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, 2010

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 55,059,057 shares of common stock outstanding as of January 28, 2011.

FIFTH STREET FINANCE CORP.

FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2010

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PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Fifth Street Finance Corp.
Consolidated Statements of Assets and Liabilities
(unaudited)

	December 31, 2010	September 30, 2010
Assets		
Investments at fair value:		
Control investments (cost 12/31/10: $9,681,508; cost 9/30/10: $12,195,029)	$ 9,088,988	$ 3,700,000
Affiliate investments (cost 12/31/10: $50,136,804; cost 9/30/10: $50,133,521)	45,645,034	47,222,059
Non-control/Non-affiliate investments (cost 12/31/10: $695,146,171; cost 9/30/10: $530,168,045)	687,661,313	512,899,257
Total investments at fair value (cost 12/31/10: $754,964,483; cost 9/30/10: $592,496,595)	**742,395,335**	**563,821,316**
Cash and cash equivalents	43,020,557	76,765,254
Interest and fees receivable	4,663,901	3,813,757
Due from portfolio company	151,962	103,426
Deferred financing costs	7,026,645	5,465,964
Collateral posted to bank and other assets	1,517,868	1,956,013
Total Assets	**$798,776,268**	**$651,925,730**
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 708,382	$ 1,322,282
Base management fee payable	3,778,779	2,875,802
Incentive fee payable	3,513,901	2,859,139
Due to FSC, Inc.	1,261,541	1,083,038
Interest payable	1,147,642	282,640
Payments received in advance from portfolio companies	1,146,210	1,330,724
Loans payable	89,000,000	—
SBA debentures payable	123,300,000	73,000,000
Total Liabilities	**223,856,455**	**82,753,625**
Net Assets:		
Common stock, $0.01 par value, 150,000,000 shares authorized, 55,059,057 and 54,550,290 shares issued and outstanding at December 31, 2010 and September 30, 2010	550,591	545,503
Additional paid-in-capital	625,519,180	619,759,984
Net unrealized depreciation on investments and interest rate swap	(12,606,190)	(29,448,713)
Net realized loss on investments	(46,541,180)	(33,090,961)
Accumulated undistributed net investment income	7,997,412	11,406,292
Total Net Assets (equivalent to $10.44 and $10.43 per common share at December 31, 2010 and September 30, 2010) (Note 12)	**574,919,813**	**569,172,105**
Total Liabilities and Net Assets	**$798,776,268**	**$651,925,730**

See notes to Consolidated Financial Statements.

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

	Three months ended December 31, 2010	Three months ended December 31, 2009
Interest income:		
Control investments	$ 969	$ 224,746
Affiliate investments	1,162,516	2,259,501
Non-control/Non-affiliate investments	16,489,184	7,673,326
Interest on cash and cash equivalents	9,136	195,662
Total interest income	**17,661,805**	**10,353,235**
PIK interest income:		
Control investments	33,333	—
Affiliate investments	281,800	331,616
Non-control/Non-affiliate investments	2,828,555	1,630,158
Total PIK interest income	**3,143,688**	**1,961,774**
Fee income:		
Control investments	126,486	—
Affiliate investments	133,554	253,777
Non-control/Non-affiliate investments	4,267,216	661,364
Total fee income	**4,527,256**	**915,141**
Dividend and other income:		
Control investments	—	—
Affiliate investments	—	—
Non-control/Non-affiliate investments	2,434	11,333
Total dividend and other income	**2,434**	**11,333**
Total Investment Income	**25,335,183**	**13,241,483**
Expenses:		
Base management fee	3,778,779	2,267,003
Incentive fee	3,513,901	2,087,264
Professional fees	690,489	301,605
Board of Directors fees	49,500	38,000
Interest expense	1,938,710	91,179
Administrator expense	354,169	251,818
General and administrative expenses	954,033	582,623
Total expenses	**11,279,581**	**5,619,492**
Base management fee waived	—	(727,067)
Net expenses	**11,279,581**	**4,892,425**
Net Investment Income	**14,055,602**	**8,349,058**
Unrealized appreciation on interest rate swap	**736,390**	—
Unrealized appreciation (depreciation) on investments:		
Control investments	8,070,596	1,993,222
Affiliate investments	(1,580,308)	399,934
Non-control/Non-affiliate investments	9,615,845	(1,393,862)
Net unrealized appreciation on investments	**16,106,133**	**999,294**
Realized gain (loss) on investments:		
Control investments	(7,765,119)	—
Affiliate investments	—	—
Non-control/Non-affiliate investments	(5,685,100)	106,000
Net realized gain (loss) on investments	**(13,450,219)**	**106,000**
Net increase in net assets resulting from operations	**$ 17,447,906**	**$ 9,454,352**
Net investment income per common share — basic and diluted	**$ 0.26**	**$ 0.22**
Earnings per common share — basic and diluted	**$ 0.32**	**$ 0.25**
Weighted average common shares— basic and diluted	54,641,164	37,880,435

See notes to Consolidated Financial Statements.

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

	Three months ended December 31, 2010	Three months ended December 31, 2009
Operations:		
Net investment income	$ 14,055,602	$ 8,349,058
Net unrealized appreciation on investments and interest rate swap	16,842,523	999,294
Net realized gain (loss) on investments	(13,450,219)	106,000
Net increase in net assets from operations	**17,447,906**	**9,454,352**
Stockholder transactions:		
Distributions to stockholders from net investment income	(17,464,482)	(10,227,326)
Net decrease in net assets from stockholder transactions	**(17,464,482)**	**(10,227,326)**
Capital share transactions:		
Issuance of common stock, net	4,814,310	(12,138)
Issuance of common stock under dividend reinvestment plan	949,974	486,392
Net increase in net assets from capital share transactions	**5,764,284**	**474,254**
Total increase (decrease) in net assets	**5,747,708**	**(298,720)**
Net assets at beginning of period	569,172,105	410,556,071
Net assets at end of period	**$574,919,813**	**$410,257,351**
Net asset value per common share	**$ 10.44**	**$ 10.82**
Common shares outstanding at end of period	55,059,057	37,923,407

See notes to Consolidated Financial Statements.

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

	Three months ended December 31, 2010	Three months ended December 31, 2009
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 17,447,906	$ 9,454,352
Adjustments to reconcile net increase in net assets resulting from operations to net cash used by operating activities:		
Net unrealized appreciation on investments and interest rate swap	(16,842,523)	(999,294)
Net realized (gains) losses on investments	13,450,219	(106,000)
PIK interest income	(3,143,688)	(1,961,774)
Recognition of fee income	(4,527,256)	(915,141)
Accretion of original issue discount on investments	(388,637)	(220,943)
Amortization of deferred financing costs	409,095	—
Change in operating assets and liabilities:		
PIK interest income received in cash	5,109,022	525,194
Fee income received	8,005,581	4,834,926
Increase in interest and fees receivable	(850,144)	(575,625)
Increase in due from portfolio company	(48,536)	(27,269)
(Increase) decrease in collateral posted to bank and other assets	438,145	(984,419)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	122,488	(448,360)
Increase (decrease) in base management fee payable	902,977	(12,224)
Increase in incentive fee payable	654,762	143,001
Increase in due to FSC, Inc.	178,503	24,115
Increase in interest payable	865,002	49,513
Increase (decrease) in payments received in advance from portfolio companies	(184,514)	58,640
Purchase of investments	(238,577,119)	(144,203,972)
Proceeds from the sale of investments	—	106,000
Principal payments received on investments (scheduled repayments and revolver paydowns)	7,883,358	1,973,601
Principal payments received on investments (payoffs)	49,720,635	3,885,000
Net cash used by operating activities	**(159,374,724)**	**(129,400,679)**
Cash flows from financing activities:		
Dividends paid in cash	(16,514,508)	(9,740,934)
Borrowings under SBA debentures payable	50,300,000	—
Borrowings under credit facilities	126,000,000	38,000,000
Repayments of borrowings under credit facilities	(37,000,000)	—
Deferred financing costs paid	(1,969,775)	—
Proceeds from the issuance of common stock	4,992,802	—
Offering costs paid	(178,492)	(281,358)
Net cash provided by financing activities	**125,630,027**	**27,977,708**
Net decrease in cash and cash equivalents	**(33,744,697)**	**(101,422,971)**
Cash and cash equivalents, beginning of period	76,765,254	113,205,287
Cash and cash equivalents, end of period	**$ 43,020,557**	**$ 11,782,316**
Supplemental Information:		
Cash paid for interest	$ 664,613	$ —
Non-cash financing activities:		
Issuance of shares of common stock under dividend reinvestment plan	$ 949,974	$ 486,392

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.
Consolidated Schedule of Investments
December 31, 2010
(unaudited)

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Control Investments (3)				
Lighting By Gregory, LLC (13)(14)	Housewares & Specialties			
First Lien Term Loan A, 9.75% due 2/28/2013		$ 4,055,655	$ 3,996,187	$ 4,055,655
First Lien Bridge Loan, 8% due 10/15/2010		155,404	150,000	—
97.38% membership interest			410,000	—
			4,556,187	**4,055,655**
Nicos Polymers & Grinding Inc. (15)	Environmental & facilities services			
First Lien Term Loan, 8% due 12/4/2017		5,033,333	4,957,235	5,033,333
First Lien Revolver, 8% due 12/4/2017		—	—	—
50% Membership Interest in CD Holdco, LLC			168,086	—
			5,125,321	**5,033,333**
Total Control Investments			**$ 9,681,508**	**$ 9,088,988**
Affiliate Investments (4)				
O'Currance, Inc.	Data Processing & Outsourced Services			
First Lien Term Loan A, 16.875% due 3/21/2012		11,073,880	$10,997,715	$10,879,458
First Lien Term Loan B, 16.875%, due 3/21/2012		1,872,993	1,851,757	1,913,528
1.75% Preferred Membership interest in O'Currance Holding Co., LLC			130,413	3,587
3.3% Membership Interest in O'Currance Holding Co., LLC			250,000	—
			13,229,885	**12,796,573**
MK Network, LLC (13)(14)	Education services			
First Lien Term Loan A, 13.5% due 6/1/2012		9,789,304	9,539,188	6,928,697
First Lien Term Loan B, 17.5% due 6/1/2012		4,950,941	4,748,004	3,448,666
First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010 (10)		—	—	—
11,030 Membership Units (6)			771,575	—
			15,058,767	**10,377,363**
Caregiver Services, Inc.	Healthcare services			
Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013		6,783,839	6,492,617	6,768,521
Second Lien Term Loan B, 16.5% due 2/25/2013		14,808,616	14,275,137	14,353,376
1,080,399 shares of Series A Preferred Stock			1,080,398	1,349,201
			21,848,152	**22,471,098**
Total Affiliate Investments			**$50,136,804**	**$45,645,034**
Non-Control/Non-Affiliate Investments (7)				
CPAC, Inc.	Household Products			
Subordinated Term Loan, 12.5% due 6/1/2012		1,098,928	$ 1,098,928	$ 1,098,928
			1,098,928	**1,098,928**

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Repechage Investments Limited	Restaurants			
First Lien Term Loan, 15.5% due 10/16/2011		3,584,394	3,388,830	3,417,458
7,500 shares of Series A Preferred Stock of Elephant & Castle, Inc.			750,000	438,902
			4,138,830	**3,856,360**
Traffic Control & Safety Corporation	Construction and Engineering			
Senior Term Loan A, 7.741% due 6/29/2012		2,361,779	2,243,690	2,243,690
Senior Term Loan B, 5.29% due 6/29/2012		2,846,473	2,704,149	2,704,149
Senior Term Loan C, 5.29% due 6/29/2012		4,027,956	3,826,558	3,826,558
Senior Revolver, 5.29% due 6/29/2012		5,250,000	4,987,501	4,987,501
Second Lien Term Loan, 15% due 5/28/2015 (9)		20,174,355	19,942,451	19,742,401
Subordinated Loan, 15% due 5/28/2015		4,755,534	4,755,534	4,221,399
24,750 shares of Series B Preferred Stock			247,500	—
43,494 shares of Series D Preferred Stock (6)			434,937	—
25,000 shares of Common Stock			2,500	—
			39,144,820	**37,725,698**
TBA Global, LLC	Advertising			
53,994 Senior Preferred Shares			215,975	215,975
191,977 Shares A Shares			191,977	179,240
			407,952	**395,215**
Fitness Edge, LLC	Leisure facilities			
First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012		1,125,000	1,121,180	1,125,818
First Lien Term Loan B, 15% due 8/8/2012		5,667,603	5,619,154	5,726,159
1,000 Common Units (6)			42,908	121,545
			6,783,242	**6,973,522**
Filet of Chicken (9)	Food Distributors			
Second Lien Term Loan, 14.5% due 7/31/2012		9,327,820	9,108,209	9,023,399
			9,108,209	**9,023,399**
Boot Barn (9)	Apparel, accessories & luxury goods			
247.06 shares of Series A Preferred Stock			247,060	71,394
1,308 shares of Common Stock			131	—
			247,191	**71,394**
Premier Trailer Leasing, Inc. (9)(13)(14)	Trucking			
Second Lien Term Loan, 16.5% due 10/23/2012		18,606,639	17,063,645	4,597,412
285 shares of Common Stock			1,140	—
			17,064,785	**4,597,412**
Pacific Press Technologies, Inc. (9)				
Second Lien Term Loan, 14.75% due 1/10/2013	Industrial machinery	10,123,432	9,877,279	9,917,997
33,463 shares of Common Stock			344,513	739,542
			10,221,792	**10,657,539**
Rail Acquisition Corp. (9)	Electronic manufacturing services			
First Lien Term Loan, 17% due 9/1/2013		16,821,351	14,042,454	11,680,404
First Lien Revolver, 7.85% due 9/1/2013		4,959,135	4,959,135	4,959,135

	19,001,589	**16,639,539**

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Western Emulsions, Inc. (9)	Construction materials			
Second Lien Term Loan, 15% due 6/30/2014		6,615,232	6,477,386	6,477,386
			6,477,386	**6,477,386**
Storyteller Theaters Corporation	Movies & entertainment			
1,692 shares of Common Stock			169	61,613
20,000 shares of Preferred Stock			200,000	200,000
			200,169	**261,613**
HealthDrive Corporation (9)	Healthcare services			
First Lien Term Loan A, 10% due 7/17/2013		6,562,970	6,255,358	6,485,832
First Lien Term Loan B, 13% due 7/17/2013		10,204,760	10,104,760	10,082,408
First Lien Revolver, 12% due 7/17/2013		500,000	490,000	546,086
			16,850,118	**17,114,326**
idX Corporation	Distributors			
Second Lien Term Loan, 14.5% due 7/1/2014		13,658,366	13,436,082	13,415,216
			13,436,082	**13,415,216**
Cenegenics, LLC	Healthcare services			
First Lien Term Loan, 17% due 10/27/2014		20,051,045	19,186,297	19,569,475
414,419 Common Units (6)			598,382	1,319,149
			19,784,679	**20,888,624**
IZI Medical Products, Inc.	Healthcare technology			
First Lien Term Loan A, 12% due 3/31/2014		4,249,775	4,196,179	4,232,773
First Lien Term Loan B, 16% due 3/31/2014		17,259,468	16,743,527	17,113,683
First Lien Revolver, 10% due 3/31/2014 (11)		—	(32,500)	—
453,755 Preferred units of IZI Holdings, LLC (6)			453,755	647,069
			21,360,961	**21,993,525**
Trans-Trade, Inc.	Air freight & logistics			
First Lien Term Loan, 15.5% due 9/10/2014		16,006,996	15,710,301	15,878,390
First Lien Revolver, 12% due 9/10/2014		2,000,000	1,890,667	1,956,755
			17,600,968	**17,835,145**
Riverlake Equity Partners II, LP	Multi-sector holdings			
1.89% limited partnership interest			122,105	122,105
			122,105	**122,105**
Riverside Fund IV, LP	Multi-sector holdings			
0.25% limited partnership interest			321,417	321,417
			321,417	**321,417**
ADAPCO, Inc.	Fertilizers & agricultural chemicals			
First Lien Term Loan A, 10% due 12/17/2014		8,500,000	8,311,428	8,365,910
First Lien Term Loan B, 14% due 12/17/2014		14,298,448	13,985,575	14,002,842
First Lien Term Revolver, 10% due 12/17/2014		4,250,000	4,026,520	4,170,584
			26,323,523	**26,539,336**

Ambath/Rebath Holdings, Inc.	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (10% floor) due 12/30/2014		9,250,000	9,048,648	8,951,281
First Lien Term Loan B, 15% due 12/30/2014		22,567,297	22,101,997	21,922,954
First Lien Term Revolver, LIBOR+6.5% (9.5% floor) due 12/30/2014		1,500,000	1,436,550	1,444,374
			32,587,195	**32,318,609**

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
JTC Education, Inc.	Education services			
First Lien Term Loan, LIBOR+9.5% (12.5% floor) due 12/31/2014		30,859,375	30,093,388	30,457,010
First Lien Revolver, LIBOR+9.5% (12.5% floor) due 12/31/2014 (11)		—	(377,222)	—
			29,716,166	**30,457,010**
Tegra Medical, LLC	Healthcare equipment			
First Lien Term Loan A, LIBOR+7% (10% floor) due 12/31/2014		25,480,000	25,075,398	25,525,452
First Lien Term Loan B, 14% due 12/31/2014		22,212,109	21,864,318	22,164,301
First Lien Revolver, LIBOR+7% (10% floor) due 12/31/2014 (11)		—	(62,667)	—
			46,877,049	**47,689,753**
Flatout, Inc.	Food retail			
First Lien Term Loan A, 10% due 12/31/2014		7,050,000	6,888,024	6,927,166
First Lien Term Loan B, 15% due 12/31/2014		12,863,830	12,560,321	12,686,564
First Lien Revolver, 10% due 12/31/2014 (11)		—	(35,847)	—
			19,412,498	**19,613,730**
Psilos Group Partners IV, LP	Multi-sector holdings			
2.52% limited partnership interest (12)			—	—
Mansell Group, Inc.	Advertising			
First Lien Term Loan A, LIBOR+7% (10% floor) due 4/30/2015		9,937,500	9,755,254	9,753,678
First Lien Term Loan B, LIBOR+9% (12% floor) due 4/30/2015		8,046,018	7,898,194	7,995,656
First Lien Revolver, LIBOR+6% (9% floor) due 4/30/2015 (11)		—	(34,667)	—
			17,618,781	**17,749,334**
NDSSI Holdings, Inc.	Electronic equipment & instruments			
First Lien Term Loan, LIBOR+9.75% (12.75% floor) due 4/30/2015		30,132,293	29,603,069	29,284,795
First Lien Revolver, LIBOR+7% (10% floor) due 4/30/2015		3,500,000	3,415,385	3,397,632
			33,018,454	**32,682,427**
Eagle Hospital Physicians, Inc.	Healthcare services			
First Lien Term Loan, LIBOR+8.75% (11.75% floor) due 8/11/2015		8,000,000	7,801,966	7,808,773
First Lien Revolver, LIBOR+5.75% (8.75% floor) due 8/11/2015		—	(60,076)	—
			7,741,890	**7,803,773**
Enhanced Recovery Company, LLC	Diversified support services			
First Lien Term Loan A, LIBOR+7% (9% floor) due 8/13/2015		15,250,000	14,950,346	14,892,359
First Lien Term Loan B, LIBOR+10% (13% floor) due 8/13/2015		11,043,150	10,827,388	10,928,166
First Lien Revolver, LIBOR+7% (9% floor) due 8/13/2015		—	(78,459)	—
			25,699,275	**25,820,525**
Epic Acquisition, Inc.	Healthcare services			
First Lien Term Loan A, LIBOR+8% (11% floor) due 8/13/2015		9,685,000	9,459,263	9,423,141
First Lien Term Loan B, 15.25% due 8/13/2015		17,031,895	16,624,539	16,680,678
First Lien Revolver, LIBOR+6.5% (9.5% floor) due 8/13/2015		800,000	728,544	779,105
			26,812,346	**26,882,924**

Specialty Bakers LLC	Food distributors			
First Lien Term Loan A, LIBOR+8.5% due 9/15/2015		9,000,000	8,769,920	8,799,561
First Lien Term Loan B, LIBOR+11% (13.5% floor) due 9/15/2015		11,000,000	10,723,533	10,706,353
First Lien Revolver, LIBOR+8.5% due 9/15/2015		—	(100,533)	—
			19,392,920	**19,505,914**

