments received and $8.3 million of net investment income. During the same period cash provided by financing activities was $28.0 million, primarily consisting of $38.0 million of net borrowings on our credit facility partially offset by $9.7 million of cash distributions paid. We intend to fund our future distribution obligations through operating cash flow or with funds obtained through future equity offerings or credit lines, as we deem appropriate.

For the three months ended December 31, 2008, we experienced a net decrease in cash and equivalents of $15.7 million. During that period, we used $8.5 million of cash in operating activities, primarily for the funding of $23.7 million of investments, partially offset by $9.7 million of principal payments received and $8.2 million of net investment income. During the same period cash used by financing activities was $7.2 million, primarily consisting of $6.4 million of cash distributions paid and $0.5 million paid to repurchase shares of our common stock on the open market.

As of December 31, 2009, we had $11.8 million in cash and cash equivalents, portfolio investments (at fair value) of $436.7 million, $3.4 million of interest and fees receivable, $38.0 million of borrowings outstanding under our secured credit facility and unfunded commitments of $32.1 million. As of January 31, 2010, we had $28.6 million in cash and cash equivalents, $5.0 million of interest and fees receivable, no borrowings outstanding under our secured credit facility and unfunded commitments of $33.8 million.

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

Significant capital transactions that occurred from Inception through December 31, 2009

On March 30, 2007, we closed on approximately $78 million in capital commitments from the sale of limited partnership interests of Fifth Street Mezzanine Partners III, L.P. As of September 30, 2007, we had closed on additional capital commitments, bringing the total amount of capital commitments to approximately $165 million. We then closed on capital commitments from the sale of additional limited partnership interests of Fifth Street Mezzanine Partners III, L.P., bringing the total amount of capital commitments to $169.4 million as of November 28, 2007.

On 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 of Fifth Street Finance Corp.

On January 15, 2008, we entered into a $50.0 million secured revolving credit facility with the Bank of Montreal, at a rate of LIBOR plus 1.5% per annum, with a one year maturity date. The credit facility was secured by our existing investments.

On April 25, 2008, we sold 30,000 shares of non-convertible, non-participating preferred stock, with a par value of $0.01 and a liquidation preference of $500 per share, or Series A Preferred Stock, at a price of $500 per share to a company controlled by Bruce E. Toll, one of our directors at that time, for total proceeds of $15 million. For the three months ended June 30, 2008, we paid distributions of approximately $234,000 on the 30,000 shares of Series A Preferred Stock. The distribution payment is considered and included in interest expense for accounting purposes since the preferred stock has a mandatory redemption feature. On June 30, 2008, we redeemed 30,000 shares outstanding of our Series A Preferred Stock at the mandatory redemption price of 101% of the liquidation preference, or $15,150,000. The $150,000 is considered and included in interest expense for accounting purposes due to the stock's mandatory redemption feature.

On May 1, 2008, our Board of Directors declared a distribution of $0.30 per share of common stock payable to stockholders of record as of May 19, 2008. On June 3, 2008, we paid a cash distribution of $1.9 million and issued 133,316 shares of common stock totaling $1.9 million to those stockholders who did not opt out of reinvesting the distribution under our dividend reinvestment plan.

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 and received gross proceeds of approximately $141.2 million.

On August 6, 2008, our Board of Directors declared a distribution of $0.31 per share of common stock payable to stockholders of record as of September 10, 2008. On September 26, 2008, we paid a cash distribution of $5.1 million and purchased 196,786 shares of common stock totaling $1.9 million on the open market to satisfy the share obligations under the dividend reinvestment plan.

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

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

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

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

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

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

On September 16, 2009, we gave notice of termination to Bank of Montreal with respect to our $50 million credit facility.

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

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

On November 16, 2009, we entered into a three-year credit facility with Wachovia in the amount of $50 million with an accordion feature, which allows for potential future expansion of the facility up to $100 million, and bears interest at LIBOR plus 4% per annum. During the three months ended December 31, 2009, we borrowed $38.0 million under this credit facility. This amount remained outstanding at December 31, 2009.

Other Sources of Liquidity

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

Although we expect to fund the growth of our investment portfolio through the net proceeds from future equity offerings, including our dividend reinvestment plan, and issuances of senior securities or future borrowings, to the extent permitted by the 1940 Act, our plans to raise capital may not be successful. In this regard, because our common stock has at times traded at a price below our current net asset value per share and we are limited in our ability to sell our common stock at a price below net asset value per share, we may be limited in our ability to raise equity capital. Our stockholders approved a proposal at a special meeting of stockholders held on June 24, 2009 that authorizes us to sell shares of our common stock below the then-current net asset value per share in one or more offerings for a period ending on the earlier of June 24, 2010 or the date of our next annual meeting of stockholders. We do not intend to seek the approval of our stockholders at the 2010 Annual Meeting of Stockholders to sell or otherwise issue shares of our common stock at a price below the then-current net asset value per share.

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

Also, as a business development company, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200%. This requirement limits the amount that we may borrow. As of September 30, 2009, we were in compliance with this requirement. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

Finally, in light of the conditions in the financial markets and the U.S. economy overall, we have taken or are considering taking other measures to help ensure adequate liquidity, including the use of leverage through a licensed small business investment company, or SBIC, subsidiary.

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

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

SBA regulations currently limit the amount that our SBIC subsidiary may borrow up to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of December 31, 2009, our SBIC subsidiary had funded four pre-licensing investments for a total of $73 million and held $2 million in cash, which is included as regulatory capital. The SBA is expected to issue a capital commitment to our SBIC subsidiary in the near future, at which point our SBIC subsidiary would be able to access to a portion of the capital commitment. However, we cannot predict the timing for completion of an examination by the SBA, at which time the SBA reviews our SBIC subsidiary and determines whether it conforms with SBA rules and regulations. We expect to have access to the full amount over time.

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

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

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

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

We cannot assure you that we will receive the exemptive relief from the SEC or a capital commitment from the SBA necessary to begin issuing SBA-guaranteed debentures.

We cannot provide any assurance that these measures will provide sufficient sources of liquidity to support our operations and growth given the unprecedented instability in the financial markets and the weak U.S. economy.

Borrowings

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

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

The Loan Agreement and related agreements governing the Facility required both Funding and us to, among other things (i) make representations and warranties regarding the collateral as well as each of our businesses, (ii) agree to certain indemnification obligations, and (iii) comply with various covenants, servicing procedures, limitations on acquiring and disposing of assets, reporting requirements and other customary requirements for similar credit facilities. The Facility documents also included usual and customary default provisions such as the failure to make timely payments under the Facility, a change in control of Funding, and the failure by Funding or us to materially perform under the Loan 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 origination under the Facility is subject to the satisfaction of certain conditions. We cannot assure you that Funding will be able to borrow funds under the Facility at any particular time or at all.

We also gave notice of termination, effective September 16, 2009, to Bank of Montreal with respect to a $50 million revolving credit facility. The revolving credit facility was scheduled to expire on December 29, 2009 and had an interest rate of LIBOR plus 3.25% per annum.

Since our inception we have had funds available under the following agreements which we repaid or terminated prior to our election to be regulated as a business development company:

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

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

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

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of December 31, 2009, our only off-balance sheet arrangements consisted of $32.1 million of unfunded commitments, which was comprised of $30.3 million to provide debt financing to certain of our portfolio companies and $1.8 million related to unfunded limited partnership interests. As of September 30, 2009, our only off-balance sheet arrangements consisted of $9.8 million of unfunded commitments, which was comprised of $7.8 million to provide debt financing to certain of our portfolio companies and $2.0 million related to unfunded limited partnership interests. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet and are not reflected on our Consolidated Balance Sheets.

Contractual Obligations

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

	December 31, 2009	September 30, 2009
Storyteller Theaters Corporation	$ 1,500,000	$1,750,000
HealthDrive Corporation	1,500,000	1,500,000
IZI Medical Products, Inc.	2,500,000	2,500,000
Trans-Trade, Inc.	2,000,000	2,000,000
Riverlake Equity Partners II, LP (limited partnership interest)	1,000,000	1,000,000
Riverside Fund IV, LP (limited partnership interest)	846,028	1,000,000
ADAPCO, Inc.	5,750,000	—
AmBath/ReBath Holdings, Inc.	3,000,000	—
JTC Education, Inc.	10,000,000	—
Tegra Medical, LLC	4,000,000	—
Total	**$32,096,028**	**$9,750,000**

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

As discussed above, on November 16, 2009, we entered into a three-year credit facility with Wachovia, in the amount of $50 million with an accordion feature, which allows for potential future expansion of the facility up to $100 million, and bears interest at LIBOR plus 4% per annum. We also gave notice of termination, effective September 16, 2009, to Bank of Montreal with respect to our existing $50 million revolving credit facility with Bank of Montreal. The revolving credit facility with Bank of Montreal was scheduled to expire on December 29, 2009 and had an interest rate of LIBOR plus 3.25%.