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
CRGT, Inc.	IT consulting & other services			
First Lien Term Loan A, LIBOR+7.5% due 10/1/2015		29,000,000	28,460,094	29,000,000
First Lien Term Loan B, 12.5% due 10/1/2015		22,000,000	21,582,000	22,000,000
First Lien Revolver, LIBOR+7.5% due 10/1/2015		—	(237,500)	—
			49,804,594	**51,000,000**
Welocalize, Inc.	Internet software & services			
First Lien Term Loan A, LIBOR+8% (10% floor) due 11/19/2015		16,400,000	16,079,508	16,400,000
First Lien Term Loan, LIBOR+9% (12.25% floor) due 11/19/2015		21,030,634	20,624,634	21,030,634
First Lien Revolver, LIBOR+7% (9% floor) due 11/19/2015		1,250,000	1,134,000	1,250,000
2,086,163 Common Units in RPWL Holdings, LLC			2,086,163	2,086,163
			39,924,305	**40,766,797**
Miche Bag, LLC	Apparel, accessories & luxury goods			
First Lien Term Loan B, LIBOR+9% (12% floor) due 12/7/2013		15,500,000	15,118,187	15,500,000
First Lien Term Loan, LIBOR+10% (16% floor) due 12/7/2015		17,034,000	14,152,177	14,534,000
First Lien Revolver, LIBOR+7% (10% floor) due 12/7/2015		—	(124,555)	—
10,371 Preferred Equity units in Miche Holdings, LLC			1,037,112	1,037,112
146,289 Series D Common Equity units in Miche Holdings, LLC			1,462,888	1,462,888
			31,645,809	**32,534,000**
Bunker Hill Capital II (QP), L.P.	Multi-sector holdings			
0.50% limited partnership interest (12)			—	—
			—	—
Dominion Diagnostics, LLC	Healthcare services			
First Lien Term Loan A, LIBOR+7% (9% floor) due 12/17/2015		30,750,000	30,140,651	30,750,000
First Lien Term Loan, LIBOR+9% (12.5% floor) due 12/17/2015		20,008,333	19,615,000	20,008,333
First Lien Revolver, LIBOR+6.5% (9% floor) due 12/17/2015		—	(98,083)	—
			49,657,568	**50,758,333**
Advanced Pain Management	Healthcare services			
First Lien Term Loan, LIBOR+5% (6.75% floor) due 12/22/2015		8,200,000	8,056,673	8,200,000
First Lien Revolver, LIBOR+5% (6.75% floor) due 12/22/2015		—	(5,900)	—
			8,050,773	**8,200,000**
DISA, Inc.	Human resources & employment services			
First Lien Term Loan A, LIBOR+7.5% (8.25% floor) due 12/30/2015		13,000,000	12,727,732	13,000,000
First Lien Term Loan B, LIBOR+11.5% (12.5% floor) due 12/30/2015		8,300,346	8,128,965	8,300,346
First Lien Revolver, LIBOR+6% (7% floor) due 12/30/2015		—	(82,593)	—
			20,774,104	**21,300,346**
Saddleback Fence and Vinyl Products, Inc. (9) (16)	Building products			
First Lien Term Loan, 8% due 11/30/2013		757,516	757,516	757,516

First Lien Revolver, 8% due 11/30/2011	—	—	—
		757,516	**757,516**

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Best Vinyl Fence & Deck, LLC (9) (16)	Building Products			
First Lien Term Loan A, 8% due 11/30/2013		2,020,043	1,916,192	2,020,043
First Lien Term Loan B, 8% due 5/31/2011		3,787,580	3,787,580	3,787,580
First Lien Revolver, 8% due 11/30/2011		—	—	—
25,641 Shares of Series A Preferred Stock in Vanguard Vinyl, Inc.			253,846	—
25,641 Shares of Common Stock in Vanguard Vinyl, Inc.			2,564	—
			5,960,182	**5,807,623**
Total Non-Control/Non-Affiliate Investments			**$695,146,171**	**$687,661,313**
Total Portfolio Investments			**$754,964,483**	**$742,395,335**

(1) All debt investments are income producing unless otherwise noted in (13) or (14). Equity is non-income producing unless otherwise noted.

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

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

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

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

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

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

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

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

Portfolio Company	Effective date	Cash interest	PIK interest	Reason
Traffic Control & Safety Corp.	May 28, 2010	- 4.0% on Term Loan	+ 1.0% on Term Loan	Per restructuring agreement
Filet of Chicken	October 1, 2010	+ 1.0% on Term Loan	+ 1.0% on Term Loan	Tier pricing per waiver agreement
Premier Trailer Leasing, Inc.	August 4, 2009	+ 4.0% on Term Loan		Default interest per credit agreement
HealthDrive Corporation	April 30, 2009	+ 2.0% on Term Loan A		Per waiver agreement

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

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

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

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

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

(15) On October 13, 2010, Nicos Polymers & Grinding, Inc., an existing portfolio company, filed for Chapter 11 bankruptcy as part of a restructuring of that investment. On December 2, 2010, the Company and the major shareholder of Nicos Polymers & Grinding, Inc. closed on a restructuring agreement via an out of court foreclosure process, resulting in a restructured facility and these terms.

(16) On November 4, 2010, the Company held a foreclosure auction of the assets of Vanguard Vinyl, Inc., an existing portfolio company, as part of a loan restructuring. The restructuring broke up Vanguard Vinyl, Inc. into two operating companies. Saddleback Fence and Vinyl Products, Inc., which is located in California, and Best Vinyl Fence & Deck, LLC, which will manage operations in Utah and Hawaii, and resulted in a restructured facility and these terms.

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Schedule of Investments
September 30, 2010

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Control Investments(3)				
Lighting By Gregory, LLC(13)(14)	Housewares & Specialties			
First Lien Term Loan A, 9.75% due 2/28/2013		$ 5,419,495	$ 4,728,589	$ 1,503,716
First Lien Term Loan B, 14.5% due 2/28/2013		8,575,783	6,906,440	2,196,284
First Lien Bridge Loan, 8% due 10/15/2010		152,312	150,000	—
97.38% membership interest			410,000	—
			12,195,029	**3,700,000**
Total Control Investments			**$12,195,029**	**$ 3,700,000**
Affiliate Investments(4)				
O'Currance, Inc.	Data Processing & Outsourced Services			
First Lien Term Loan A, 16.875% due 3/21/2012		10,961,448	$10,869,262	$10,805,775
First Lien Term Loan B, 16.875%, due 3/21/2012		1,853,976	1,828,494	1,896,645
1.75% Preferred Membership interest in O'Currance Holding Co., LLC			130,413	38,592
3.3% Membership Interest in O'Currance Holding Co., LLC			250,000	—
			13,078,169	**12,741,012**
MK Network, LLC(13)(14)	Education services			
First Lien Term Loan A, 13.5% due 6/1/2012		9,740,358	9,539,188	7,913,140
First Lien Term Loan B, 17.5% due 6/1/2012		4,926,187	4,748,004	3,938,660
First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010(10)		—	—	—
11,030 Membership Units(6)			771,575	—
			15,058,767	**11,851,800**
Caregiver Services, Inc.	Healthcare services			
Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013		7,141,190	6,813,431	7,113,622
Second Lien Term Loan B, 16.5% due 2/25/2013		14,692,015	14,102,756	14,179,626
1,080,399 shares of Series A Preferred Stock			1,080,398	1,335,999
			21,996,585	**22,629,247**
Total Affiliate Investments			**$50,133,521**	**$47,222,059**
Non-Control/Non-Affiliate Investments(7)				
CPAC, Inc.	Household Products			
Subordinated Term Loan, 12.5% due 6/1/2012		1,064,910	$ 1,064,910	$ 1,064,910
			1,064,910	**1,064,910**
Vanguard Vinyl, Inc.(9)(13)(14)	Building Products			
First Lien Term Loan, 12% due 3/30/2013		7,000,000	6,827,373	5,812,199
First Lien Revolver, LIBOR+7% (10% floor) due 3/30/2013		1,250,000	1,207,895	1,029,268
25,641 Shares of Series A Preferred Stock			253,846	—
25,641 Shares of Common Stock			2,564	—
			8,291,678	**6,841,467**
Repechage Investments Limited	Restaurants			
First Lien Term Loan, 15.5% due 10/16/2011		3,708,971	3,475,906	3,486,342
7,500 shares of Series A Preferred Stock of Elephant & Castle, Inc.			750,000	354,114
			4,225,906	**3,840,456**

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Fifth Street Finance Corp.

Consolidated Schedule of Investments
September 30, 2010

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Traffic Control & Safety Corporation(9)	Construction and Engineering			
Second Lien Term Loan, 15% due 5/28/2015		19,969,524	19,724,493	19,440,090
Subordinated Loan, 15% due 5/28/2015		4,577,800	4,577,800	4,404,746
24,750 shares of Series B Preferred Stock			247,500	—
43,494 shares of Series D Preferred Stock(6)			434,937	—
25,000 shares of Common Stock			2,500	—
			24,987,230	**23,844,836**
Nicos Polymers & Grinding Inc.(9)(13)(14)	Environmental & facilities services			
First Lien Term Loan A, LIBOR+5% (10% floor), due 7/17/2012		3,154,876	3,040,465	1,782,181
First Lien Term Loan B, 13.5% due 7/17/2012		6,180,185	5,713,125	3,347,672
3.32% Interest in Crownbrook Acquisition I LLC			168,086	—
			8,921,676	**5,129,853**
TBA Global, LLC(9)	Advertising			
Second Lien Term Loan B, 14.5% due 8/3/2012		10,840,081	10,594,939	10,625,867
53,994 Senior Preferred Shares			215,975	215,975
191,977 Shares A Shares			191,977	179,240
			11,002,891	**11,021,082**
Fitness Edge, LLC	Leisure Facilities			
First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012		1,250,000	1,245,136	1,247,418
First Lien Term Loan B, 15% due 8/8/2012		5,631,547	5,575,477	5,674,493
1,000 Common Units (6)			42,908	118,132
			6,863,521	**7,040,043**
Filet of Chicken(9)	Food Distributors			
Second Lien Term Loan, 14.5% due 7/31/2012		9,316,518	9,063,155	8,964,766
			9,063,155	**8,964,766**
Boot Barn(9)	Apparel, accessories & luxury goods			
Second Lien Term Loan, 14.5% due 10/3/2013		23,545,479	23,288,566	23,477,539
247.06 shares of Series A Preferred Stock			247,060	71,394
1,308 shares of Common Stock			131	—
			23,535,757	**23,548,933**
Premier Trailer Leasing, Inc.(9)(13)(14)	Trucking			
Second Lien Term Loan, 16.5% due 10/23/2012		18,452,952	17,063,645	4,597,412
285 shares of Common Stock			1,140	—
			17,064,785	**4,597,412**
Pacific Press Technologies, Inc.(9)				
Second Lien Term Loan, 14.75% due 7/10/2013	Industrial machinery	10,071,866	9,798,901	9,829,869
33,786 shares of Common Stock			344,513	402,894
			10,143,414	**10,232,763**
Goldco, LLC				
Second Lien Term Loan, 17.5% due 1/31/2013	Restaurants	8,355,688	8,259,479	8,259,479
			8,259,479	**8,259,479**
Rail Acquisition Corp.(9)	Electronic manufacturing services			
First Lien Term Loan, 17% due 9/1/2013		16,315,866	13,536,969	12,854,425
First Lien Revolver, 7.85% due 9/1/2013		5,201,103	5,201,103	5,201,103
			18,738,072	**18,055,528**

Fifth Street Finance Corp.

Consolidated Schedule of Investments
September 30, 2010

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Western Emulsions, Inc.(9)	Construction materials			
Second Lien Term Loan, 15% due 6/30/2014		17,864,713	17,475,899	17,039,751
			17,475,899	**17,039,751**
Storyteller Theaters Corporation	Movies & entertainment			
1,692 shares of Common Stock			169	61,613
20,000 shares of Preferred Stock			200,000	200,000
			200,169	**261,613**
HealthDrive Corporation(9)	Healthcare services			
First Lien Term Loan A, 10% due 7/17/2013		6,662,970	6,324,339	6,488,990
First Lien Term Loan B, 13% due 7/17/2013		10,178,726	10,068,726	9,962,414
First Lien Revolver, 12% due 7/17/2013		500,000	489,000	508,967
			16,882,065	**16,960,371**
idX Corporation	Distributors			
Second Lien Term Loan, 14.5% due 7/1/2014		13,588,794	13,350,633	13,258,317
			13,350,633	**13,258,317**
Cenegenics, LLC	Healthcare services			
First Lien Term Loan, 17% due 10/27/2014		20,172,004	19,257,215	19,544,864
414,419 Common Units(6)			598,382	1,417,886
			19,855,597	**20,962,750**
IZI Medical Products, Inc.	Healthcare technology			
First Lien Term Loan A, 12% due 3/31/2014		4,449,775	4,387,947	4,406,684
First Lien Term Loan B, 16% due 3/31/2014		17,258,033	16,702,405	17,092,868
First Lien Revolver, 10% due 3/31/2014(11)		—	(35,000)	(35,000)
453,755 Preferred units of IZI Holdings, LLC (6)			453,755	676,061
			21,509,107	**22,140,613**
Trans-Trade, Inc.	Air freight & logistics			
First Lien Term Loan, 15.5% due 9/10/2014		12,751,463	12,536,099	12,549,159
First Lien Revolver, 12% due 9/10/2014		1,500,000	1,468,667	1,491,373
			14,004,766	**14,040,532**
Riverlake Equity Partners II, LP	Multi-sector holdings			
1.87% limited partnership interest			33,640	33,640
			33,640	**33,640**
Riverside Fund IV, LP	Multi-sector holdings			
0.33% limited partnership interest			135,825	135,825
			135,825	**135,825**
ADAPCO, Inc.	Fertilizers & agricultural chemicals			
First Lien Term Loan A, 10% due 12/17/2014		9,000,000	8,789,498	8,806,763
First Lien Term Loan B, 14% due 12/17/2014		14,225,615	13,892,772	13,897,677
First Lien Term Revolver, 10% due 12/17/2014		4,250,000	4,012,255	4,107,420
			26,694,525	**26,811,860**

Fifth Street Finance Corp.

Consolidated Schedule of Investments
September 30, 2010

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Ambath/Rebath Holdings, Inc.	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (10% floor) due 12/30/2014		9,500,000	9,277,900	9,127,886
First Lien Term Loan B, 15% due 12/30/2014		22,423,729	21,920,479	21,913,276
First Lien Term Revolver, LIBOR+6.5% (9.5% floor) due 12/30/2014		1,500,000	1,432,500	1,442,696
			32,630,879	**32,483,858**
JTC Education, Inc.	Education services			
First Lien Term Loan, LIBOR+9.5% (12.5% floor) due 12/31/2014		31,054,688	30,243,946	30,660,049
First Lien Revolver, LIBOR+9.5% (12.5% floor) due 12/31/2014(11)		—	(401,111)	(401,111)
			29,842,835	**30,258,938**
Tegra Medical, LLC	Healthcare equipment			
First Lien Term Loan A, LIBOR+7% (10% floor) due 12/31/2014		26,320,000	25,877,206	26,250,475
First Lien Term Loan B, 14% due 12/31/2014		22,098,966	21,729,057	22,114,113
First Lien Revolver, LIBOR+7% (10% floor) due 12/31/2014(11)		—	(66,667)	(66,667)
			47,539,596	**48,297,921**
Flatout, Inc.	Food retail			
First Lien Term Loan A, 10% due 12/31/2014		7,300,000	7,120,671	7,144,136
First Lien Term Loan B, 15% due 12/31/2014		12,862,760	12,539,879	12,644,316
First Lien Revolver, 10% due 12/31/2014(11)		—	(38,136)	(38,136)
			19,622,414	**19,750,316**
Psilos Group Partners IV, LP	Multi-sector holdings			
2.53% limited partnership interest(12)			—	—
			—	**—**
Mansell Group, Inc.	Advertising			
First Lien Term Loan A, LIBOR+7% (10% floor) due 4/30/2015		5,000,000	4,909,720	4,915,885
First Lien Term Loan B, LIBOR+9% (13.5% floor) due 4/30/2015		4,025,733	3,952,399	3,946,765
First Lien Revolver, LIBOR+6% (9% floor) due 4/30/2015(11)		—	(36,667)	(36,667)
			8,825,452	**8,825,983**
NDSSI Holdings, Inc.	Electronic equipment & instruments			
First Lien Term Loan, LIBOR+9.75% (13.75% floor) due 9/10/2014		30,245,558	29,684,880	29,409,043
First Lien Revolver, LIBOR+7% (10% floor) due 9/10/2014		3,500,000	3,409,615	3,478,724
			33,094,495	**32,887,767**
Eagle Hospital Physicians, Inc.	Healthcare services			
First Lien Term Loan, LIBOR+8.75% (11.75% floor) due 8/11/2015		8,000,000	7,783,892	7,783,892
First Lien Revolver, LIBOR+5.75% (8.75% floor) due 8/11/2015		—	(64,394)	(64,394)
			7,719,498	**7,719,498**
Enhanced Recovery Company, LLC	Diversified support services			
First Lien Term Loan A, LIBOR+7% (9% floor) due 8/13/2015		15,500,000	15,171,867	15,171,867
First Lien Term Loan B, LIBOR+10% (13% floor) due 8/13/2015		11,014,977	10,782,174	10,782,174
First Lien Revolver, LIBOR+7% (9% floor) due 8/13/2015		376,852	292,196	292,196
			26,246,237	**26,246,237**

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Fifth Street Finance Corp.

Consolidated Schedule of Investments
September 30, 2010

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Epic Acquisition, Inc.	Healthcare services			
First Lien Term Loan A, LIBOR+8% (11% floor) due 8/13/2015		7,750,000	7,554,728	7,554,728
First Lien Term Loan B, 15.25% due 8/13/2015		13,555,178	13,211,532	13,211,532
First Lien Revolver, LIBOR+6.5% (9.5% floor) due 8/13/2015		300,000	223,634	223,634
			20,989,894	**20,989,894**
Specialty Bakers LLC	Food distributors			
First Lien Term Loan A, LIBOR+8.5% due 9/15/2015		9,000,000	8,755,670	8,755,670
First Lien Term Loan B, LIBOR+11% (13.5% floor) due 9/15/2015		11,000,000	10,704,008	10,704,008
First Lien Revolver, LIBOR+8.5% due 9/15/2015		2,000,000	1,892,367	1,892,367
			21,352,045	**21,352,045**
Total Non-Control/Non-Affiliate Investments			**$530,168,045**	**$512,899,257**
Total Portfolio Investments			**$592,496,595**	**$563,821,316**

(1) All debt investments are income producing unless otherwise noted in (13) or (14). Equity is non-income producing unless otherwise noted.

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

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

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

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

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

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

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

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

Fifth Street Finance Corp.

Consolidated Schedule of Investments
September 30, 2010

Portfolio Company	Effective date	Cash interest	PIK interest	Reason
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
Vanguard Vinyl, Inc.	April 1, 2008	+ 0.5% on Term Loan		Per loan amendment
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
Premier Trailer Leasing, Inc.	August 4, 2009	+ 4.0% on Term Loan		Default interest per credit agreement
Rail Acquisition Corp.	May 1, 2010	- 4.5% on Term Loan	- 0.5% on Term Loan	Per restructuring agreement
Traffic Control & Safety Corp.	May 28, 2010	- 4.0% on Term Loan	+ 1.0% on Term Loan	Per restructuring agreement
Pacific Press Technologies, Inc.	July 1, 2010	- 2.0% on Term Loan	- 0.75% on Term Loan	Per waiver agreement
Western Emulsions, Inc.	September 30, 2010		+ 3.0% on Term Loan	Per loan agreement

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

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

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

(13) Investment was on cash non-accrual status as of September 30, 2010.

(14) Investment was on PIK non-accrual status as of September 30, 2010.

FIFTH STREET FINANCE CORP.

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 middle market companies. FSMPIII GP, LLC was the Partnership's general partner (the "General Partner"). The Partnership's investments were managed by Fifth Street Management LLC (the "Investment Adviser"). The General Partner and Investment Adviser were under common ownership.

Effective January 2, 2008, the Partnership merged with and into Fifth Street Finance Corp. (the "Company"), an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940 (the "1940 Act"). Fifth Street Finance Corp. is managed by the Investment Adviser. Prior to January 2, 2008, references to the Company are to the Partnership. Since January 2, 2008, references to the Company, FSC, "we" or "our" are to Fifth Street Finance Corp., unless the context otherwise requires.

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

The Company's shares are currently listed on the New York Stock Exchange under the symbol "FSC." The following table reflects common stock offerings that have occurred since inception:

Date	Transaction	Shares	Offering price	Gross proceeds
June 17, 2008	Initial public offering	10,000,000	$ 14.12	$141.2 million
July 21, 2009	Follow-on public offering (including underwriters' exercise of over-allotment option)	9,487,500	$ 9.25	$87.8 million
September 25, 2009	Follow-on public offering (including underwriters' exercise of over-allotment option)	5,520,000	$ 10.50	$58.0 million
January 27, 2010	Follow-on public offering	7,000,000	$ 11.20	$78.4 million
February 25, 2010	Underwriters' exercise of over-allotment option	300,500	$ 11.20	$3.4 million
June 21, 2010	Follow-on public offering (including underwriters' exercise of over-allotment option)	9,200,000	$ 11.50	$105.8 million
December 2010	At-the-Market offering	429,110	$ 11.87(1)	$5.1 million

(1) Average offering price

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

The SBIC license allows the Company's SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis 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 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, 2010, the Company's SBIC subsidiary had $75 million in regulatory capital. The SBA has issued a capital commitment to the Company's SBIC subsidiary in the amount of $150 million, and $123.3 million of SBA debentures were outstanding as of December 31, 2010. $73.0 million of these debentures bore an interest rate of 3.50%, including the SBA annual charge of 0.285%, while the remainder do not yet have a locked interest rate.

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 the 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 has received exemptive relief from the Securities and Exchange Commission ("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. This allows the Company increased flexibility under the 200% asset coverage test.

Note 2. Significant Accounting Policies

FASB Accounting Standards Codification:

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

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

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Basis of Presentation and Liquidity:

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

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

The Consolidated Financial Statements include portfolio investments at fair value of $742.4 million and $563.8 million at December 31, 2010 and September 30, 2010, respectively. The portfolio investments represent 129.1% and 99.1% of net assets at December 31, 2010 and September 30, 2010, respectively, and their fair values have been determined by the Company's Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

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

Fair Value Measurements:

ASC 820 *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available or reliable, valuation techniques are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the investments or market and the investments' complexity.

Assets recorded at fair value in the Company's Consolidated Financial Statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Hierarchical levels, defined by ASC 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

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

Under ASC 820, the Company performs detailed valuations of its debt and equity investments on an individual basis, using market, income, and bond yield approaches as appropriate. In general, the Company utilizes a bond yield method for the majority of its investments, as long as it is appropriate. If, in the Company's judgment, the bond yield approach is not appropriate, it may use the enterprise value approach, or, in certain cases, an alternative methodology potentially including an asset liquidation or expected recovery model.

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

Under the income approach, the Company generally prepares and analyzes discounted cash flow models based on projections of the future free cash flows of the business.

Under the bond yield approach, the Company uses bond yield models to determine the present value of the future cash flow streams of its debt investments. The Company reviews various sources of transactional data, including private mergers and acquisitions involving debt investments with similar characteristics, and assesses the information in the valuation process.

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

- The quarterly valuation process begins with each portfolio company or investment being initially valued by the deal team within the Investment Adviser responsible for the portfolio investment;

- Preliminary valuations are then reviewed and discussed with the principals of the Investment Adviser;
- Separately, independent valuation firms engaged by the Board of Directors prepare preliminary valuations on a selected basis and submit the reports to the Company;
- The deal team compares and contrasts its preliminary valuations to the preliminary valuations of the independent valuation firms;
- The deal team prepares a valuation report for the Valuation Committee of the Board of Directors;
- The Valuation Committee of the Board of Directors is apprised of the preliminary valuations of the independent valuation firms;
- The Valuation Committee of the Board of Directors reviews the preliminary valuations, and the deal team responds and supplements the preliminary valuations to reflect any comments provided by the Valuation Committee;
- The Valuation Committee of the Board of Directors makes a recommendation to the Board of Directors; and
- The Board of Directors discusses valuations and determines the fair value of each investment in the Company's portfolio in good faith.

The fair value of all of the Company's investments at December 31, 2010 was determined by the Board of Directors. The Board of Directors is solely responsible for the valuation of the portfolio investments at fair value as determined in good faith pursuant to the Company's valuation policy and a consistently applied valuation process.

The Board of Directors has engaged independent valuation firms to provide valuation assistance. Upon completion of their processes each quarter, the independent valuation firms provide the Company with written reports regarding the preliminary valuations of selected portfolio securities as of the close of such quarter. The Company will continue to engage independent valuation firms to provide assistance regarding the determination of the fair value of selected portfolio securities each quarter; however, the Board of Directors is ultimately and solely responsible for determining the fair value of the Company's investments in good faith.

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 considered worthless securities and/or meet the conditions for loss recognition per the applicable tax rules.

Investment Income:

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. 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 interest income over the life of the loan.

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

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

Fee income consists of the monthly collateral management fees that the Company receives in connection with its debt investments and the accreted portion of the debt origination fees. The Company capitalizes upfront loan origination fees received in connection with investments. The unearned fee income from such fees is accreted into fee income, based on the straight line method or effective interest method as applicable, over the life of the investment.

The Company has also structured exit fees across certain of its portfolio investments to be received upon the future exit of those investments. These fees are to be paid to the Company upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees are fees which are earned and payable upon the exit of a debt security and, similar to a prepayment penalty, are not accrued or otherwise included in net investment income until received. The receipt of such fees as well the timing of the Company's receipt of such fees is contingent upon a successful exit event for each of the investments.

Cash and Cash Equivalents:

Cash and cash equivalents consist of demand deposits and highly liquid investments with maturities of three months or less, when acquired. The Company places its cash and cash equivalents with financial institutions and, at times, cash held in bank accounts may exceed the Federal Deposit Insurance Corporation insured limit. Included in cash and cash equivalents is $0.8 million that is held at Wells Fargo Bank, National Association ("Wells Fargo") in connection with the Company's three-year credit facility. The Company is restricted in terms of access to this cash until such time as the Company submits its required monthly reporting schedules and Wells Fargo verifies the Company's compliance per the terms of the credit agreement.

Deferred Financing Costs:

Deferred financing costs consist of fees and expenses paid in connection with the closing of credit facilities and are capitalized at the time of payment. Deferred financing costs are amortized using the straight line method over the terms of the respective credit facilities. This amortization expense is included in interest expense in the Company's Consolidated Statement of Operations.

Collateral posted to bank:

Collateral posted to bank consists of cash posted as collateral with respect to the Company's interest rate swap. The Company is restricted in terms of access to this collateral until such swap is terminated or the swap agreement expires. Cash collateral posted is held in an account at Wells Fargo.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Interest Rate Swap:

The Company does not utilize hedge accounting and marks its interest rate swap to fair value on a quarterly basis through operations.

Offering Costs:

Offering costs consist of fees and expenses incurred in connection with the public offer and sale of the Company's common stock, including legal, accounting, and printing fees. $0.3 million of offering costs have been charged to capital during the three months ended December 31, 2010.

Income Taxes:

As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed currently to its stockholders as a dividend. The Company intends to distribute between 90% and 100% of its taxable income and gains, within the Subchapter M rules, and thus the Company anticipates that it will not incur any federal or state income tax at the RIC level. As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis (e.g., calendar year 2011). The Company anticipates timely distribution of its taxable income within the tax rules; however, the Company incurred a de minimis federal excise tax for calendar years 2008 and 2009, and expects to incur a de minimis federal excise tax for the calendar year 2010. 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, would be reflected in the Company's Consolidated Statements of Operations. The Company uses the asset and liability method to account for its taxable subsidiaries' income taxes. Using this method, the Company recognizes deferred tax assets and liabilities for the estimated future tax effects attributable to temporary differences between financial reporting and tax bases of assets and liabilities. In addition, the Company recognizes deferred tax benefits associated with net operating carry forwards that it may use to offset future tax obligations. The Company measures deferred tax assets and liabilities using the enacted tax rates expected to apply to taxable income in the years in which it expects to recover or settle those temporary differences.

ASC 740 *Accounting for Uncertainty in Income Taxes* ("ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the Company's Consolidated Financial Statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof. The Company recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. Management has analyzed the Company's tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for open tax years 2008 or 2009 or expected to be taken in the Company's 2010 tax return. The Company identifies its major tax jurisdictions as U.S. Federal and New York State, and the Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months.

Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Improving Disclosures About Fair Value Measurements (Topic 820),* which provides for improving disclosures about fair value measurements, primarily significant transfers in and out of Levels 1 and 2, and activity in Level 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for the interim and annual reporting periods beginning after December 15, 2009, while the disclosures about the purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010 and for the interim periods within those fiscal years. Except for certain detailed Level 3 disclosures, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those years, the new guidance became effective for the Company's fiscal 2010 second quarter. The adoption of this disclosure-only guidance is included in Note 3 — Portfolio Investments and did not have an impact on the Company's consolidated financial results.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 consolidated financial position or results of operations.

Note 3. Portfolio Investments

At December 31, 2010, 129.1% of net assets or $742.4 million was invested in 45 long-term portfolio investments and 7.5% of net assets or $43.0 million was invested in cash and cash equivalents. In comparison, at September 30, 2010, 99.1% of net assets or $563.8 million was invested in 38 long-term portfolio investments and 13.5% of net assets or $76.8 million was invested in cash and cash equivalents. As of December 31, 2010, primarily 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.

During the three months ended December 31, 2010, the Company recorded net realized losses on investments of $13.5 million. During the three months ended December 31, 2009, the Company recorded a $0.1 million reduction to a previously recorded realized gain. During the three months ended December 31, 2010 and 2009, the Company recorded net unrealized appreciation of $16.8 million and $1.0 million, respectively.

The composition of the Company's debt investments as of December 31, 2010 and September 30, 2010 at fixed rates and floating rates was as follows:

	December 31, 2010		September 30, 2010	
	Fair Value	% of Portfolio	Fair Value	% of Portfolio
Fixed rate debt securities	$366,003,445	50.00%	$375,584,242	67.24%
Floating rate debt securities	366,014,988	50.00%	182,995,709	32.76%
Total	**$732,018,433**	**100.00%**	**$558,579,951**	**100.00%**

The composition of the Company's investments as of December 31, 2010 and September 30, 2010 at cost and fair value was as follows:

	December 31, 2010		September 30, 2010	
	Cost	Fair Value	Cost	Fair Value
Investments in debt securities	$743,136,969	$732,018,433	$585,529,301	$558,579,951
Investments in equity securities	11,827,514	10,376,902	6,967,294	5,241,365
Total	**$754,964,483**	**$742,395,335**	**$592,496,595**	**$563,821,316**

The following table presents the financial instruments carried at fair value as of December 31, 2010, by caption on the Company's Consolidated Statement of Assets and Liabilities for each of the three levels of hierarchy established by ASC 820.

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ —	$ —	$ —	$ —
Investments in debt securities (first lien)	—	—	642,402,398	642,402,398
Investments in debt securities (second lien)	—	—	85,394,636	85,394,636
Investments in debt securities (subordinated)	—	—	4,221,399	4,221,399
Investments in equity securities (preferred)	—	—	3,963,240	3,963,240
Investments in equity securities (common)	—	—	6,413,662	6,413,662
Total investments at fair value	**$ —**	**$ —**	**$742,395,335**	**$742,395,335**
Interest rate swap	—	37,045	—	37,045
Total liabilities at fair value	**$ —**	**$37,045**	**$ —**	**$ 37,045**

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The following table presents the financial instruments carried at fair value as of September 30, 2010, by caption on the Company's Consolidated Statement of Assets and Liabilities for each of the three levels of hierarchy established by ASC 820.

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ —	$ —	$ —	$ —
Investments in debt securities (first lien)	—	—	416,323,957	416,323,957
Investments in debt securities (second lien)	—	—	137,851,248	137,851,248
Investments in debt securities (subordinated)	—	—	4,404,746	4,404,746
Investments in equity securities (preferred)	—	—	2,892,135	2,892,135
Investments in equity securities (common)	—	—	2,349,230	2,349,230
Total investments at fair value	**$ —**	**$ —**	**$563,821,316**	**$563,821,316**
Interest rate swap	—	773,435	—	773,435
Total liabilities at fair value	**$ —**	**$773,435**	**$ —**	**$ 773,435**

When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the fact that the unobservable factors are the most significant to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated by external sources). Accordingly, the appreciation (depreciation) in the tables below includes changes in fair value due in part to observable factors that are part of the valuation methodology.

The following table provides a roll-forward in the changes in fair value from September 30, 2010 to December 31, 2010, for all investments for which the Company determines fair value using unobservable (Level 3) factors.

	First Lien Debt	Second Lien Debt	Subordinated Debt	Preferred Equity	Common Equity	Total
Fair value as of September 30, 2010	$416,323,957	$137,851,248	$ 4,404,746	$2,892,135	$2,349,230	$563,821,316
Purchases and other increases	231,619,326	1,973,839	177,734	1,037,112	3,823,108	238,631,119
Redemptions, repayments and other decreases	(7,910,103)	(54,802,911)	—	—	—	(62,713,014)
Net realized losses	(13,450,219)	—	—	—	—	(13,450,219)
Net unrealized appreciation (depreciation)	15,819,437	372,460	(361,081)	33,993	241,324	16,106,133
Transfers into (out of) level 3	—	—	—	—	—	—
Fair value as of December 31, 2010	**$642,402,398**	**$ 85,394,636**	**$ 4,221,399**	**$3,963,240**	**$6,413,662**	**$742,395,335**
Net unrealized appreciation (depreciation) relating to Level 3 assets still held at December 31, 2010 and reported within net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations for the three months ended December 31, 2010	$ 5,559,340	$ 592,361	$ (361,081)	$ 33,993	$ 241,324	$ 6,065,937

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

	First Lien Debt	Second Lien Debt	Subordinated Debt	Preferred Equity	Common Equity	Total
Fair value as of September 30, 2009	$142,016,942	$153,904,458	$ —	$2,889,471	$ 800,266	$299,611,137
Purchases and other increases	138,819,323	3,387,609	—	—	153,972	142,360,904
Redemptions, repayments and other decreases	(1,711,417)	(4,672,378)	—	—	—	(6,383,795)
Net realized losses	—	106,000	—	—	—	106,000
Net unrealized appreciation (depreciation)	1,643,654	(470,920)	—	(227,648)	54,208	999,294
Transfers into (out of) level 3	—	—	—	—	—	—
Fair value as of December 31, 2009	**$280,768,502**	**$152,254,769**	**$ —**	**$2,661,823**	**$1,008,446**	**$436,693,540**
Net unrealized appreciation (depreciation) relating to Level 3 assets still held at December 31, 2009 and reported within net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations for the three months ended December 31, 2009	$ 1,643,654	$ (712,563)	$ —	$ (227,648)	$ 54,208	$ 757,651

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 (Earnings Before Interest, Taxes, Depreciation and Amortization), cash flow, net income, revenues or, in limited instances, book value.

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

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

Beginning on October 1, 2008, the Company also introduced a bond yield model to value these investments based on the present value of expected cash flows. The significant 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.

The table below summarizes the changes in the Company's investment portfolio from September 30, 2010 to December 31, 2010.

	Debt	Equity	Total
Fair value as of September 30, 2010	$558,579,951	$ 5,241,365	$563,821,316
New investments	233,716,898	4,860,221	238,577,119
Redemptions/ repayments	(60,794,114)	—	(60,794,114)
Net accrual of PIK interest income	(1,965,334)	—	(1,965,334)
Accretion of original issue discount	388,637	—	388,637
Net change in unearned income	(3,478,325)	—	(3,478,325)
Net unrealized appreciation (depreciation)	15,830,817	275,316	16,106,133
Net changes from unrealized to realized	(10,260,097)	—	(10,260,097)
Fair value as of December 31, 2010	**$732,018,433**	**$10,376,902**	**$742,395,335**

The Company's off-balance sheet arrangements consisted of $95.3 million and $49.5 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of December 31, 2010 and September 30, 2010, respectively. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Statement of Assets and Liabilities and are not reflected on the Company's Consolidated Statements of Assets and Liabilities.

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FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	December 31, 2010	September 30, 2010
HealthDrive Corporation	$ 1,500,000	$ 1,500,000
IZI Medical Products, Inc.	2,500,000	2,500,000
Trans-Trade, Inc.	4,000,000	500,000
Riverlake Equity Partners II, LP (limited partnership interest)	877,895	966,360
Riverside Fund IV, LP (limited partnership interest)	678,583	864,175
ADAPCO, Inc.	5,750,000	5,750,000
AmBath/ReBath Holdings, Inc.	1,500,000	1,500,000
JTC Education, Inc.	14,000,000	9,062,453
Tegra Medical, LLC	4,000,000	4,000,000
Vanguard Vinyl, Inc.	—	1,250,000
Flatout, Inc.	1,500,000	1,500,000
Psilos Group Partners IV, LP (limited partnership interest)	1,000,000	1,000,000
Mansell Group, Inc.	2,000,000	2,000,000
NDSSI Holdings, Inc.	1,500,000	1,500,000
Eagle Hospital Physicians, Inc.	2,500,000	2,500,000
Enhanced Recovery Company, LLC	4,000,000	3,623,148
Epic Acquisition, Inc.	2,200,000	2,700,000
Specialty Bakers, LLC	4,000,000	2,000,000
Rail Acquisition Corp.	5,040,865	4,798,897
Bunker Hill Capital II (QP), L.P. (limited partnership interest)	1,000,000	—
Nicos Polymers & Grinding Inc.	500,000	—
CRGT, Inc.	12,500,000	—
Welocalize, Inc.	4,750,000	—
Miche Bag, LLC	5,000,000	—
Dominion Diagnostics, LLC	5,000,000	—
Advanced Pain Management	400,000	—
DISA, Inc.	4,000,000	—
Best Vinyl Fence & Deck, LLC	1,000,000	—
Saddleback Fence and Vinyl Products, Inc.	400,000	—
Traffic Control & Safety Corporation	2,250,000	—
Total	**$95,347,343**	**$49,515,033**

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, 2010		September 30, 2010	
Cost:				
First lien debt	$640,609,701	84.85%	$430,200,694	72.61%
Second lien debt	96,672,806	12.80%	150,600,807	25.42%
Subordinated debt	5,854,462	0.78%	4,727,800	0.80%
Purchased equity	4,416,468	0.58%	2,330,305	0.39%
Equity grants	6,967,524	0.92%	4,467,524	0.75%
Limited partnership interests	443,522	0.07%	169,465	0.03%
Total	**$754,964,483**	**100.00%**	**$592,496,595**	**100.00%**

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2010		September 30, 2010	
Fair value:				
First lien debt	$642,402,398	86.53%	$416,323,957	73.84%
Second lien debt	84,295,708	11.35%	137,851,248	24.45%
Subordinated debt	5,320,327	0.72%	4,404,746	0.78%
Purchased equity	2,955,827	0.40%	625,371	0.11%
Equity grants	6,977,553	0.94%	4,446,529	0.79%
Limited partnership interests	443,522	0.06%	169,465	0.03%
Total	**$742,395,335**	**100.00%**	**$563,821,316**	**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, 2010		September 30, 2010	
Cost:				
Northeast	$210,633,806	27.90%	$175,370,861	29.60%
Southwest	180,442,847	23.91%	121,104,464	20.44%
Southeast	158,144,424	20.95%	108,804,931	18.36%
West	144,318,593	19.12%	133,879,457	22.60%
Midwest	61,424,813	8.12%	53,336,882	9.00%
Total	**$754,964,483**	**100.00%**	**$592,496,595**	**100.00%**

	December 31, 2010		September 30, 2010	
Fair value:				
Northeast	$208,392,159	28.07%	$161,264,153	28.60%
Southwest	167,079,771	22.51%	107,468,588	19.07%
Southeast	160,412,465	21.61%	109,457,070	19.41%
West	143,781,175	19.37%	131,881,487	23.39%
Midwest	62,729,765	8.44%	53,750,018	9.53%
Total	**$742,395,335**	**100.00%**	**$563,821,316**	**100.00%**

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The composition of the Company's portfolio by industry at cost and fair value as of December 31, 2010 and September 30, 2010 were as follows:

	December 31, 2010		September 30, 2010	
Cost:				
Healthcare services	$150,745,526	19.97%	$ 87,443,639	14.76%
IT consulting & other services	49,804,594	6.60%	—	0.00%
Healthcare equipment	46,877,049	6.21%	47,539,596	8.02%
Education services	44,774,933	5.93%	44,901,602	7.58%
Internet software & services	39,924,305	5.29%	—	0.00%
Construction and engineering	39,144,820	5.18%	24,987,230	4.22%
Electronic equipment & instruments	33,018,454	4.37%	33,094,495	5.59%
Home improvement retail	32,587,195	4.32%	32,630,879	5.51%
Apparel, accessories & luxury goods	31,893,000	4.22%	23,535,757	3.97%
Food distributors	28,501,129	3.78%	30,415,200	5.13%
Fertilizers & agricultural chemicals	26,323,523	3.49%	26,694,525	4.51%
Diversified support services	25,699,275	3.40%	26,246,237	4.43%
Healthcare technology	21,360,961	2.83%	21,509,107	3.63%
Human resources & employment services	20,774,104	2.75%	—	0.00%
Food retail	19,412,498	2.57%	19,622,414	3.31%
Electronic manufacturing services	19,001,589	2.52%	18,738,072	3.16%
Media — Advertising	18,026,733	2.39%	19,828,343	3.35%
Air freight and logistics	17,600,968	2.33%	14,004,766	2.36%
Trucking	17,064,785	2.26%	17,064,785	2.88%
Distributors	13,436,082	1.78%	13,350,633	2.25%
Data processing and outsourced services	13,229,885	1.75%	13,078,169	2.21%
Industrial machinery	10,221,792	1.35%	10,143,414	1.71%
Leisure facilities	6,783,242	0.90%	6,863,521	1.16%
Building products	6,717,698	0.89%	8,291,678	1.40%
Construction materials	6,477,386	0.86%	17,475,899	2.95%
Environmental & facilities services	5,125,321	0.68%	8,921,676	1.51%
Housewares & specialties	4,556,187	0.60%	12,195,029	2.06%
Restaurants	4,138,830	0.55%	12,485,385	2.11%
Household products	1,098,928	0.15%	1,064,910	0.18%
Multi-sector holdings	443,522	0.05%	169,465	0.02%
Movies & entertainment	200,169	0.03%	200,169	0.03%
Total	**$754,964,483**	**100.00%**	**$592,496,595**	**100.00%**

	December 31, 2010		September 30, 2010	
Fair Value:				
Healthcare services	$154,124,078	20.76%	$89,261,760	15.83%
IT consulting & other services	51,000,000	6.87%	—	0.00%
Healthcare equipment	47,689,753	6.42%	48,297,921	8.57%
Education services	40,834,373	5.50%	42,110,738	7.47%
Internet software & services	40,766,797	5.49%	—	0.00%
Construction and engineering	37,725,698	5.08%	23,844,836	4.23%
Electronic equipment & instruments	32,682,427	4.40%	32,887,767	5.83%
Apparel, accessories & luxury goods	32,605,394	4.39%	23,548,933	4.18%
Home improvement retail	32,318,609	4.35%	32,483,858	5.76%
Food distributors	28,529,313	3.84%	30,316,811	5.38%
Fertilizers & agricultural chemicals	26,539,336	3.57%	26,811,860	4.76%
Diversified support services	25,820,525	3.48%	26,246,237	4.66%

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2010		September 30, 2010	
Healthcare technology	21,993,525	2.96%	22,140,613	3.93%
Human resources & employment services	21,300,346	2.87%	—	0.00%
Food retail	19,613,730	2.64%	19,750,316	3.50%
Media — Advertising	18,144,549	2.44%	19,847,065	3.52%
Air freight and logistics	17,835,145	2.40%	14,040,532	2.49%
Electronic manufacturing services	16,639,539	2.24%	18,055,528	3.20%
Distributors	13,415,216	1.81%	13,258,317	2.35%
Data processing and outsourced services	12,796,573	1.72%	12,741,012	2.26%
Industrial machinery	10,657,539	1.44%	10,232,763	1.81%
Leisure facilities	6,973,522	0.94%	7,040,043	1.25%
Building products	6,565,139	0.88%	6,841,467	1.21%
Construction materials	6,477,386	0.87%	17,039,751	3.02%
Environmental & facilities services	5,033,333	0.68%	5,129,853	0.91%
Trucking	4,597,412	0.62%	4,597,412	0.82%
Housewares & specialties	4,055,655	0.55%	3,700,000	0.66%
Restaurants	3,856,360	0.52%	12,099,935	2.15%
Household products	1,098,928	0.15%	1,064,910	0.19%
Multi-sector holdings	443,522	0.08%	169,465	0.01%
Movies & entertainment	261,613	0.04%	261,613	0.05%
Total	**$742,395,335**	**100.00%**	**$563,821,316**	**100.00%**

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's investments are generally in small and mid-sized companies in a variety of industries. At December 31, 2010 and September 30, 2010, the Company had no single investment that represented greater than 10% of the total investment portfolio at fair value. Income, consisting of interest, dividends, fees, other investment income, and realization of gains or losses, can fluctuate upon repayment or sale of an investment and in any given year can be highly concentrated among several investments. For the three months ended December 31, 2010 and December 31, 2009, no individual investment produced income that exceeded 10% of investment income.

Note 4. Fee Income

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

Accumulated unearned fee income activity for the three months ended December 31, 2010 and December 31, 2009 was as follows:

	Three months ended December 31, 2010	Three months ended December 31, 2009
Beginning unearned fee income balance	$ 11,900,871	$ 5,589,630
Net fees received	4,706,689	4,861,907
Unearned fee income recognized	(1,228,366)	(915,129)
Ending unearned fee income balance	**$ 15,379,194**	**$ 9,536,408**

As of December 31, 2010, the Company had structured $7.6 million in aggregate exit fees across 10 portfolio investments upon the future exit of those investments. These fees are to be paid to the Company upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees are fees which are earned and payable upon the exit of a debt security and, similar to a prepayment penalty, are not accrued or otherwise included in net investment income until received. The receipt of such fees as well the timing of the Company's receipt of such fees is contingent upon a successful exit event for each of the investments.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 5. Share Data

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

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

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

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

On January 27, 2010, the Company completed a follow-on public offering of 7,000,000 shares of its common stock at the offering price of $11.20 per share, with 300,500 additional shares being sold as part of the underwriters' partial exercise of their over-allotment option on February 25, 2010. The net proceeds totaled $77.5 million after deducting investment banking commissions of $3.7 million and offering costs of $0.5 million.

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

On June 21, 2010, the Company completed a follow-on public offering of 9,200,000 shares of its common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $11.50 per share. The net proceeds totaled $100.5 million after deducting investment banking commissions of $4.8 million and offering costs of $0.5 million.

On December 7, 2010, the Company entered into an at-the-market equity offering sales agreement relating to shares of its common stock. Throughout the month of December 2010, the Company sold 429,110 shares of its common stock at an average offering price of $11.87 per share. The net proceeds totaled $5.0 million after deducting fees and commissions of $0.1 million. The Company terminated the at-the-market equity offering sales agreement effective January 20, 2011 and did not sell any shares of the Company's common stock pursuant thereto subsequent to December 31, 2010.

No dilutive instruments were outstanding and therefore none were reflected in the Company's Consolidated Statement of Assets and Liabilities at December 31, 2010. The following table sets forth the weighted average common shares outstanding for computing basic and diluted earnings per common share for the three months ended December 31, 2010 and December 31, 2009:

	Three months ended December 31, 2010	Three months ended December 31, 2009
Weighted average common shares outstanding, basic and diluted	54,641,164	37,880,435

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table reflects the dividend distributions per share that the Board of Directors of the Company has declared and the Company has paid, including shares issued under the dividend reinvestment plan ("DRIP"), on its common stock from inception to December 31, 2010:

Date Declared	Record Date	Payment Date	Amount per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
5/1/2008	5/19/2008	6/3/2008	$0.30	$1.9 million	133,317	$1.9 million
8/6/2008	9/10/2008	9/26/2008	0.31	5.1 million	196,786(1)	1.9 million
12/9/2008	12/19/2008	12/29/2008	0.32	6.4 million	105,326	0.8 million
12/9/2008	12/30/2008	1/29/2009	0.33	6.6 million	139,995	0.8 million
12/18/2008	12/30/2008	1/29/2009	0.05	1.0 million	21,211	0.1 million
4/14/2009	5/26/2009	6/25/2009	0.25	5.6 million	11,776	0.1 million
8/3/2009	9/8/2009	9/25/2009	0.25	7.5 million	56,890	0.6 million
11/12/2009	12/10/2009	12/29/2009	0.27	9.7 million	44,420	0.5 million
1/12/2010	3/3/2010	3/30/2010	0.30	12.9 million	58,689	0.7 million
5/3/2010	5/20/2010	6/30/2010	0.32	14.0 million	42,269	0.5 million
8/2/2010	9/1/2010	9/29/2010	0.10	5.2 million	25,425	0.3 million
8/2/2010	10/6/2010	10/27/2010	0.10	5.5 million	24,850	0.3 million
8/2/2010	11/3/2010	11/24/2010	0.11	6.0 million	26,569	0.3 million
8/2/2010	12/1/2010	12/29/2010	0.11	6.0 million	28,238	0.3 million

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

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 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.

In October 2010, the Company's Board of Directors authorized a stock repurchase program to acquire up to $20 million of the Company's outstanding common stock. Stock repurchases under this program are to be made through the open market at times and in such amounts as the Company's management deems appropriate, provided it is below the most recently published net asset value per share. The stock repurchase program expires December 31, 2011 and may be limited or terminated by the Board of Directors at any time without prior notice.

Note 6. Lines of Credit

On November 16, 2009, Fifth Street Funding, LLC, a consolidated wholly-owned bankruptcy remote, special purpose subsidiary ("Funding"), and the Company entered into a Loan and Servicing Agreement ("Agreement"), with respect to a three-year credit facility ("Wells Fargo facility") with Wells Fargo, as successor to Wachovia Bank, National Association ("Wachovia"), Wells Fargo Securities, LLC, as administrative agent, each of the additional institutional and conduit lenders party thereto from time to time, and each of the lender agents party thereto from time to time, in the amount of $50 million, with an accordion feature which allowed for potential future expansion of the facility up to $100 million. The facility bore interest at LIBOR plus 4.0% per annum and had a maturity date of November 16, 2012.

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

On November 5, 2010, the Company amended the Wells Fargo facility to, among other things, provide for the issuance from time to time of letters of credit for the benefit of the Company's portfolio companies. The letters of credit are subject to certain restrictions, including a borrowing base limitation and an aggregate sublimit of $15.0 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with the Wells Fargo facility, the Company concurrently entered into (i) a Purchase and Sale Agreement with Funding, pursuant to which the Company 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, 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 Wells Fargo facility.

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

The Wells Fargo facility is secured by all of the assets of Funding, and all of the Company's equity interest in Funding. The Company intends to use the net proceeds of the Wells Fargo facility to fund a portion of its loan origination activities and for general corporate purposes. Each loan origination under the facility is subject to the satisfaction of certain conditions. The Company cannot be assured that Funding will be able to borrow funds under the Wells Fargo facility at any particular time or at all. As of December 31, 2010, the Company had $38.0 million of borrowings outstanding under the Wells Fargo facility.

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

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

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

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

As of December 31, 2010, the Company had $51.0 million of borrowings outstanding under the ING facility.

As of December 31, 2010, except for assets that were funded through the Company's SBIC subsidiary, substantially all of the Company's assets were pledged as collateral under the Wells Fargo facility or the ING facility.

Interest expense for the three months ended December 31, 2010 and December 31, 2009 was $1.9 million and $0.1 million, respectively.

Note 7. Interest and Dividend Income

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

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.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Accumulated PIK interest activity for the three months ended December 31, 2010 and December 31, 2009 was as follows:

	Three months ended December 31, 2010	Three months ended December 31, 2009
PIK balance at beginning of period	$19,300,954	$12,059,478
Gross PIK interest accrued	3,384,078	2,430,656
PIK income reserves	(240,390)	(468,882)
PIK interest received in cash	(5,109,022)	(525,194)
Adjustments due to loan exits	—	(530,061)
PIK balance at end of period	**$17,335,620**	**$12,965,997**

As of December 31, 2010, the Company had stopped accruing cash interest, PIK interest and original issue discount ("OID") on three investments that did not pay all of their scheduled monthly cash interest payments for the period ended December 31, 2010. As of December 31, 2009, the Company had stopped accruing PIK interest and OID on five investments, including two investments that had not paid all of their scheduled monthly cash interest payments.

The non-accrual status of the Company's portfolio investments as of December 31, 2010, September 30, 2010 and December 31, 2009 was as follows:

	December 31, 2010	September 30, 2010	December 31, 2009
Lighting by Gregory, LLC	Cash non-accrual	Cash non-accrual	Cash non-accrual
CPAC, Inc.	—	—	PIK non-accrual
Martini Park, LLC	—	—	PIK non-accrual
Nicos Polymers & Grinding, Inc.	—	Cash non-accrual	PIK non-accrual
MK Network, LLC	Cash non-accrual	Cash non-accrual	—
Premier Trailer Leasing, Inc.	Cash non-accrual	Cash non-accrual	Cash non-accrual
Vanguard Vinyl, Inc.	—	Cash non-accrual	—

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

	Three months ended December 31, 2010	Three months ended December 31, 2009
Cash interest income	$2,106,432	$1,134,564
PIK interest income	240,390	468,882
OID income	30,138	103,911
Total	**$2,376,960**	**$1,707,357**

Note 8. Taxable/Distributable Income and Dividend Distributions

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

At September 30, 2010, the Company has 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. During the year ended September 30, 2010, the Company realized capital losses from the sale of investments after October

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31 and prior to year end (“post-October capital losses”) of $12.9 million, which for tax purposes are treated as arising on the first day of the following year.

Listed below is a reconciliation of “net increase in net assets resulting from operations” to taxable income for the three months ended December 31, 2010.

	Three months ended December 31, 2010
Net increase in net assets resulting from operations	$ 17,448,000
Net unrealized appreciation	(16,843,000)
Book/tax difference due to deferred loan origination fees, net	3,478,000
Book/tax difference due to organizational and deferred offering costs	(22,000)
Book/tax difference due to interest income on certain loans	1,051,000
Book/tax difference due to capital losses not recognized	13,450,000
Other book-tax differences	131,000
Taxable/Distributable Income (1)	**$ 18,693,000**

(1) The Company’s taxable income for 2011 is an estimate and will not be finally determined until the Company files its tax return for the fiscal year ended September 30, 2011. Therefore, the final taxable income may be different than the estimate.

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

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Dividend Type	Date Declared	Record Date	Payment Date	Amount per Share
Quarterly	5/1/2008	5/19/2008	6/3/2008	$ 0.30
Quarterly	8/6/2008	9/10/2008	9/26/2008	$ 0.31
Quarterly	12/9/2008	12/19/2008	12/29/2008	$ 0.32
Quarterly	12/9/2008	12/30/2008	1/29/2009	$ 0.33
Special	12/18/2008	12/30/2008	1/29/2009	$ 0.05
Quarterly	4/14/2009	5/26/2009	6/25/2009	$ 0.25
Quarterly	8/3/2009	9/8/2009	9/25/2009	$ 0.25
Quarterly	11/12/2009	12/10/2009	12/29/2009	$ 0.27
Quarterly	1/12/2010	3/3/2010	3/30/2010	$ 0.30
Quarterly	5/3/2010	5/20/2010	6/30/2010	$ 0.32
Quarterly	8/2/2010	9/1/2010	9/29/2010	$ 0.10
Monthly	8/2/2010	10/6/2010	10/27/2010	$ 0.10
Monthly	8/2/2010	11/3/2010	11/24/2010	$ 0.11
Monthly	8/2/2010	12/1/2010	12/29/2010	$ 0.11
Monthly	11/30/2010	1/4/2011	1/31/2011	$0.1066
Monthly	11/30/2010	2/1/2011	2/28/2011	$0.1066
Monthly	11/30/2010	3/1/2011	3/31/2011	$0.1066

For income tax purposes, the Company estimates that its distributions will be composed entirely of ordinary income, and will be reflected as such on the Form 1099-DIV for the calendar years 2010 and 2011. The Company anticipates declaring further distributions to its stockholders to meet the RIC distribution requirements.

As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis. Because the Company did not satisfy these distribution requirements for calendar years 2008 and 2009, the Company incurred a de minimis federal excise tax for those calendar years, and the Company expects to incur a de minimis federal excise tax for the calendar year 2010.

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. Realized losses may also be recorded in connection with the Company's determination that certain investments are considered worthless securities and/or meet the conditions for loss recognition per the applicable tax rules. Net 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, 2010, the Company recorded the following investment realization events:

- In October 2010, the Company received a cash payment of $8.7 million from Goldco, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In November 2010, the Company received a cash payment of $11.0 million from TBA Global, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In November 2010, the Company restructured its investment in Vanguard Vinyl, Inc. The restructuring resulted in a material modification of the terms of the loan agreement. As such, the Company recorded a realized loss in the

amount of $1.7 million in accordance with ASC 470-50;

- In December 2010, the Company restructured its investment in Nicos Polymers & Grinding, Inc. The restructuring resulted in a material modification of the terms of the loan agreement. As such, the Company recorded a realized loss in the amount of $3.9 million in accordance with ASC 470-50;
- In December 2010, the Company received a cash payment of $25.3 million from Boot Barn in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In December 2010, the Company received a cash payment of $11.7 million from Western Emulsions, Inc. in partial satisfaction of the obligations under the loan agreement. No realized gain or loss was recorded on this transaction; and
- In December 2010, the Company restructured its investment in Lighting by Gregory, LLC. The restructuring resulted in a material modification of the terms of the loan agreement. As such, the Company recorded a realized loss in the amount of $7.8 million in accordance with ASC 470-50.

During the three months ended December 31, 2009, the Company recorded the following investment realization events:

- In October 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 the investment in American Hardwoods; and
- In October 2009, the Company received a cash payment of $3.9 million from Elephant & Castle, Inc. in partial satisfaction of the obligations under the loan agreement. No realized gain or loss was recorded on this transaction.

Note 10. Concentration of Credit Risks

The Company places its cash in financial institutions and at times such balances may be in excess of the FDIC insured limit. The Company limits its exposure to credit loss by depositing its cash with high credit quality financial institutions and monitoring their financial stability.

Note 11. Related Party Transactions

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

Base management Fee

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

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

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

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

For the three months ended December 31, 2010 and December 31, 2009, base management fees were $3.8 million, and $1.5 million, respectively. At December 31, 2010, the Company had a liability on its Consolidated Statement of Assets and Liabilities in the amount of $3.8 million reflecting the unpaid portion of the base management fee payable to the Investment Adviser.

Incentive Fee

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

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

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

The second part of the incentive fee is determined and payable in arrears as of the end of each fiscal year (or upon termination of the investment advisory agreement, as of the termination date), commencing on September 30, 2008, and equals 20% of the Company's realized capital gains, if any, on a cumulative basis from inception through the end of each fiscal year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees.

For the three months ended December 31, 2010 and December 31, 2009, incentive fees were $3.5 million and $2.1 million, respectively. At December 31, 2010, the Company had a liability on its Consolidated Statement of Assets and Liabilities in the amount of $3.5 million reflecting the unpaid portion of the incentive fee payable to the Investment Adviser.

Indemnification

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

Administration Agreement

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

For the three months ended December 31, 2010, the Company accrued administrative expenses of $0.8 million, including $0.4 million of general and administrative expenses, that are due to FSC, Inc. At December 31, 2010, $1.3 million was included in Due to FSC, Inc. in the Consolidated Statement of Assets and Liabilities.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 12. Financial Highlights

Per share data:	Three months ended December 31, 2010	Three months ended December 31, 2009
Net asset value at beginning of period	$ 10.43	$ 10.84
Net investment income	0.26	0.22
Net unrealized appreciation on investments and interest rate swap	0.31	0.03
Net realized loss on investments	(0.24)	—
Dividends declared	(0.32)	(0.27)
Issuance of common stock	—	—
Net asset value at end of period	**$ 10.44**	**$ 10.82**
Per share market value at beginning of period	$ 11.14	$ 10.93
Per share market value at end of period	$ 12.14	$ 10.74
Total return (1)	11.93%	0.68%
Common shares outstanding at beginning of period	54,550,290	37,878,987
Common shares outstanding at end of period	55,059,057	37,923,407
Net assets at beginning of period	$569,172,105	$410,556,071
Net assets at end of period	$574,921,159	$410,257,351
Average net assets (2)	$572,151,947	$409,840,589
Ratio of net investment income to average net assets (3)	9.75%	8.08%
Ratio of total expenses to average net assets (3)	7.82%	4.74%
Ratio of portfolio turnover to average investments at fair value	2.17%	0.00%
Weighted average outstanding debt (4)	$102,678,261	$ 500,000
Average debt per share	$ 1.86	$ 0.01

(1) Total return equals the increase or decrease of ending market value over beginning market value, plus distributions, divided by the beginning market value, assuming dividend reinvestment prices obtained under the Company’s dividend reinvestment plan. Total return is not annualized.

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

(3) Interim periods are annualized.

(4) 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. A certificate of amendment was also approved by the holders of a majority of the shares of the Company's outstanding common stock through a written consent first solicited on April 7, 2008.