Regulated Investment Company Status and Distributions

Effective as of January 2, 2008, Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp., which has elected to be treated as a business development company under the 1940 Act. We elected, effective as of January 2, 2008, to be treated as a RIC under Subchapter M of the Code. As long as we qualify as a RIC, we will not be taxed on our investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis.

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

To maintain RIC tax treatment, we must, among other things, distribute, with respect to each taxable year, at least 90% of our investment company taxable income (i.e., our net ordinary income and our realized net short-term capital gains in excess of realized net long-term capital losses, if any). As a RIC, we are also subject to a federal excise tax, based on distributive requirements of our taxable income on a calendar year basis (e.g., calendar year 2010). We anticipate timely distribution of our taxable income within the tax rules; however, we incurred a de minimis U.S. federal excise tax for calendar year 2008 and have accrued a de minimis U.S. federal excise tax for calendar year 2009. In addition, we may incur a U.S. federal excise tax in future years. We intend to make distributions to our stockholders on a quarterly basis of between 90% and 100% of our annual taxable income (which includes our taxable interest and fee income). However, in future periods, we will be partially dependent on our SBIC subsidiary for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiary may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to enable us to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC subsidiary to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. In addition, we may retain for investment some or all of our net taxable capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) and treat such amounts as deemed distributions to our stockholders. If we do this, our stockholders will be treated as if they received actual distributions of the capital gains we retained and then reinvested the net after-tax proceeds in our common stock. Our stockholders also may be eligible to claim tax credits (or, in certain circumstances, tax refunds) equal to their allocable share of the tax we paid on the capital gains deemed distributed to them. To the extent our taxable earnings for a fiscal taxable year fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders.

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

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

Related Party Transactions

We have entered into an investment advisory agreement with Fifth Street Management, our investment adviser. Fifth Street Management is controlled by Leonard M. Tannenbaum, its managing member and our president and chief executive officer. Pursuant to the investment advisory agreement, payments will be equal to (a) a base management fee of 2% of the value of our gross assets, which includes any borrowings for investment purposes, and (b) an incentive fee based on our performance.

Pursuant to the administration agreement with FSC, Inc., FSC, Inc. will furnish us with the facilities and administrative services necessary to conduct our day-to-day operations, including equipment, clerical, bookkeeping and recordkeeping services at such facilities. In addition, FSC, Inc. will assist us in connection with the determination and publishing of our net asset value, the preparation and filing of tax returns and the printing and dissemination of reports to our stockholders. We will pay FSC, Inc. our allocable portion of overhead and other expenses incurred by it in performing its obligations under the administration agreement, including a portion of the rent and the compensation of our chief financial officer and his staff, and the staff of our chief compliance officer. Each of these contracts may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other.

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.” Fifth Street Capital LLC is controlled by Mr. Tannenbaum, its managing member. 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.

Recent Devlopments

On January 6, 2010, we announced that our external investment adviser has voluntarily agreed to take the following actions:

- To waive the portion of its base management fee for the quarter ended December 31, 2009 attributable to four new portfolio investments, as well as cash and cash equivalents. The amount of the management fee being waived is approximately $727,000; and

- To permanently waive that portion of its base management fee attributable to our assets held in the form of cash and cash equivalents as of the end of each quarter beginning March 31, 2010.

For purposes of the waiver, cash and cash equivalents is as defined in the notes to our Consolidated Financial Statements.

On January 6, 2010, we filed a preliminary proxy statement with the SEC for our 2010 Annual Meeting of Stockholders. Among other things, we plan to seek stockholder approval to increase the number of authorized shares of our common stock and to remove our authority to issue shares of Series A Preferred Stock. We also announced that we do not intend to seek additional approval of our stockholders at our 2010 Annual Meeting of Stockholders to sell or otherwise issue shares of our common stock at a price below the then-current net asset value per share.