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

Note 14. Interest Rate Swaps

In August 2010, the Company entered into a three-year interest rate swap agreement to mitigate its exposure to adverse fluctuations in interest rates for a total notional amount of $100.0 million. Under the interest rate swap agreement, the Company will pay a fixed interest rate of 0.99% and receive a floating rate based on the prevailing one-month LIBOR, which as of December 31, 2010 was 0.26%. For the three months ended December 31, 2010, the Company recorded $0.7 million of unrealized appreciation related to this swap agreement. As of December 31, 2010, this swap agreement had a fair value of ($37,000), which is included in "accounts payable, accrued expenses and other liabilities" in the Company's Consolidated Statements of Assets and Liabilities.

As of December 31, 2010, the Company posted $1.5 million of cash as collateral with respect to the interest rate swap. The Company is restricted in terms of access to this collateral until such swap is terminated or the swap agreement expires. Cash collateral posted is held in an account at Wells Fargo.

Swaps contain varying degrees of off-balance sheet risk which could result from changes in the market values of underlying assets, indices or interest rates and similar items. As a result, the amounts recognized in the Consolidated Statement of Assets and Liabilities at any given date may not reflect the total amount of potential losses that the Company could ultimately incur.

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

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

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

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

In addition, words such as "anticipate," "believe," "expect," "project"and "intend" indicate forward-looking statements, although not all forward-looking statements include these words. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" in our annual report on Form 10-K for the year ended September 30, 2010 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, small business investment companies, or SBICs, and regulated investment companies, or RICs; and
- other considerations that may be disclosed from time to time in our publicly disseminated documents and filings.

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

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

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 listed on the New York Stock Exchange under the symbol "FSC."

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

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

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

On June 21, 2010, we completed a follow-on public offering of 9,200,000 shares of our common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $11.50 per share.

On December 7, 2010, we entered into an at-the-market equity offering sales agreement relating to shares of our common stock. Throughout the month of December 2010, we sold 429,110 shares of our common stock at an average offering price of $11.87 per share. We terminated the at-the-market equity offering sales agreement effective January 20, 2011 and did not sell any shares of our common stock pursuant thereto subsequent to December 31, 2010.

Current Market Conditions

Since mid-2007, the global financial markets have experienced stress, volatility, illiquidity, and disruption. This turmoil appears to have peaked in the fall of 2008, resulting in several major financial institutions becoming insolvent, being acquired, or receiving government assistance. While the turmoil in the financial markets appears to have abated somewhat, the global economy continues to experience economic uncertainty. Economic uncertainty impacts our business in many ways, including changing spreads, structures, and purchase multiples as well as the overall supply of investment capital.

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

As evidenced by our recent investment activities, we expect to grow the business in part by increasing the average investment size when and where appropriate. At the same time, we expect to focus more on first lien transactions. Although we believe that we currently have sufficient capital available to fund investments, a prolonged period of market disruptions may cause us to reduce the volume of loans we originate and/or fund, which could have an adverse effect on our business, financial condition, and results of operations. In this regard, because our common stock has at times traded at a price below our then current net asset value per share and we are limited in our ability to sell our common stock at a price below net asset value per share, we may be limited in our ability to raise equity capital.

Critical Accounting Policies

FASB Accounting Standards Codification

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

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

Basis of Presentation

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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Under Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ("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. In general, we utilize a bond yield method for the majority of our investments, as long as it is appropriate. If, in our judgment, the bond yield approach is not appropriate, we may use the enterprise value approach, or, in certain cases, an alternative methodology potentially including an asset liquidation or expected recovery model.

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

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

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, independent valuation firms engaged by our Board of Directors prepare preliminary valuations on a selected basis and submit reports to us;
- The deal team compares and contrasts its preliminary valuations to the preliminary valuations of the independent valuation firms;
- The deal team prepares a valuation report for the Valuation Committee of our Board of Directors;
- The Valuation Committee of our Board of Directors is apprised of the preliminary valuations of the independent valuation firms;
- 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
- Our 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, 2010, and September 30, 2010, 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 independent valuation firms to provide us with valuation assistance. Upon completion of their processes each quarter, the independent valuation firms provide us with written reports regarding the preliminary valuations of selected portfolio securities as of the close of such quarter. We will continue to engage independent valuation firms to provide us with assistance regarding our determination of the fair value of selected portfolio securities each quarter; however, our Board of Directors is ultimately and solely responsible for determining the fair value of our investments in good faith.

The portions of our portfolio valued, as a percentage of the portfolio at fair value, by independent valuation firms by period were as follows:

For the quarter ending December 31, 2007	91.9%
For the quarter ending March 31, 2008	92.1%
For the quarter ending June 30, 2008	91.7%
For the quarter ending September 30, 2008	92.8%
For the quarter ending December 31, 2008	100.0%
For the quarter ending March 31, 2009	88.7%(1)
For the quarter ending June 30, 2009	92.1%
For the quarter ending September 30, 2009	28.1%
For the quarter ending December 31, 2009	17.2%(2)
For the quarter ending March 31, 2010	26.9%
For the quarter ending December 31, 2009	53.1%
For the quarter ending September 30, 2010	61.8%
For the quarter ending December 31, 2010	73.9%

(1) 96.0% excluding our investment in IZI Medical Products, Inc., which closed on December 31, 2009 and therefore was not part of the independent valuation process

(2) 24.8% excluding four investments that closed in December 2009 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, 2010 and September 30, 2010, approximately 92.9% and 86.5%, respectively, of our total assets represented investments in portfolio companies valued at fair value.

Revenue Recognition

Interest and Dividend 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 dividend income when the distribution is received.

Fee Income

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

We have also structured exit fees across certain of our portfolio investments to be received upon the future exit of those investments. These fees are to be paid to us upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees are fees which are earned and payable upon the exit of a debt security and, similar to a prepayment penalty, are not accrued or otherwise included in net investment income until received. The receipt of such fees as well as the timing of our receipt of such fees is contingent upon a successful exit event for each of the investments.

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.

For a discussion of risks we are subject to as a result of our use of PIK interest in connection with our investments, see "Risk Factors — Risks Relating to Our Business and Structure — We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income," "— We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive" and "— Our incentive fee may induce our investment adviser to make speculative investments" in our annual report on Form 10-K for the year ended September 30, 2010. 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 $17.3 million and represented 2.3% of the fair value of our portfolio of investments as of December 31, 2010 and $19.3 million or 3.4% as of September 30, 2010. 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 and generally have terms of up to six years (but an expected average life of between three and four years). We are currently focusing our new debt origination efforts on first lien loans because we believe that the risk-adjusted returns from these loans are superior to second lien and unsecured loans at this time and offer superior credit quality. However, we may choose to originate second lien and unsecured loans in the future.

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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, 2010	September 30, 2010
Cost:		
First lien debt	84.85%	72.61%
Second lien debt	12.80%	25.42%
Subordinated debt	0.78%	0.80%
Purchased equity	0.58%	0.39%
Equity grants	0.92%	0.75%
Limited partnership interests	0.07%	0.03%
Total	100.00%	100.00%

	December 31, 2010	September 30, 2010
Fair value:		
First lien debt	86.53%	73.84%
Second lien debt	11.35%	24.45%
Subordinated debt	0.72%	0.78%
Purchased equity	0.40%	0.11%
Equity grants	0.94%	0.79%
Limited partnership interests	0.06%	0.03%
Total	100.00%	100.00%

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

	December 31, 2010	September 30, 2010
Cost:		
Healthcare services	19.97%	14.76%
IT consulting & other services	6.60%	0.00%
Healthcare equipment	6.21%	8.02%
Education services	5.93%	7.58%
Internet software & services	5.29%	0.00%
Construction and engineering	5.18%	4.22%
Electronic equipment & instruments	4.37%	5.59%
Home improvement retail	4.32%	5.51%
Apparel, accessories & luxury goods	4.22%	3.97%
Food distributors	3.78%	5.13%
Fertilizers & agricultural chemicals	3.49%	4.51%
Diversified support services	3.40%	4.43%
Healthcare technology	2.83%	3.63%
Human resources & employment services	2.75%	0.00%
Food retail	2.57%	3.31%
Electronic manufacturing services	2.52%	3.16%
Media — Advertising	2.39%	3.35%
Air freight and logistics	2.33%	2.36%
Trucking	2.26%	2.88%
Distributors	1.78%	2.25%
Data processing and outsourced services	1.75%	2.21%
Industrial machinery	1.35%	1.71%
Leisure facilities	0.90%	1.16%
Building products	0.89%	1.40%
Construction materials	0.86%	2.95%
Environmental & facilities services	0.68%	1.51%
Housewares & specialties	0.60%	2.06%
Restaurants	0.55%	2.11%
Household products	0.15%	0.18%
Multi-sector holdings	0.05%	0.02%
Movies & entertainment	0.03%	0.03%
Total	**100.00%**	**100.00%**

	December 31, 2010	September 30, 2010
Fair Value:		
Healthcare services	20.76%	15.83%
IT consulting & other services	6.87%	0.00%
Healthcare equipment	6.42%	8.57%
Education services	5.50%	7.47%
Internet software & services	5.49%	0.00%
Construction and engineering	5.08%	4.23%
Electronic equipment & instruments	4.40%	5.83%
Apparel, accessories & luxury goods	4.39%	4.18%
Home improvement retail	4.35%	5.76%
Food distributors	3.84%	5.38%
Fertilizers & agricultural chemicals	3.57%	4.76%
Diversified support services	3.48%	4.66%
Healthcare technology	2.96%	3.93%
Human resources & employment services	2.87%	0.00%
Food retail	2.64%	3.50%
Media — Advertising	2.44%	3.52%
Air freight and logistics	2.40%	2.49%
Electronic manufacturing services	2.24%	3.20%
Distributors	1.81%	2.35%
Data processing and outsourced services	1.72%	2.26%
Industrial machinery	1.44%	1.81%
Leisure facilities	0.94%	1.25%
Building products	0.88%	1.21%
Construction materials	0.87%	3.02%
Environmental & facilities services	0.68%	0.91%
Trucking	0.62%	0.82%
Housewares & specialties	0.55%	0.66%
Restaurants	0.52%	2.15%
Household products	0.15%	0.19%
Multi-sector holdings	0.08%	0.01%
Movies & entertainment	0.04%	0.05%
Total	**100.00%**	**100.00%**

Portfolio Asset Quality

We employ a grading system to assess and monitor the credit risk of our investment portfolio. We rate all investments 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 investments 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, 2010 and September 30, 2010:

	December 31, 2010			September 30, 2010		
	Fair Value	**Percentage of Total Portfolio**	**Leverage Ratio**	**Fair Value**	**Percentage of Total Portfolio**	**Leverage Ratio**
1	$ 80,790,254	10.88%	3.00	$ 89,150,457	15.81%	2.97
2	620,901,779	83.63%	3.40	424,494,799	75.29%	4.31
3	21,672,872	2.92%	11.16	18,055,528	3.20%	13.25
4	—	0.00%	—	23,823,120	4.23%	8.13
5	19,030,430	2.57%	NM (1)	8,297,412	1.47%	NM (1)
Total	**$742,395,335**	**100.00%**	**3.25**	**$563,821,316**	**100.00%**	**4.53**

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

We may from time to time modify the payment terms of our investments, either in response to current economic conditions and their impact on certain of our portfolio companies or in accordance with tier pricing provisions in certain loan agreements. As of December 31, 2010, we had modified the payment terms of our investments in four portfolio companies. Such modified terms may include increased PIK interest provisions and reduced cash interest rates. These modifications, and any future modifications to our loan agreements, may limit the amount of interest income that we recognize from the modified investments, which may, in turn, limit our ability to make distributions to our stockholders.

Loans and Debt Securities on Non-Accrual Status

As of December 31, 2010, we had stopped accruing cash interest, PIK interest and original issue discount ("OID") on three investments that did not pay all of their scheduled monthly cash interest payments for the period ended December 31, 2010. As of December 31, 2009, we had stopped accruing PIK interest and OID on five investments, including two investments that had not paid all of their scheduled monthly cash interest payments.

The non-accrual status of our portfolio investments as of December 31, 2010, September 30, 2010 and December 31, 2009 was as follows:

	December 31, 2010	September 30, 2010	December 31, 2009
Lighting by Gregory, LLC	Cash non-accrual	Cash non-accrual	Cash non-accrual
CPAC, Inc.	—	—	PIK non-accrual
Martini Park, LLC	—	—	PIK non-accrual
Nicos Polymers & Grinding, Inc.	—	Cash non-accrual	PIK non-accrual
MK Network, LLC	Cash non-accrual	Cash non-accrual	—
Premier Trailer Leasing, Inc.	Cash non-accrual	Cash non-accrual	Cash non-accrual
Vanguard Vinyl, Inc.	—	Cash non-accrual	—

Non-accrual interest amounts related to the above investments for the three months ended December 31, 2010 and December 31, 2009 were as follows:

	Three months ended December 31, 2010	Three months ended December 31, 2009
Cash interest income	$2,106,432	$1,134,564
PIK interest income	240,390	468,882
OID income	30,138	103,911
Total	**$2,376,960**	**$1,707,357**

Discussion and Analysis of Results and Operations

Results of Operations

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

Comparison of the three months ended December 31, 2010 and December 31, 2009

Total Investment Income

Total investment income includes interest and dividend income on our investments, fee income and other investment income. Fee income consists principally of loan and arrangement fees, administrative fees, unused fees, amendment fees, equity structuring fees, exit fees, prepayment 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, 2010 and December 31, 2009 was $25.3 million and $13.2 million, respectively. For the three months ended December 31, 2010, this amount primarily consisted of $20.8 million of interest income from portfolio investments (which included $3.1 million of PIK interest), and $4.5 million of fee income. For the three months ended December 30, 2009, total investment income primarily consisted of $12.3 million of interest income from portfolio investments (which included $2.0 million of PIK interest), and $0.9 million of fee income.

The increase in our total investment income for the three months ended December 31, 2010 as compared to the three months ended December 31, 2009 was primarily attributable to higher average levels of outstanding debt investments, which was principally due to an increase of 13 investments in our portfolio in the year-over-year period, partially offset by scheduled amortization repayments received and other debt payoffs during the same period.

Expenses

Expenses (net of the permanently waived portion of the base management fee) for the three months ended December 31, 2010 and December 31, 2009 were $11.3 million and $4.9 million, respectively. Expenses increased for the three months ended December 31, 2010 as compared to the three months ended December 31, 2009 by $6.4 million, primarily as a result of increases in the base management fee, the incentive fee, interest expense, professional fees, and other general and administrative expenses.

The increase in base management and incentive fees 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 $0.7 million of the base management fee for the three months ended December 31, 2009. The increase in interest expense resulted from a $174.3 million increase in debt levels in the year-over-year period.

Net Investment Income

As a result of the $12.1 million increase in total investment income as compared to the $6.4 million increase in net expenses, net investment income for the three months ended December 31, 2010 reflected a $5.7 million, or 68.4%, increase compared to the three months ended December 31, 2009.

Realized Gain (Loss) on Sale of Investments

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

During the three months ended December 31, 2010, we recorded the following investment realization events:

- In November 2010, we restructured our investment in Best Vinyl, Inc., which resulted in a material modification of the terms of the loan agreement. As such, we recorded a realized loss in the amount of $1.7 million in accordance with ASC 470-50;
- In December 2010, we restructured our investment in Nicos Polymers & Grinding Inc., which resulted in a material modification of the terms of the loan agreement. As such, we recorded a realized loss in the amount of $3.9 million in accordance with ASC 470-50;
- In December 2010, we cancelled Lighting by Gregory, LLC's entire Term Loan B balance and $1.5 million of Term Loan A. We recorded a realized loss on this investment in the amount of $7.8 million.

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.

Net Unrealized Appreciation or Depreciation on Investments and Interest Rate Swaps

Net unrealized appreciation or depreciation is the net change in the fair value of our investment portfolio and our interest rate swaps 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, 2010, we recorded net unrealized appreciation of $16.8 million. This consisted of $10.3 million of reclassifications to realized losses, $5.5 million of net unrealized appreciation on debt investments, $0.3 million of net unrealized appreciation on equity investments and $0.7 million of net unrealized appreciation on interest rate swaps. 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.

Financial Condition, Liquidity and Capital Resources

Cash Flows

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

For the three months ended December 31, 2010, we experienced a net decrease in cash and cash equivalents of $33.7 million. During that period, we used $159.4 million of cash in operating activities, primarily for the funding of $238.6 million of investments, partially offset by $57.6 million of principal payments received and $14.1 million of net investment income. During the same period cash provided by financing activities was $125.6 million, primarily consisting of $89.0 million of net borrowings under our credit facilities, $50.3 million of SBA borrowings, and $5.0 million of proceeds from issuances of our common stock, partially offset by $16.5 million of cash dividends paid, $0.2 million of offering costs paid and $2.0 million of deferred financing costs paid. We intend to fund our future distribution obligations through operating cash flow or with funds obtained through future equity offerings or credit facilities, as we deem appropriate.

For the 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 $38.0 million of net borrowings on our credit facility partially offset by $9.7 million of cash dividends paid.

As of December 31, 2010, we had $43.0 million in cash and cash equivalents, portfolio investments (at fair value) of $742.4 million, $4.7 million of interest and fees receivable, $123.3 million of SBA debentures payable, $89.0 of borrowings outstanding under our credit facilities, and unfunded commitments of $95.3 million.

As of September 30, 2010, we had $76.8 million in cash and cash equivalents, portfolio investments (at fair value) of $563.8 million, $3.8 million of interest and fees receivable, $73.0 million of SBA debentures payable, and unfunded commitments of $49.5 million.

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 then-current net asset value per share and we are limited in our ability to sell our common stock at a price below net asset value per share, we may be limited in our ability to raise equity capital.

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

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 December 31, 2010, we were in compliance with this requirement. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

Finally, through a wholly-owned subsidiary, we sought and obtained a license from the SBA to operate an SBIC. In this regard, on February 3, 2010, our wholly-owned subsidiary, Fifth Street Mezzanine Partners IV, L.P., received a license, effective February 1, 2010, from the 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 on a semi-annual basis 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 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, 2010, our SBIC subsidiary had $75 million in regulatory capital. The SBA has issued a capital commitment to our SBIC subsidiary in the amount of $150 million, and $123.3 million of SBA debentures were outstanding as of December 31, 2010. $73.0 million of these debentures bore an interest rate of 3.50%, including the SBA annual charge of 0.285%, while the remainder do not yet have a locked interest rate.

We have received exemptive relief from the Securities and Exchange Commission (“SEC”) to permit us to exclude the debt of the SBIC subsidiary guaranteed by the SBA from the 200% asset coverage test under the 1940 Act. This allows us increased flexibility under the 200% asset coverage test.

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

The following table reflects the dividend distributions per share that our Board of Directors has declared on our common stock from October 1, 2008 through December 31, 2010:

Date Declared	Record Date	Payment Date	Amount per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
December 9, 2008	December 19, 2008	December 29, 2008	$ 0.32	$6.4 million	105,326	$0.8 million
December 9, 2008	December 30, 2008	January 29, 2009	0.33	6.6 million	139,995	0.8 million
December 18, 2008	December 30, 2008	January 29, 2009	0.05	1.0 million	21,211	0.1 million
April 14, 2009	May 26, 2009	June 25, 2009	0.25	5.6 million	11,776	0.1 million
August 3, 2009	September 8, 2009	September 25, 2009	0.25	7.5 million	56,890	0.6 million
November 12, 2009	December 10, 2009	December 29, 2009	0.27	9.7 million	44,420	0.5 million
January 12, 2010	March 3, 2010	March 30, 2010	0.30	12.9 million	58,689	0.7 million
May 3, 2010	May 20, 2010	June 30, 2010	0.32	14.0 million	42,269	0.5 million
August 2, 2010	September 1, 2010	September 29, 2010	0.10	5.2 million	25,425	0.3 million
August 2, 2010	October 6, 2010	October 27, 2010	0.10	5.5 million	24,850	0.3 million
August 2, 2010	November 3, 2010	November 24, 2010	0.11	6.0 million	26,569	0.3 million
August 2, 2010	December 1, 2010	December 29, 2010	0.11	6.0 million	28,238	0.3 million
November 30, 2010	January 4, 2011	January 31, 2011	0.1066	5.4 million	24,850	0.5 million
November 30, 2010	February 1, 2011	February 28, 2011	0.1066	—	—	—
November 30, 2010	March 1, 2011	March 31, 2011	0.1066	—	—	—

The following table reflects shareholder transactions that occurred from October 1, 2008 through December 31, 2010:

Date	Transaction	Shares	Share Price	Gross Proceeds (Uses)
October 27, 2008	Repurchase shares	39,000	$ 5.96	$(0.2 million)
October 28, 2008	Repurchase shares	39,000	5.89	(0.2 million)
July 21, 2009	Public offering [1]	9,487,500	9.25	87.8 million
September 25, 2009	Public offering [1]	5,520,000	10.50	58.0 million
January 27, 2010	Public offering	7,000,000	11.20	78.4 million
February 25, 2010	Underwriters' exercise of over-allotment	300,500	11.20	3.4 million
June 21, 2010	Public offering [1]	9,200,000	11.50	105.8 million
December 2010	At-the-market offering	429,110	11.87[2]	5.1 million

1 Includes the underwriters' full exercise of their over-allotment option

2 Average offering price

Borrowings

On November 16, 2009, Fifth Street Funding, LLC, a consolidated wholly-owned bankruptcy remote, special purpose subsidiary ("Funding"), and we entered into a Loan and Servicing Agreement ("Agreement"), with respect to a three-year credit facility ("Wells Fargo facility") with Wells Fargo Bank, National Association ("Wells Fargo"), as successor to Wachovia Bank, National Association ("Wachovia"), Wells Fargo Securities, LLC, as administrative agent, each of the additional institutional and conduit lenders party thereto from time to time, and each of the lender agents party thereto from time to time, in the amount of $50 million, with an accordion feature which allowed for potential future expansion of the facility up to $100 million. The facility bore interest at LIBOR plus 4.0% per annum and had a maturity date of November 16, 2012.

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

On November 5, 2010, we amended the Wells Fargo facility to, among other things, provide for the issuance from time to time of letters of credit for the benefit of our portfolio companies. The letters of credit are subject to certain restrictions, including a borrowing base limitation and an aggregate sublimit of $15.0 million.

In connection with the Wells Fargo facility, we concurrently entered into (i) a Purchase and Sale Agreement with Funding, pursuant to which we 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, pursuant to which we pledged all of our 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 Wells Fargo facility.

The Agreement and related agreements governing the Wells Fargo facility required both Funding and us to, among other things (i) make representations and warranties regarding the collateral as well as each of our businesses, (ii) agree to certain indemnification obligations, and (iii) comply with various covenants, servicing procedures, limitations on acquiring and disposing of assets, reporting requirements and other customary requirements for similar credit facilities. The Wells Fargo facility agreements also include usual and customary default provisions such as the failure to make timely payments under the facility, a change in control of Funding, and the failure by Funding or us 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 our liquidity, financial condition and results of operations.

The Wells Fargo facility is secured by all of the assets of Funding, and all of our equity interest in Funding. We intend to use the net proceeds of the Wells Fargo facility to fund a portion of our loan origination activities and for general corporate purposes. Each loan origination under the facility is subject to the satisfaction of certain conditions. We cannot be assured that Funding will be able to borrow funds under the Wells Fargo facility at any particular time or at all. As of December 31, 2010, we had $38.0 million of borrowings outstanding under the Wells Fargo facility.

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

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

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

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

As of December 31, 2010, we had $51.0 million of borrowings outstanding under the ING facility.

As of December 31, 2010, except for assets that were funded through our SBIC subsidiary, substantially all of our assets were pledged as collateral under the Wells Fargo facility or the ING facility.

Interest expense for the three months ended December 31, 2010 and 2009 was $1.9 million and $0.1 million, respectively.

The following table describes significant financial covenants with which we must comply under each of our credit facilities on a quarterly basis:

Facility	Financial Covenant	Description	Target Value	Reported Value (1)
Wells Fargo facility	Minimum shareholders' equity (inclusive of affiliates)	Net assets shall not be less than $200 million plus 75% of the aggregate net proceeds of all sales of equity interests after November 16, 2009	$338 million	$569 million
	Minimum shareholders' equity (exclusive of affiliates)	Net assets exclusive of affiliates other than Funding shall not be less than $250 million	$250 million	$494 million
	Asset coverage ratio	Asset coverage ratio shall not be less than 2.00:1	2.00:1	2.78:1
ING facility	Minimum shareholders' equity	Net assets shall not be less than the greater of (a) 55% of total assets; and (b) $385 million plus 50% of the aggregate net proceeds of all sales of equity interests after February 24, 2010	$436 million	$569 million
	Asset coverage ratio	Asset coverage ratio shall not be less than 2.25:1	2.25:1	8.80:1
	Interest coverage ratio	Interest coverage ratio shall not be less than 2.50:1	2.50:1	43.18:1
	Eligible portfolio investments test	Aggregate value of (a) Cash and cash equivalents and (b) Portfolio investments rated 1, 2 or 3 shall not be less than $175 million	$175 million	$288 million

(1) As contractually required, we report financial covenants based on the last filed quarterly or annual report, in this case our Form 10-K for the year ended September 30, 2010.

The following table reflects credit facility and debenture transactions that occurred from October 1, 2008 through December 31, 2010. Amounts available and drawn are as of December 31, 2010:

			Total Facility Amount	Upfront fee Paid	Availability	Amount Drawn	Interest Rate
Bank of Montreal	December 30, 2008	Renewed credit facility	$50 million	$0.3 million	$ —	$ —	LIBOR + 3.25%
	September 16, 2009	Terminated credit facility					
Wells Fargo facility	November 16, 2009	Entered into credit facility	50 million	0.8 million			LIBOR + 4.00%
	May 26, 2010	Expanded credit facility	100 million	0.9 million	91 million (1)	38 million	LIBOR + 3.50%
ING facility	May 27, 2010	Entered into credit facility	90 million	0.8 million	90 million	51 million	LIBOR + 3.50%
SBA	February 16, 2010	Received capital commitment	75 million	0.8 million			
	September 21, 2010	Received capital commitment	150 million	0.8 million	150 million	123.3 million	3.50% (2)

(1) Availability to increase upon our decision to further collateralize the facility.

(2) Includes the SBA annual charge of 0.285%.

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, 2010, our only off-balance sheet arrangements consisted of $95.3 million of unfunded commitments, which was comprised of $91.8 million to provide debt financing to certain of our portfolio companies and $3.6 million related to unfunded limited partnership interests. As of September 30, 2010, our only off-balance sheet arrangements consisted of $49.5 million, which was comprised of $46.7 million to provide debt financing to certain of our portfolio companies and $2.8 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 Statement of Assets and Liabilities and are not reflected on our Consolidated Statement of Assets and Liabilities.

Contractual Obligations

On February 3, 2010, our SBIC subsidiary received a license, effective February 1, 2010, from the SBA to operate as an SBIC. 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 on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with 10-year maturities. As of December 31, 2010, we had $123.3 million of SBA debentures payable. $73.0 million of these debentures bore an interest rate of 3.50%, including the SBA annual charge of 0.285%, while the remainder do not yet have a locked interest rate.

On November 16, 2009, we entered into the Wells Fargo facility in the amount of $50 million with an accordion feature, which allowed for potential future expansion of the Wells Fargo facility up to $100 million. The Wells Fargo facility bore interest at LIBOR plus 4% per annum and had a maturity date of November 26, 2012. On May 26, 2010, we amended the Wells Fargo facility to expand our borrowing capacity under that facility. Pursuant to the amendment, we received an additional $50 million commitment, thereby increasing the size of the Wells Fargo facility from $50 million to $100 million, with an accordion feature that allows for potential future expansion of that facility from a total of $100 million up to a total of $150 million. In addition, the interest rate of the Wells Fargo facility was reduced from LIBOR plus 4% per annum to

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LIBOR plus 3.5% per annum, with no LIBOR floor, and the maturity date of the facility was extended from November 16, 2012 to May 26, 2013. On November 5, 2010, we amended the Wells Fargo facility to, among other things, provide for the issuance from time to time of letters of credit for the benefit of our portfolio companies. The letters of credit are subject to certain restrictions, including a borrowing base limitation and an aggregate sublimit of $15.0 million.

On May 27, 2010, we entered into the ING facility, which allows for us to borrow money at a rate of either (i) LIBOR plus 3.5% per annum or (ii) 2.5% per annum plus an alternate base rate based on the greatest of the Prime Rate, Federal Funds Rate plus 0.5% per annum or LIBOR plus 1% per annum, and has a maturity date of May 27, 2013. The ING facility also allows us to request letters of credit from ING Capital LLC, as the issuing bank. The initial commitment under the ING facility is $90 million, and the ING facility includes an accordion feature that allows for potential future expansion of the facility up to a total of $150 million.

As of December 31, 2010, we had $51.0 million of borrowings outstanding under the ING facility and $38.0 million of borrowings outstanding under the Wells Fargo facility.

The table below reflects the following for the SBA debentures payable, the Wells Fargo facility and the ING facility:

- Debt outstanding as of September 30, 2010;
- Debt outstanding as of December 31, 2010;
- Weighted average debt outstanding for the three months ended December 31, 2010;
- Maximum debt outstanding during the three months ended December 31, 2010;

	Debt Outstanding as of September 30, 2010	Debt Outstanding as of December 31, 2010	Weighted average debt outstanding for the three months ended December 31, 2010	Maximum debt outstanding for the three months ended December 31, 2010
SBA debentures payable	$73,000,000	$123,300,000	$ 81,276,087	$123,300,000
Wells Fargo facility	—	38,000,000	16,380,435	75,000,000
ING facility	—	51,000,000	5,021,739	51,000,000
Total debt	73,000,000	212,300,000	102,678,261	234,300,000

The following table reflects our contractual obligations arising from the SBA debentures payable, the Wells Fargo facility and the ING facility:

	Payments due by period as of December 31, 2010				
	Total	< 1 year	1-3 years	3-5 years	> 5 years
SBA debentures payable	$ 123,300,000	$ —	$ —	$ —	$ 123,300,000
Interest due on SBA debentures	42,112,568	3,237,603	8,642,822	8,631,000	21,601,143
Wells Fargo facility	38,000,000	—	38,000,000	—	—
Interest due on Wells Fargo facility	5,266,012	2,179,039	3,086,972	—	—
ING facility	51,000,000	—	51,000,000	—	—
Interest due on ING facility	5,686,226	2,352,921	3,333,305	—	—
Total	**$ 265,364,806**	**$ 7,769,563**	**$ 104,063,099**	**$ 8,631,000**	**$ 144,901,143**

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

	December 31, 2010	September 30, 2010
HealthDrive Corporation	$ 1,500,000	$ 1,500,000
IZI Medical Products, Inc.	2,500,000	2,500,000
Trans-Trade, Inc.	4,000,000	500,000
Riverlake Equity Partners II, LP (limited partnership interest)	877,895	966,360
Riverside Fund IV, LP (limited partnership interest)	678,583	864,175
ADAPCO, Inc.	5,750,000	5,750,000
AmBath/ReBath Holdings, Inc.	1,500,000	1,500,000
JTC Education, Inc.	14,000,000	9,062,453
Tegra Medical, LLC	4,000,000	4,000,000
Vanguard Vinyl, Inc.	—	1,250,000
Flatout, Inc.	1,500,000	1,500,000
Psilos Group Partners IV, LP (limited partnership interest)	1,000,000	1,000,000
Mansell Group, Inc.	2,000,000	2,000,000
NDSSI Holdings, Inc.	1,500,000	1,500,000
Eagle Hospital Physicians, Inc.	2,500,000	2,500,000
Enhanced Recovery Company, LLC	4,000,000	3,623,148
Epic Acquisition, Inc.	2,200,000	2,700,000
Specialty Bakers, LLC	4,000,000	2,000,000
Rail Acquisition Corp.	5,040,865	4,798,897
Bunker Hill Capital II (QP), L.P. (limited partnership interest)	1,000,000	—
Nicos Polymers & Grinding Inc.	500,000	—
CRGT, Inc.	12,500,000	—
Welocalize, Inc.	4,750,000	—
Miche Bag, LLC	5,000,000	—
Dominion Diagnostics, LLC	5,000,000	—
Advanced Pain Management	400,000	—
DISA, Inc.	4,000,000	—
Best Vinyl Fence & Deck, LLC	1,000,000	—
Saddleback Fence and Vinyl Products, Inc.	400,000	—
Traffic Control & Safety Corporation	2,250,000	—

Total	**$95,347,343**	**$49,515,033**

Regulated Investment Company Status and Dividends

We elected, effective as of January 2, 2008, to be treated as a RIC under Subchapter M of the Code. As long as we qualify as a RIC, we will not be taxed on our investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis.

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

To maintain RIC tax treatment, we must, among other things, distribute, with respect to each taxable year, at least 90% of our investment company 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 2011). We anticipate timely distribution of our taxable income within the tax rules; however, we expect to incur a de minimis U.S. federal excise tax for the calendar year 2010. We intend to distribute to our stockholders between 90% and 100% of our annual taxable income (which includes our taxable interest and fee income). However, in future periods, we will be partially dependent on our SBIC subsidiary for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiary may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to enable us to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC subsidiary to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. Also, the covenants under the Wells Fargo facility could, under certain circumstances, restrict Fifth Street Funding, LLC from making distributions to us and, as a result, hinder our ability to satisfy the distribution requirement. Similarly, the covenants contained in the ING facility may prohibit us from making distributions to our stockholders, and, as a result, could hinder our ability to satisfy the distribution requirement. In addition, we may retain for investment some or all of our net taxable capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) and treat such amounts as deemed distributions to our stockholders. If we do this, our stockholders will be treated as if they received actual distributions of the capital gains we retained and then reinvested the net after-tax proceeds in our common stock. Our stockholders also may be eligible to claim tax credits (or, in certain circumstances, tax refunds) equal to their allocable share of the tax we paid on the capital gains deemed distributed to them. To the extent our taxable earnings for a fiscal taxable year fall below the total amount of our dividends for that fiscal year, a portion of those dividend distributions may be deemed a return of capital to our stockholders.

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

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

Related Party Transactions

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

The investment advisory agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. During the three months ended December 31, 2010, we paid our investment adviser $7.3 million under the investment advisory agreement.

Pursuant to the administration agreement with FSC, Inc., which is controlled by Mr. Tannenbaum, FSC, Inc. will furnish us with the facilities and administrative services necessary to conduct our day-to-day operations, including equipment, clerical, bookkeeping and recordkeeping services at such facilities. In addition, FSC, Inc. will assist us in connection with the determination and publishing of our net asset value, the preparation and filing of tax returns and the printing and dissemination of reports to our stockholders. We will pay FSC, Inc. our allocable portion of overhead and other expenses incurred by it in performing its obligations under the administration agreement, including a portion of the rent and the compensation of our chief financial officer and chief compliance officer and their respective staffs. FSC, Inc. has voluntarily determined to forgo receiving reimbursement for the services performed for us by our chief compliance officer. Although FSC, Inc. currently intends to forgo its right to receive such reimbursement, it is under no obligation to do so and may cease to do so at any time in the future. The administration agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. During the three months ended December 31, 2010, we paid FSC, Inc. $0.8 million under the administration agreement.

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

Recent Developments

On January 4, 2011, we drew $22.0 million on the Wells Fargo facility. On January 28, 2011, we drew $25.0 million on the Wells Fargo facility. As of January 31, 2011, we had $85.0 million outstanding under the facility.

On January 4, 2011, we closed a $19.0 million senior secured debt facility to support the acquisition of a technology-enabled home-delivery pharmacy. The investment is backed by a private equity sponsor and $17.0 million was funded at closing. The terms of this investment include a $2.0 million revolver at an interest rate of LIBOR+6.0% per annum and a $17.0 million Term Loan at an interest rate of LIBOR+10.5% per annum. This is a first lien facility with a scheduled maturity of five years.

On January 6, 2011, we closed a $14.0 million senior secured debt facility to support the acquisition of a provider of outsourced Medicaid eligibility services. The investment is backed by a private equity sponsor and $12.0 million was funded at closing. The terms of this investment include a $2.0 million revolver at an interest rate of LIBOR+6.5% per annum with a 1.75% LIBOR floor, and a $12.0 million Term Loan at an interest rate of LIBOR+10.0% per annum with a 1.75% LIBOR floor. This is a first lien facility with a scheduled maturity of five years.

On January 6, 2011, we closed a $20.0 million senior secured debt facility to support the acquisition of a manager and administrator of investment products. The investment is backed by a private equity sponsor and $11.7 million was funded at closing. The terms of this investment include a $20.0 million Term Loan at an interest rate of LIBOR+9.5% per annum with a 2% LIBOR floor. This is a first lien facility with a scheduled maturity of five years.

On January 14, 2011, we drew $12.0 million on the ING facility. On January 31, 2011, we drew $27.0 million on the ING facility. As of January 31, 2011, we had $90.0 million outstanding under the facility.

On January 14, 2011, we closed a $13.3 million senior secured debt facility to support the acquisition of a provider of non-destructive pipe testing services. The investment is backed by a private equity sponsor and $11.3 million was funded at closing. The terms of this investment include a $2.0 million revolver at an interest rate of LIBOR+8.0% per annum with a 2% LIBOR floor, a $5.3 million Term Loan A at an interest rate of LIBOR+8.0% per annum with a 2% LIBOR floor, and a $6.0 million Term Loan B at an interest rate of LIBOR+12% per annum with a 2% LIBOR floor. This is a first lien facility with a scheduled maturity of five years.

On January 20, 2011, we closed a $10.0 million senior secured debt facility to support the acquisition of an acquirer and operator of specialty pharmaceutical companies. The investment is backed by a private equity sponsor and $10.0 million was funded at closing. The terms of this investment include a $10.0 million Term Loan at an interest rate of LIBOR+6.25% per annum with a 2% LIBOR floor. This is a first lien facility with a scheduled maturity of five years.

On January 30, 2011, our Board of Directors declared the following dividends:

- $0.1066 per share, payable on April 29, 2011 to stockholders of record on April 1, 2011;
- $0.1066 per share, payable on May 31, 2011 to stockholders of record on May 2, 2011; and
- $0.1066 per share, payable on June 30, 2011 to stockholders of record on June 1, 2011.

On January 31, 2011, we paid a dividend in the amount of $0.1066 per share to stockholders of record on January 4, 2011.

We are currently in negotiations with the lenders to the ING facility and new lender parties thereto to potentially more than double our borrowing capacity under the ING facility, although we have not yet obtained a commitment from these lenders for any such increase. As a result, there are no assurances that we will be successful in our negotiations with these lenders or that we will ultimately enter into any agreement with the lenders to expand our borrowing capacity under the ING facility at all. In addition, any such agreement by these lenders to increase our borrowing capacity under the ING facility may also be accompanied by other changes to the ING facility, including changes to the maturity date of the ING facility.

In addition, we are also in the process of preparing an application to the SBA for a second SBIC license. If approved, this license would provide us with the capability to issue an additional $75 million of SBA-guaranteed debentures beyond the $150 million of SBA-guaranteed debentures we, through our wholly-owned subsidiary, currently have the ability to issue. However, there are no assurances that we will be successful in obtaining a second SBIC license from the SBA.

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. As of December 31, 2010, 50.0% of our debt investment portfolio (at fair value) and 48.5% of our debt investment portfolio (at cost) bore interest at floating rates. As of December 31, 2010, based on our applicable levels of floating-rate debt investments, a 1.0% change in interest rates would not have a material effect on our level of interest income from debt investments.

Based on our review of interest rate risk, we determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates. On August 16, 2010, we entered into an interest rate swap agreement that expires on August 15, 2013, for a total notional amount of $100 million, for the purposes of hedging the interest rate risk related to the Wells facility and the ING facility. Under the interest rate swap agreement, we will pay a fixed interest rate of 0.99% and receive a floating rate based on the prevailing one-month LIBOR.

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 $17 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 identifying, recording, processing, summarizing, and reporting any material information relating to us that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934.

(b) Changes in Internal Controls

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

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

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*.**

There have been no material changes during the three months ended December 31, 2010 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2010.

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

We issued a total of 79,657 shares of common stock under our dividend reinvestment plan during the three months ended December 31, 2010. 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 $0.9 million.

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Item 6. ***Exhibits.***

Exhibit Number	Description of Exhibit
10.1*	Custody Agreement, dated January 31, 2011, by and between Fifth Street Finance Corp. and U.S. Bank National Association
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: January 31, 2011	/s/ Leonard M. Tannenbaum Leonard M. Tannenbaum Chairman and Chief Executive Officer
Date: January 31, 2011	/s/ William H. Craig William H. Craig Chief Financial Officer

EXHIBIT INDEX

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* Submitted herewith.

Exhibit 10.1

CUSTODY AGREEMENT

dated as of January 31, 2011
by and between

FIFTH STREET FINANCE CORP.
("Company")

and

U.S. BANK NATIONAL ASSOCIATION
("Custodian")

Exhibit 10.1

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THIS CUSTODY AGREEMENT (this "Agreement") is dated as of January 31, 2011 and is by and between Fifth Street Finance Corp. (and any successor or permitted assign), a corporation organized under the laws of Delaware, having its principal place of business at 10 Bank Street, 12th Floor, White Plains, New York 10606, and U.S. BANK NATIONAL ASSOCIATION (or any successor or permitted assign acting as custodian hereunder, the "Custodian"), a national banking association having a place of business at One Federal Street, Boston, MA 02110.