On January 6, 2010, AmBath/ReBath Holdings, Inc. drew $0.8 million on its previously undrawn credit line. Prior to the draw, our unfunded commitment was $3.0 million.

On January 12, 2010, our Board of Directors declared a distribution of $0.30 per share, payable on March 30, 2010 to stockholders of record on March 3, 2010. In connection with the distribution declaration, we also announced that as we originate more deals, we expect our quarterly distribution to continue to increase during the fiscal year. The timing and amount of any distribution is at the discretion of our Board of Directors.

On January 14, 2010, we provided a $2.5 million revolving credit line to Vanguard Vinyl, Inc. (formerly known as Best Vinyl Acquisition Corporation), of which $1.25 million was drawn at closing. This investment, along with the proceeds from the sale of a non-core asset and an additional investment by the equity sponsor, were utilized to pay off the company’s existing senior debt. In connection with this transaction, we received a first lien security interest on all of the assets of the company. On January 21, 2010, Vanguard Vinyl, Inc. drew an additional $0.25 million on this credit line.

On January 15, 2010, we repaid $0.2 million of the outstanding balance on our secured revolving credit facility with Wachovia. On January 28, 2010, we repaid $25.0 million of the outstanding balance on the facility. On January 29, 2010, we repaid in full the outstanding balance of $12.8 million on the facility.

On January 21, 2010, we announced that we have received a non-binding term sheet from a lender in connection with a potential additional credit line of up to $100 million. The term sheet is subject to completion of due diligence and execution of definitive documents. We cannot assure you that we will enter into any additional new financings.

On January 27, 2010, we completed a public offering of 7,000,000 shares of our common stock at a price of $11.20 per share. The net proceeds totaled approximately $74.9 million after deducting investment banking commissions of approximately $3.5 million.

On January 29, 2010, we closed a $21.8 million senior secured debt facility to support the acquisition of a specialty food company. The investment is backed by a private equity sponsor and $20.3 million was funded at closing. The terms of this investment include a $1.5 million revolver at an interest rate of 10% per annum, a $7.6 million Term Loan A at an interest rate of 10% per annum, and a $12.7 million Term Loan B at an interest rate of 12% per annum in cash and 3% PIK. This is a first lien facility with a scheduled maturity of five years.

On February 1, 2010, TBA Global, LLC repaid $2.5 million of principal outstanding under its Term Loan A.

On February 3, 2010, our wholly-owned subsidiary, Fifth Street Mezzanine Partners IV, L.P., received a license, effective February 1, 2010, from the SBA to operate as an SBIC under Section 301(c) of the Small Business Investment Act of 1958.

Recently Issued Accounting Standards

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

Item 3. ***Quantitative and Qualitative Disclosure about Market Risk***

We are subject to financial market risks, including changes in interest rates. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments, cash and cash equivalents and idle funds investments. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs. Our investment income will be affected by changes in various interest rates, including LIBOR and prime rates, to the extent any of our debt investments include floating interest rates. The significant majority of our debt investments are made with fixed interest rates for the term of the investment. However, as of December 31, 2009, approximately 18.9% of our debt investment portfolio (at fair value) and 18.2% of our debt investment portfolio (at cost) bore interest at floating rates. As of December 31, 2009, we had not entered into any interest rate hedging arrangements. At December 31, 2009, based on our applicable levels of floating-rate debt investments, a 1.0% change in interest rates would not have a material effect on our level of interest income from debt investments.

Our investments are carried at fair value as determined in good faith by our Board of Directors in accordance with the 1940 Act (See "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. Assuming no changes in our investment and capital structure, a hypothetical increase or decrease in discount rates of 100 basis points would increase or decrease our net assets resulting from operations by approximately $12 million.

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

(a) As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective in timely alerting them of material information relating to us that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934.

(b) Changes in Internal Controls

We have identified a significant deficiency in our internal control over financial reporting with respect to our research and application of U.S. generally accepted accounting principles, or GAAP. 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.