RECITALS

WHEREAS, Fifth Street Finance Corp. is a closed-end management investment company, which has elected to do business as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"), and is authorized to issue shares of common stock;

WHEREAS, the Company (as defined below) desires to retain U.S. Bank National Association to act as custodian for the Company;

WHEREAS, the Company desires that the Company's Securities (as defined below) and cash be held and administered by the custodian pursuant to this Agreement; and

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree as follows:

1. **DEFINITIONS**

1.1 Defined Terms. In addition to terms expressly defined elsewhere herein, the following words shall have the following meanings as used in this Agreement:

"Account" or "Accounts" means the Cash Account, the Securities Account, any Subsidiary Cash Account and any Subsidiary Securities Account, collectively.

"Agreement" means this Custody Agreement (as the same may be amended from time to time in accordance with the terms hereof).

"Authorized Person" has the meaning set forth in Section 7.4.

"Business Day" means a day on which the Custodian is open for business in the market or country in which a transaction is to take place.

"Cash Account" means the trust account to be established at the Custodian to which the Custodian shall deposit and hold any cash Proceeds received by it from time to time from or with respect to the Securities or the sale of the common stock of the Company, as applicable, which deposit account shall be designated the "Fifth Street Finance Corp. Cash Proceeds Account".

"Company" means Fifth Street Finance Corp., its successors or permitted assigns.

"Confidential Information" means any databases, computer programs, screen formats, screen designs, report formats, interactive design techniques, and other similar or related information that may be furnished to the Company by the Custodian from time to time pursuant to this Agreement.

"Custodian" has the meaning set forth in the first paragraph of this Agreement.

"Document Custodian" means the Custodian when acting in the role of a document custodian hereunder.

"Eligible Investment" means any investment that at the time of its acquisition is one or more of the following:

(a) United States government and agency obligations;

(b) commercial paper having a rating assigned to such commercial paper by Standard & Poor's Rating Services or Moody's Investor Service, Inc. (or, if neither such organization shall rate such commercial paper at such time, by any nationally recognized rating organization in the United States of America) equal to one of the two highest ratings assigned by such organization, it being understood that as of the date hereof such ratings by Standard & Poor's Rating Services are "A1+" and "A1" and such ratings by Moody's Investor Service, Inc. are "P1" and "P2";

(c) interest bearing deposits in United States dollars in United States or Canadian banks with an unrestricted surplus of at least U.S. $250,000,000, maturing within one year; and

(d) money market funds (including funds of the bank serving as Custodian or its affiliates) or United States government securities funds designed to maintain a fixed share price and high liquidity.

"Eligible Securities Depository" has the meaning set forth in Section (b)(1) of Rule 17f-7 under the 1940 Act.

"Federal Reserve Bank Book-Entry System" means a depository and securities transfer system operated by the Federal Reserve Bank of the United States on which are eligible to be held all United States Government direct obligation bills, notes and bonds.

"Loan" means any U.S. dollar denominated commercial loan, or participation therein, made by a bank or other financial institution that by its terms provides for payments of principal and/or interest, including discount obligations and payment- in-kind obligations, acquired by the Company from time to time.

"Loan Checklist" means a list delivered to the Document Custodian in connection with delivery of a Loan to the Custodian that identifies the items contained in the related Loan File.

"Loan File" means, with respect to each Loan delivered to the Document Custodian, each of the Required Loan Documents identified on the related Loan Checklist.

"Noteless Loan" means a Loan with respect to which (i) the related loan agreement does not require the obligor to execute and deliver an Underlying Note to evidence the indebtedness created under such Loan and (ii) no Underlying Notes are outstanding with respect to the portion of the Loan transferred to the Company.

"Participation" means an interest in a Loan that is acquired indirectly by way of a participation from a selling institution.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust (including any beneficiary thereof) unincorporated organization, or any government or agency or political subdivision thereof.

"Proceeds" means, collectively, (i) the net cash proceeds to the Company of the initial public offering by the Company and any subsequent offering by the Company of any class of securities issued by the Company, (ii) all cash distributions, earnings, dividends, fees and other cash payments paid on the Securities (or, as applicable, Subsidiary Securities) by or on behalf of the issuer or obligor thereof, or applicable paying agent, (iii) the net cash proceeds of the sale or other disposition of the Securities (or, as applicable, Subsidiary Securities) pursuant to the terms of this Agreement (and any Reinvestment Earnings from investment of the foregoing, as defined in Section 3.6(b) hereof) and (iv) the net cash proceeds to the Company of any borrowing or other financing by the Company.

"Proper Instructions" means instructions (including Trade Confirmations) received by the Custodian in form acceptable to it, from the Company, or any Person duly authorized by the Company in any of the following forms acceptable to the Custodian:

(a) in writing signed by the Authorized Person (and delivered by hand, by mail, by overnight courier or by telecopier);

(b) by electronic mail from an Authorized Person;

(c) such other means as may be agreed upon in writing from time to time by the Custodian and the party giving such instructions.

"Required Loan Documents" means, for each Loan:

(a) other than in the case of a Participation, an executed copy of the Assignment for such Loan, as identified on the Loan Checklist;

(b) with the exception of Noteless Loans and Participations, the original executed Underlying Note endorsed by the issuer or the prior holder of record in blank or to the Company;

(c) an executed copy of the Underlying Loan Agreement (which may be included in the Underlying Note if so indicated in the Loan Checklist), together with a copy of all amendments and modifications thereto, as identified on the Loan Checklist;

(d) a copy of each related security agreement (if any) signed by the applicable Obligor(s), as identified on the Loan Checklist;

(e) a copy of the Loan Checklist, and

(f) a copy of each related guarantee (if any) then executed in connection with such Loan, as identified on the Loan Checklist.

"Securities" means, collectively, the (i) investments, including Loans, acquired by the Company and delivered to the Custodian by the Company from time to time during the term of, and pursuant to the terms of, this Agreement and (ii) all dividends in kind (e.g., non-cash dividends) from the investments described in clause (i), all of which shall be in U.S. denomination.

"Securities Account" means the segregated trust account to be established at the Custodian to which the Custodian shall deposit or credit and hold the Securities (other than Loans) received by it pursuant to this Agreement, which account shall be designated the "Fifth Street Finance Corp. Securities Custody Account".

"Securities Custodian" means the Custodian when acting in the role of a securities custodian hereunder.

"Securities Depository" means The Depository Trust Company and any other clearing agency registered with the Securities and Exchange Commission under Section 17A of the Securities Exchange Act of 1934, as amended (the "1934 Act"), which acts as a system for the central handling of Securities where all Securities of any particular class or series of an issuer deposited within the system are treated as fungible and may be transferred or pledged by bookkeeping entry without physical delivery of the Securities.

"Securities System" means the Federal Reserve Book-Entry System, a clearing agency which acts as a Securities Depository, or another book entry system for the central handling of securities (including an Eligible Securities Depository).

"Shares" means the shares of common stock issued by Fifth Street Finance Corp., a Delaware corporation.

"Street Delivery Custom" means a custom of the United States securities market to deliver securities which are being sold to the buying broker for examination to determine that the securities are in proper form.

"Street Name" means the form of registration in which the securities are held by a broker who is delivering the securities to another broker for the purposes of sale, it being an accepted custom in the United States securities industry that a security in Street Name is in proper form for delivery to a buyer and that a security may be re-registered by a buyer in the ordinary course.

"Subsidiary Cash Account" shall have the meaning set forth in Section 3.13(b).

"Subsidiary Securities" collectively, the (i) investments, including Loans, acquired by a Subsidiary and delivered to the Custodian from time to time during the term of, and pursuant to the terms of, this Agreement and (ii) all dividends in kind (e.g., non-cash dividends) from the investments described in clause (i).

"Subsidiary Securities Account" shall have the meaning set forth in Section 3.13(a).

"Subsidiary" means, collectively, any wholly owned subsidiary of the Company, except for those wholly-owned subsidiaries whose assets are held in custody by a custodian other than the Custodian.

. "Trade Confirmation" means a confirmation to the Custodian from the Company of the Company's acquisition of a Loan, and setting forth applicable information with respect to such Loan, which confirmation may be in such form as may be agreed to by the Custodian and the Company from time to time.

"Underlying Loan Agreement" means, with respect to any Loan, the document or documents evidencing the commercial loan agreement or facility pursuant to which such Loan is made.

"Underlying Loan Documents" means, with respect to any Loan, the related Underlying Loan Agreement together with any agreements and instruments (including any Underlying Note) executed or delivered in connection therewith.

"Underlying Note" means the one or more promissory notes executed by an obligor evidence a Loan.

1.2 Construction. In this Agreement unless the contrary intention appears:

(a) any reference to this Agreement or another agreement or instrument refers to such agreement or instrument as the same may be amended, modified or otherwise rewritten from time to time;

(b) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

(c) any term defined in the singular form may be used in, and shall include, the plural with the same meaning, and vice versa;

(d) a reference to a Person includes a reference to the Person’s executors, Custodian, successors and permitted assigns;

(e) an agreement, representation or warranty in favor of two or more Persons is for the benefit of them jointly and severally;

(f) an agreement, representation or warranty on the part of two or more Persons binds them jointly and severally;

(g) a reference to the term “including” means “including, without limitation,” and

(h) a reference to any accounting term is to be interpreted in accordance with generally accepted principles and practices in the United States, consistently applied, unless otherwise instructed by the Company.

1.3 Headings. Headings are inserted for convenience and do not affect the interpretation of this Agreement.

2. **APPOINTMENT OF CUSTODIAN**

2.1 Appointment and Acceptance. The Company hereby appoints the Custodian as custodian of all Securities and cash owned by the Company and the Subsidiaries (as applicable) at any time during the period of this Agreement, on the terms and conditions set forth in this Agreement (which shall include any addendum hereto which is hereby incorporated herein and made a part of this Agreement), and the Custodian hereby accepts such appointment and agrees to perform the services and duties set forth in this Agreement with respect to it subject to and in accordance with the provisions hereof.

2.2 Instructions. The Company agrees that it shall from time to time provide, or cause to be provided, to the Custodian all necessary instructions and information, and shall respond promptly to all inquiries and requests of the Custodian, as may reasonably be necessary to enable the Custodian to perform its duties hereunder.

2.3 Company Responsible For Directions. The Company is solely responsible for directing the Custodian with respect to deposits to, withdrawals from and transfers to or from the Account. Without limiting the generality of the foregoing, the Custodian has no responsibility for compliance with any restrictions, covenants, limitations or obligations to which the Company may be subject or for which it may have obligations to third-parties in respect of the Account, and the Custodian shall have no liability for the application of any funds made at the direction of the Company. The Company shall be solely responsible for properly instructing all applicable payors to make all appropriate payments to the Custodian for deposit to the Account, and for properly instructing the Custodian with respect to the allocation or application of all such deposits.

2.4 Appointment of Sub-Custodian. With prior written notice to the Company, the Custodian may from time to time employ one or more sub-custodians located in the United States, but only in accordance with the approval of the board of directors of the Company. The Custodian shall not appoint a sub-custodian unless the agreement between the Custodian and such sub-custodian requires the sub-custodian to: (i) at a minimum, exercise due care in accordance with reasonable commercial standards in discharging its duty as a sub-custodian to obtain and thereafter maintain such financial assets; (ii) provide, promptly upon request by the Company, such reports as are available concerning the internal accounting controls and financial strength of the sub-custodian; and (iii) at a minimum, exercise due care in accordance with reasonable commercial standards in discharging its duty as a sub-custodian to obtain and thereafter maintain financial assets corresponding to the security entitlements of its entitlement holders.

3. **DUTIES OF CUSTODIAN**

3.1 Segregation. All Securities and non-cash property held by the Custodian, as applicable, for the account of the Company (other than Securities maintained in a Securities Depository or Securities System) shall be physically segregated from other Securities and non-cash property in the possession of the Custodian (including the Securities and non-cash property of the other series of the Company, if applicable) and shall be identified as subject to this Agreement.

3.2 Securities Custody Account. The Custodian shall open and maintain in its trust department a segregated trust account in the name of the Company, subject only to order of the Custodian, in which the Custodian shall enter and carry, subject to Section 3.3(b), all Securities (other than Loans), cash and other assets of the Company which are delivered to it in accordance with this Agreement. For avoidance of doubt, the Custodian shall not be required to credit or deposit Loans in the Securities Account but shall instead maintain a register (in book-entry form or in such other form as it shall deem necessary or desirable) of such Loans, containing such information as the Company and the Custodian may reasonably agree; provided that, with respect to such Loans, all Required Loan Documents shall be held in safekeeping by the Document Custodian, individually segregated from the securities and investments of any other person and marked so as to clearly identify them as the property of the Company in a manner consistent with this Agreement.

3.3 Delivery of Securities to Custodian.

(a) The Company shall deliver, or cause to be delivered, to the Custodian all of the Company’s Securities, cash and other investment assets, including (a) all payments of income, payments of principal and capital distributions received by the Company with respect to such Securities, cash or other assets owned by the Company at any time during the period of this Agreement, and (b) all cash received by the Company for the issuance, at any time during such period, of Shares or other securities or in connection with a borrowing by the Company. With respect to Loans, the Required Loan Documents and other underlying loan documents shall be delivered to the Custodian in its role as, and at the address identified for, the Document Custodian. With respect to assets other than Loans, such assets shall be delivered to the Custodian in its role as, and (where relevant) at the address identified for, the Securities Custodian. Except to the extent otherwise expressly provided herein, delivery of Securities to the Custodian shall be in Street Name or other good delivery form. The Custodian shall not be responsible for such Securities, cash or other assets until actually delivered to, and received by it.

(b) (i) In connection with its acquisition of a Loan or other delivery of a Security constituting a Loan, the Company shall deliver or cause to be delivered to the Custodian (in its roles as, and at the address identified for, the Custodian and Document Custodian) a properly completed Trade Confirmation containing such information in respect of such Loan as the Custodian may reasonably require in order to enable the Custodian to perform its duties hereunder in respect of such Loan and on which the Custodian may conclusively rely without further inquiry or investigation, in such form and format as the Custodian reasonably may require, and shall deliver to the Document Custodian (in its role as, and at the address identified for, the Document Custodian) the Required Loan Documents for all Loans, including the Loan Checklist.

(ii) Notwithstanding anything herein to the contrary, delivery of Loans acquired by the Company (or, if applicable, Subsidiary thereof) which constitute Noteless Loans or Participations or which are otherwise not evidenced by a “security” or “instrument” as defined in Section 8-102 and Section 9-102(a)(47) of the UCC, respectively, shall be made by delivery to the Document Custodian of (i) in the case of a Noteless Loan, a copy of the loan register with respect to such Noteless Loan evidencing registration of such Loan on the books and records of the applicable obligor or bank agent to the name of the Company or, if applicable, a Subsidiary (or, in either case, its nominee) or a copy (which may be a facsimile copy) of an assignment agreement in favor of the Company (or the applicable Subsidiary) as assignee, and (ii) in the case of a Participation, a copy of the related participation agreement. Any duty on the part of the Custodian with respect to the custody of such Loans shall be limited to the exercise of reasonable care by the Custodian in the physical custody of any such documents delivered to it, and any related instrument, security, credit agreement, assignment agreement and/or other agreements or documents, if any (collectively, “Financing Documents”), that may be delivered to it. Nothing herein shall require the Custodian to credit to the Securities Account or to treat as a financial asset (within the meaning of Section 8-102(a)(9) of the UCC) any such Loan or other asset in the nature of a general intangible (as defined in Section 9-102(a)(42) of the UCC) or to “maintain” a sufficient quantity thereof.

(iii) The Custodian may assume the genuineness of any such Financing Document it may receive and the genuineness and due authority of any signatures appearing thereon, and shall be entitled to assume that each such Financing Document it may receive is what it purports to be. If an original "security" or "instrument" as defined in Section 8-102 and Section 9-102(a)(47) of the UCC, respectively, is or shall be or become available with respect to any Loan to be held by the Custodian under this Agreement, it shall be the sole responsibility of the Company to make or cause delivery thereof to the Document Custodian, and the Custodian shall not be under any obligation at any time to determine whether any such original security or instrument has been or is required to be issued or made available in respect of any Loan or to compel or cause delivery thereof to the Custodian.

(iv) Contemporaneously with the acquisition of any Loan, the Company shall (i) cause the Required Loan Documents evidencing such Loan to be delivered to the Document Custodian; (ii) if requested by the Custodian, provide to the Custodian an amortization schedule of principal payments and a schedule of the interest payable date(s) identifying the amount and due dates of all scheduled principal and interest payments for such Loan and (iii) a properly completed Trade Confirmation containing such information in respect of such Loan as the Custodian may reasonably require in order to enable the Custodian to perform its duties hereunder in respect of such Loan on which the Custodian may conclusively rely without further inquiry or investigation, in such form and format as the Custodian reasonably may require; (iv) take all actions necessary for the Company to acquire good title to such Loan; and (v) take all actions as may be necessary (including appropriate payment notices and instructions to bank agents or other applicable paying agents) to cause (A) all payments in respect of the Loan to be made to the Custodian and (B) all notices, solicitations and other communications in respect of such Loan to be directed to the Company. The Custodian shall have no liability for any delay or failure on the part of the Company to provide necessary information to the Custodian, or for any inaccuracy therein or incompleteness thereof, or for any delay or failure on the part of the Company to give such effective payment instruction to bank agents and other paying agents, in respect of the Loans. With respect to each such Loan, the Custodian shall be entitled to rely on any information and notices it may receive from time to time from the related bank agent, obligor or similar party with respect to the related Loan Asset, and shall be entitled to update its records (as it may deem necessary or appropriate), or from the Company, on the basis of such information or notices received, without any obligation on its part independently to verify, investigate or recalculate such information.

3.4 Release of Securities.

(a) The Custodian shall release and deliver, or direct its agents or sub-custodian to release and deliver, as the case may be, Securities or Required Loan Documents of the Company held by the Custodian, its agents or its sub-custodian from time to time upon receipt of Proper Instructions (which shall, among other things, specify the Securities or Required Loan Documents to be released, with such delivery and other information as may be necessary to enable the Custodian to perform), which may be standing instructions (in form acceptable to the Custodian) in the following cases:

(i) upon sale of such Securities by or on behalf of the Company and, unless otherwise directed by Proper Instructions:

(A) in accordance with the customary or established practices and procedures in the jurisdiction or market where the transactions occur, including delivery to the purchaser thereof or to a dealer therefor (or an agent of such purchaser or dealer) against expectation of receiving later payment; or

(B) in the case of a sale effected through a Securities System, in accordance with the rules governing the operations of the securities System;

(ii) upon the receipt of payment in connection with any repurchase agreement related to such securities;

(iii) to a depositary agent in connection with tender or other similar offers for securities;

(iv) to the issuer thereof or its agent when such securities are called, redeemed, retired or otherwise become payable (unless otherwise directed by Proper Instructions, the cash or other consideration is to be delivered to the Custodian, its agents or its sub-custodian);

(v) to an issuer thereof, or its agent, for transfer into the name of the Custodian or of any nominee of the Custodian or into the name of any of its agents or sub-custodian or their nominees or for exchange for a different number of bonds, certificates or other evidence representing the same aggregate face amount or number of units;

(vi) to brokers clearing banks or other clearing agents for examination in accordance with the Street Delivery Custom;

(vii) for exchange or conversion pursuant to any plan of merger, consolidation, recapitalization, reorganization or readjustment of the securities of the issuer of such securities, or pursuant to any deposit agreement (unless otherwise directed by Proper Instructions, the new securities and cash, if any, are to be delivered to the Custodian, its agents or its sub-custodian);

(viii) in the case of warrants, rights or similar securities, the surrender thereof in the exercise of such warrants, rights or similar securities or the surrender of interim receipts or temporary securities for definitive securities (unless otherwise directed by Proper Instructions, the new securities and cash, if any, are to be delivered to the Custodian, its agents or its sub-custodian); and/or

(ix) for any other purpose, but only upon receipt of Proper Instructions and an officer's certificate signed by an officer of the Company (which officer shall not have been the Authorized Person providing the Proper Instructions) stating (i) the specified securities to be delivered, (ii) the purpose for such delivery, (iii) that such purpose is a proper corporate purpose and (iv) naming the person or persons to whom delivery of such securities shall be made and attaching a certified copy of a resolution of the board of directors of Fifth Street Finance Corp. or an authorized committee thereof approving the delivery of such Proper Instructions.