In particular, the significant deficiency pertains to our policy associated with investments that contain contractual exit fees. Exit fees, which are payable by borrowers to us upon the repayment to us of a loan or debt security, previously were to be recognized by us on a cash basis when received and not accrued or otherwise included in net investment income until received. None of the loans with exit fees, all of which were originated in 2008 and 2009, have been exited and, as a result, no exit fees were recognized. We concluded that this treatment revealed a significant deficiency in our internal control over financial reporting. Beginning with the quarter ended December 31, 2009, we recognize income pertaining to contractual exit fees on an accrual basis and add exit fee income to the principal balance of the related loan to the extent we determine that collection of the exit fee income is probable. Additionally, we include the cash flows of contractual exit fees that we determine are probable of collection in determining the fair value of our loans. We believe the effect of this cumulative adjustment in the quarter ended December 31, 2009 is not material to our financial statements as of any date or for any period.

We have begun the process of remediating this significant deficiency. No other change in our internal control over financial reporting during our most recent fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

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

Except as described below, there have been no material changes during the three months ended December 31, 2009 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2009.

Our wholly-owned SBIC subsidiary, Fifth Street Mezzanine Partners IV, L.P., is licensed by the SBA and is subject to SBA regulations.

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

SBA regulations currently limit the amount that our SBIC subsidiary may borrow up to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of December 31, 2009, our SBIC subsidiary had funded four pre-licensing investments for a total of $73 million and held $2 million in cash, which will be included as regulatory capital. The SBA is expected to issue a capital commitment to our SBIC subsidiary in the near future, at which point our SBIC subsidiary would be able to access a portion of the capital commitment. However, we cannot predict the timing for completion of an examination by the SBA, at which time the SBA reviews our SBIC subsidiary and determines whether it conforms with SBA rules and regulations.

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

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

We cannot assure you that we will receive the exemptive relief from the SEC or a capital commitment from the SBA necessary to begin issuing SBA-guaranteed debentures.

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

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

We have identified a significant deficiency in our internal control over financial reporting. Future control deficiencies could prevent us from accurately and timely reporting our financial results.

We have identified a significant deficiency in our internal control over financial reporting with respect to our research and application of U.S. generally accepted accounting principles, or GAAP. 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.

In particular, the significant deficiency pertains to our policy associated with investments that contain contractual exit fees. Exit fees, which are payable by borrowers to us upon the repayment to us of a loan or debt security, previously were to be recognized by us on a cash basis when received and not accrued or otherwise included in net investment income until received. None of the loans with exit fees, all of which were originated in 2008 and 2009, have been exited and, as a result, no exit fees were recognized. We concluded that this treatment revealed a significant deficiency in our internal control over financial reporting. Beginning with the quarter ended December 31, 2009, we recognize income pertaining to contractual exit fees on an accrual basis and add exit fee income to the principal balance of the related loan to the extent we determine that collection of the exit fee income is probable. Additionally, we include the cash flows of contractual exit fees that we determine are probable of collection in determining the fair value of our loans. We believe the effect of this cumulative adjustment in the quarter ended December 31, 2009 is not material to our financial statements as of any date or for any period.

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

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

We issued a total of 44,420 shares of common stock under our dividend reinvestment plan during the three months ended December 31, 2009. This issuance was not subject to the registration requirements of the Securities Act of 1933. The aggregate price for the shares of common stock issued under the dividend reinvestment plan was approximately $0.5 million.

Item 6. ***Exhibits.***

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

* Submitted herewith.

SIGNATURES

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

	Fifth Street Finance Corp.
Date: February 9, 2010	/s/ Leonard M. Tannenbaum Leonard M. Tannenbaum Chairman, President and Chief Executive Officer
Date: February 9, 2010	/s/ William H. Craig William H. Craig Chief Financial Officer

EXHIBIT INDEX

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

* Submitted herewith.

Exhibit 31.1

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended December 31, 2009 of Fifth Street Finance Corp.;

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

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

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

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's 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 9th day of February, 2010.

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

Exhibit 31.2

I, William H. Craig, Chief Financial Officer of Fifth Street Finance Corp., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended December 31, 2009 of Fifth Street Finance Corp.;

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

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

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

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's 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 9th day of February, 2010.

By: /s/ William H. Craig
William H. Craig
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended **December 31, 2009** (the “Report”) of **Fifth Street Finance Corp.** (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, **Leonard M. Tannenbaum,** the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

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

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

/s/ Leonard M. Tannenbaum
Name: Leonard M. Tannenbaum
Date: February 9, 2010

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended **December 31, 2009** (the “Report”) of **Fifth Street Finance Corp.** (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, **William H. Craig,** 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/ William H. Craig
Name: William H. Craig
Date: February 9, 2010