3.5 Registration of Securities. Securities held by the Custodian, its agents or its sub-custodian (other than bearer securities, securities held in a Securities System or Securities that are Noteless Loans or Participations) shall be registered in the name of the Company or its nominee; or, at the option of the Custodian, in the name of the Custodian or in the name of any nominee of the Custodian, or in the name of its agents or its sub-custodian or their nominees; or if directed by the Company by Proper Instruction, may be maintained in Street Name. The Custodian, its agents and its sub-custodian shall not be obligated to accept Securities on behalf of the Company under the terms of this Agreement unless such Securities are in Street Name or other good deliverable form.

3.6 Bank Accounts, and Management of Cash

(a) Proceeds from the Securities received by the Custodian from time to time shall be credited to the Cash Account. All amounts credited to the Cash Account shall be subject to clearance and receipt of final payment by the Custodian.

(b) Amounts held in the Cash Account from time to time may be invested in Eligible Investments pursuant to specific written Proper Instructions (which may be standing instructions) received by the Custodian from an Authorized Person acting on behalf of the Company. Such investments shall be subject to availability and the Custodian's then applicable transaction charges (which shall be at the Company's expense). The Custodian shall have no liability for any loss incurred on any such investment. Absent receipt of such written instruction from the Company, the Custodian shall have no obligation to invest (or otherwise pay interest on) amounts on deposit in the Cash Account. In no instance will the Custodian have any obligation to provide investment advice to the Company. Any earnings from such investment of amounts held in the Cash Account from time to time (collectively, "Reinvestment Earnings") shall be redeposited in the Cash Account (and may be reinvested at the written direction of the Company).

(c) In the event that the Company shall at any time request a withdrawal of amounts from the Cash Account, the Custodian shall be entitled to liquidate, and shall have no liability for any loss incurred as a result of the liquidation of, any investment of the funds credited to such account as needed to provide necessary liquidity. Investment instructions may be in the form of standing instructions (in the form of Proper Instructions acceptable to Custodian).

(d) The Company acknowledges that cash deposited or invested with any bank (including the bank acting as Custodian) may make a margin or generate banking income for which such bank shall not be required to account to the Company.

3.7 [Reserved]

3.8 Collection of Income. The Custodian, its agents or its sub-custodian shall use reasonable efforts to collect on a timely basis all income and other payments with respect to the Securities held hereunder to which the Company shall be entitled, to the extent consistent with usual custom in the securities custodian business in the United States. Such efforts shall include collection of interest income, dividends and other payments with respect to registered domestic securities if on the record date with respect to the date of payment by the issuer the Security is registered in the name of the Custodian or its nominee (or in the name of its agent or sub-custodian, or their nominee); and interest income, dividends and other payments with respect to bearer domestic securities if, on the date of payment by the issuer such securities are held by the Custodian or its sub-custodian or agent; provided, however, that in the case of Securities held in Street Name, the Custodian shall use commercially reasonable efforts only to timely collect income. In no event shall the Custodian's agreement herein to collect income be construed to obligate the Custodian to commence, undertake or prosecute any legal proceedings.

3.9 Payment of Moneys.

(a) Upon receipt of Proper Instructions, which may be standing instructions, the Custodian shall pay out from the Cash Account (or remit to its agents or its sub-custodian, and direct them to pay out) moneys of the Company on deposit therein in the following cases:

(i) upon the purchase of Securities for the Company pursuant to such Proper Instruction; and such purchase may, unless and except to the extent otherwise directed by Proper Instructions, be carried out by the Custodian:

(A) in accordance with the customary or established practices and procedures in the jurisdiction or market where the transactions occur, including delivering money to the seller thereof or to a dealer therefor (or any agent for such seller or dealer) against expectation of receiving later delivery of such securities; or

(B) in the case of a purchase effected through a Securities System, in accordance with the rules governing the operation of such Securities System;

(ii) [reserved]; and

(iii) for any other purpose directed by the Company, but only upon receipt of Proper Instructions specifying the amount of such payment, and naming the Person or Persons to whom such payment is to be made.

(b) At any time or times, the Custodian shall be entitled to pay (i) itself from the Cash Account, whether or not in receipt of express direction or instruction from the Company, any amounts due and payable to it pursuant to Section 8 hereof, and (ii) as otherwise permitted by Section 7.5, 9.4 or Section 12.5 below, provided, however, that in each case all such payments shall be accounted for to the Company.

3.10 Voting and Other Action. The Custodian shall promptly deliver any notices, proxies, or proxy soliciting materials to the Company, but without indicating the manner in which any such proxies are to be voted. Neither the Custodian nor any nominee of the Custodian shall vote any of the securities held hereunder by or for the account of the Company, except in accordance with Proper Instructions of the Company. In the absence of such Proper Instructions, or in the event that such Proper Instructions are not received in a timely fashion, the Custodian shall be under no duty to act with regard to such proxies.

3.11 Communications Relating to Securities. The Custodian shall transmit promptly to the Company all written information (including pendency of calls and maturities of Securities and expirations of rights in connection therewith) received by the Custodian, from its agents or its sub-custodian or from issuers of the Securities being held for the Company. The Custodian shall have no obligation or duty to exercise any right or power, or otherwise to preserve rights, in or under any Securities unless and except to the extent it has received timely Proper Instruction from the Company in accordance with the next sentence. The Custodian will not be liable for any untimely exercise of any right or power in connection with Securities at any time held by the Custodian, its agents or sub-custodian unless:

(i) the Custodian has received Proper Instructions with regard to the exercise of any such right or power; and

(ii) the Custodian, or its agents or sub-custodian are in actual possession of such Securities,

in each case, at least three (3) Business Days prior to the date on which such right or power is to be exercised. It will be the responsibility of the Company to notify the

Custodian of the Person to whom such communications must be forwarded under this Section.

3.12 Records. The Custodian shall create and maintain complete and accurate records relating to its activities under this Agreement with respect to the Securities, cash or other property held for the Company under this Agreement, with particular attention to Section 31 of the 1940 Act, and Rules 31a-1 and 32a-2 thereunder. To the extent that the Custodian, in its sole opinion, is able to do so, the Custodian shall provide assistance to the Company (at the Company's reasonable request made from time to time) by providing sub-certifications regarding certain of its services performed hereunder to the Company in connection with the Company's certification requirements pursuant to the Sarbanes-Oxley Act of 2002, as amended. All such records shall be the property of the Company and shall at all times during the regular business hours of the Custodian be open for inspection by duly authorized officers, employees or agents of the Company or its affiliates and employees and agents of the Securities and Exchange Commission, upon reasonable request and prior notice and at the Company's expense. The Custodian shall, at the Company's request, supply the Company with a tabulation of securities owned by the Company and held by the Custodian and shall, when requested to do so by the Company and for such compensation as shall be agreed upon between the Company and the Custodian, include, to the extent applicable, the certificate numbers in such tabulations, to the extent such information is available to the Custodian.

3.13 Custody of Subsidiary Securities.

(a) With respect to each Subsidiary identified to the Custodian by the Company, there shall be established at the Custodian a segregated trust account to which the Custodian shall deposit and hold any Subsidiary Securities (other than Loans) received by it (and any Proceeds received by it in the form of dividends in kind) pursuant to this Agreement, which account shall be designated the "[INSERT NAME OF SUBSIDIARY] Securities Account" (the "Subsidiary Securities Account").

(b) With respect to each Subsidiary identified to the Custodian by the Company, there shall be established at the Custodian a segregated trust account to which the Custodian shall deposit and hold any cash Proceeds received by it from time to time from or with respect to Subsidiary Securities, which account shall be designated the "[INSERT NAME OF SUBSIDIARY] Cash Proceeds Account" (the "Subsidiary Cash Account")

(c) To the maximum extent possible, the provisions of this Agreement regarding Securities of the Company, the Securities Account and the Cash Account shall be applicable to any Subsidiary Securities, Subsidiary Securities Account and Subsidiary Cash Account, respectively. The parties hereto agree that the Company shall notify the Custodian in writing as to the establishment of any Subsidiary as to which the Custodian is to serve as custodian pursuant to the terms of this Agreement; and identify in writing any accounts the Custodian shall be required to establish for such Subsidiary as herein provided.

4. **REPORTING**

(a) The Custodian shall render to the Company a monthly report of an itemized statement of the Securities held pursuant to this Agreement as of the end of each month.

(b) For each Business Day, the Custodian shall render to the Company a daily report of all deposits to and withdrawals from the Cash Account for such Business Day and the outstanding balance as of the end of such Business Day.

(c) The Custodian shall have no duty or obligation to undertake any market valuation of the Securities under any circumstance.

(d) The Custodian shall provide the Company with such reports as are reasonably available to it and as the Company may reasonably request from time to time, on the internal accounting controls and procedures for safeguarding securities, which are employed by the Custodian.

5. **DEPOSIT IN U.S. SECURITIES SYSTEMS**

The Custodian may deposit and/or maintain Securities in a Securities System within the United States in accordance with applicable Federal Reserve Board and Securities and Exchange Commission rules and regulations, including Rule 17f-4 under the 1940 Act, and subject to the following provisions:

(a) The Custodian may keep domestic Securities in a U.S. Securities System provided that such Securities are represented in an account of the Custodian in the U.S. Securities System which shall not include any assets of the Custodian other than assets held by it as a fiduciary, custodian or otherwise for customers;

(b) The records of the Custodian with respect to Securities which are maintained in a U.S. Securities System shall identify by book-entry those Securities belonging to the Company;

(c) If requested by the Company, the Custodian shall provide to the Company copies of all notices received from the U.S. Securities System of transfers of Securities for the account of the Company; and

(d) Anything to the contrary in this Agreement notwithstanding, the Custodian shall not be liable to the Company for any direct loss, damage, cost, expense, liability or claim to the Company resulting from use of any Securities System (other than to the extent resulting from the gross negligence, misfeasance or misconduct of the Custodian itself, or from failure of the Custodian to enforce effectively such rights as it may have against the U.S. Securities System.)

6. **<u>RESERVED.</u>**

7. **<u>CERTAIN GENERAL TERMS</u>**

7.1 No Duty to Examine Underlying Instruments. Nothing herein shall obligate the Custodian to review or examine the terms of any underlying instrument, certificate, credit agreement, indenture, loan agreement, promissory note, or other financing document evidencing or governing any Security to determine the validity, sufficiency, marketability or enforceability of any Security (and shall have no responsibility for the genuineness or completeness thereof), or otherwise.

7.2 Resolution of Discrepancies. In the event of any discrepancy between the information set forth in any report provided by the Custodian to the Company and any information contained in the books or records of the Company, the Company shall promptly notify the Custodian thereof and the parties shall cooperate to diligently resolve the discrepancy.

7.3 Improper Instructions. Notwithstanding anything herein to the contrary, the Custodian shall not be obligated to take any action (or forebear from taking any action), which it reasonably determines (at its sole option) to be contrary to the terms of this Agreement or applicable law. In no instance shall the Custodian be obligated to provide services on any day that is not a Business Day.

7.4 Proper Instructions

(a) The Company will give a notice to the Custodian, in form acceptable to the Custodian, specifying the names and specimen signatures of persons authorized to give Proper Instructions (collectively, "Authorized Persons" and each is an "<u>Authorized Person</u>") which notice shall be signed by an Authorized Person previously certified to the Custodian. The Custodian shall be entitled to rely upon the identity and authority of such persons until it receives written notice from an Authorized Person of the Company to the contrary. The initial Authorized Persons are set forth on <u>Schedule A</u> attached hereto and made a part hereof (as such <u>Schedule A</u> may be modified from time to time by written notice from the Company to the Custodian).

(b) The Custodian shall have no responsibility or liability to the Company (or any other person or entity), and shall be indemnified and held harmless by the Company, in the event that a subsequent written confirmation of an oral instruction fails to conform to the oral instructions received by the Custodian. The Custodian shall not have an obligation to act in accordance with purported instructions to the extent that they conflict with applicable law or regulations, local market practice or the Custodian's operating policies and practices. The Custodian shall not be liable for any loss resulting from a delay while it obtains clarification of any Proper Instructions.

7.5 Actions Permitted Without Express Authority. The Custodian may, at its discretion, without express authority from the Company:

(a) make payments to itself as described in or pursuant to Section 3.9(b), or to make payments to itself or others for minor expenses of handling securities or other similar items relating to its duties under this agreement, provided that all such payments shall be accounted for to the Company;

(b) surrender Securities in temporary form for Securities in definitive form;

(c) endorse for collection cheques, drafts and other negotiable instruments; and

(d) in general attend to all nondiscretionary details in connection with the sale, exchange, substitution, purchase, transfer and other dealings with the securities and property of the Company.

7.6 Evidence of Authority. The Custodian shall be protected in acting upon any instructions, notice, request, consent, certificate instrument or paper reasonably believed by it to be genuine and to have been properly executed or otherwise given by or on behalf of the Company by an Authorized Officer. The Custodian may receive and accept a certificate signed by any Authorized Officer as conclusive evidence of:

(a) the authority of any person to act in accordance with such certificate; or

(b) any determination or of any action by the Company as described in such certificate,

and such certificate may be considered as in full force and effect until receipt by the Custodian of written notice to the contrary from an Authorized Officer of the Company.

7.7 Receipt of Communications. Any communication received by the Custodian on a day which is not a Business Day or after 3:30 p.m., Eastern time (or such other time as is agreed by the Company and the Custodian from time to time), on a Business Day will be deemed to have been received on the next Business Day (but in the case of communications so received after 3:30 p.m., Eastern time, on a Business Day the Custodian will use its best efforts to process such communications as soon as possible after receipt).

8. **COMPENSATION OF CUSTODIAN**

8.1 Fees. The Custodian shall be entitled to compensation for its services in accordance with the terms of that certain fee letter dated January 14, 2011, between the Company and the Custodian.

8.2 Expenses. The Company agrees to pay or reimburse to the Custodian upon its request from time to time all costs, disbursements, advances, and expenses (including reasonable fees and expenses of legal counsel) incurred, and any disbursements and advances made (including any account overdraft resulting from any settlement or assumed settlement, provisional credit, chargeback, returned deposit item, reclaimed payment or claw-back, or the like), in connection with the preparation or execution of this Agreement, or in connection with the transactions contemplated hereby or the administration of this Agreement or performance by the Custodian of its duties and services under this Agreement, from time to time (including the reasonable costs and expenses of any action deemed necessary by the Custodian to collect any amounts owing to it under this Agreement).

9. **RESPONSIBILITY OF CUSTODIAN**

9.1 General Duties. The Custodian shall have no duties, obligations or responsibilities under this Agreement or with respect to the Securities or Proceeds except for such duties as are expressly and specifically set forth in this Agreement, and the duties and obligations of the Custodian shall be determined solely by the express provisions of this Agreement. No implied duties, obligations or responsibilities shall be read into this Agreement against, or on the part of, the Custodian.

9.2 Instructions

(a) The Custodian shall be entitled to refrain from taking any action unless it has such instruction (in the form of Proper Instructions) from the Company as it reasonably deems necessary, and shall be entitled to require, upon notice to the Company, that Proper Instructions to it be in writing. The Custodian shall have no liability for any action (or forbearance from action) taken pursuant to the Proper Instruction of the Company.

(b) Whenever the Custodian is entitled or required to receive or obtain any communications or information pursuant to or as contemplated by this Agreement, it shall be entitled to receive the same in writing, in form, content and medium reasonably acceptable to it and otherwise in accordance with any applicable terms of this Agreement; and whenever any report or other information is required to be produced or distributed by the Custodian it shall be in form, content and medium reasonably acceptable to it and the Company, and otherwise in accordance with any applicable terms of this Agreement.

9.3 General Standards of Care. Notwithstanding any terms herein contained to the contrary, the acceptance by the Custodian of its appointment hereunder is expressly subject to the following terms, which shall govern and apply to each of the terms and provisions of this Agreement (whether or not so stated therein):

(a) The Custodian may rely on and shall be protected in acting or refraining from acting upon any written notice, instruction, statement, certificate, request, waiver, consent, opinion, report, receipt or other paper or document furnished to it (including any of the foregoing provided to it by telecopier or electronic means), not only as to its due execution and validity, but also as to the truth and accuracy of any information therein contained, which it in good faith believes to be genuine and signed or presented by the proper person (which in the case of any instruction from or on behalf of the Company shall be an Authorized Person); and the Custodian shall be entitled to presume the genuineness and due authority of any signature appearing thereon. The Custodian shall not be bound to make any independent investigation into the facts or matters stated in any such notice, instruction, statement, certificate, request, waiver, consent, opinion, report, receipt or other paper or document, provided, however, that if the form thereof is specifically prescribed by the terms of this Agreement, the Custodian shall examine the same to determine whether it substantially conforms on its face to such requirements hereof.

(b) Neither the Custodian nor any of its directors, officers or employees shall be liable to anyone for any error of judgment, or for any act done or step taken or omitted to be taken by it (or any of its directors, officers of employees), or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection herewith, unless such action constitutes gross negligence, willful misconduct or bad faith on its part and in breach of the terms of this Agreement. The Custodian shall not be liable for any action taken by it in good faith and reasonably believed by it to be within powers conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed hereunder, or omitted to be taken by it by reason of the lack of direction or instruction required hereby for such action. The Custodian shall not be under any obligation at any time to ascertain whether the Company is in compliance with the 1940 Act, the regulations thereunder, or the Company's investment objectives and policies then in effect.

(c) In no event shall the Custodian be liable for any indirect, special or consequential damages (including lost profits) whether or not it has been advised of the likelihood of such damages.

(d) The Custodian may consult with, and obtain advice from, legal counsel selected in good faith with respect to any question as to any of the provisions hereof or its duties hereunder, or any matter relating hereto, and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Custodian in good faith in accordance with the advice of such counsel; the reasonable cost of such services shall be reimbursed pursuant to Section 8.2 above.

(e) The Custodian shall not be deemed to have notice of any fact, claim or demand with respect hereto unless actually known by an officer working in its Corporate Trust Services group and charged with responsibility for administering this Agreement or unless (and then only to the extent received) in writing by the Custodian at the applicable address(es) as set forth in Section 15 and specifically referencing this Agreement.

(f) No provision of this Agreement shall require the Custodian to expend or risk its own funds, or to take any action (or forbear from action) hereunder which might in its judgment involve any expense or any financial or other liability unless it shall be furnished with acceptable indemnification. Nothing herein shall obligate the Custodian to commence, prosecute or defend legal proceedings in any instance, whether on behalf of the Company or on its own behalf or otherwise, with respect to any matter arising hereunder, or relating to this Agreement or the services contemplated hereby.

(g) The permissive right of the Custodian to take any action hereunder shall not be construed as duty.

(h) The Custodian may act or exercise its duties or powers hereunder through agents or attorneys, and the Custodian shall not be liable or responsible for the actions or omissions of any such agent or attorney appointed and maintained with reasonable due care.

(i) All indemnifications contained in this Agreement in favor of the Custodian shall survive the termination of this Agreement.

9.4 Indemnification; Custodian's Lien.

(a) The Company shall and does hereby indemnify and hold harmless the Custodian for and from any and all costs and expenses (including reasonable attorney's fees and expenses), and any and all losses, damages, claims and liabilities, that may arise, be brought against or incurred by the Custodian, and any advances or disbursements made by the Custodian (including in respect of any Account overdraft, returned deposit item, chargeback, provisional credit, settlement or assumed settlement, reclaimed payment, claw-back or the like), as a result of, relating to, or arising out of this Agreement, or the administration or performance of the Custodian's duties hereunder, or the relationship between the Company (including, for the avoidance of doubt, any Subsidiary) and the Custodian created hereby, other than such liabilities, losses, damages, claims, costs and expenses as are directly caused by the Custodian's own actions constituting gross negligence or willful misconduct.

(b) If the Company requires the Custodian, its affiliates, subsidiaries or agents, to advance cash or securities for any purpose (including but not limited to securities settlements, foreign exchange contracts and assumed settlement), or in the event that the Custodian or its nominee shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of this Agreement, except such as may arise from its or its nominee's own negligent action, negligent failure to act or willful misconduct, or if the Company fails to compensate the Custodian pursuant to Section 8 hereof, any cash at any time held for the account of the Company shall be security therefor and should the

Company fail to repay the Custodian promptly, the Custodian shall be entitled to utilize available cash to the extent necessary to obtain reimbursement.

9.5 Force Majeure. Without prejudice to the generality of the foregoing, the Custodian shall be without liability to the Company for any damage or loss resulting from or caused by events or circumstances beyond the Custodian's reasonable control including (a) nationalization, expropriation, currency restrictions, the interruption, disruption or suspension of the normal procedures and practices of any securities market, power, mechanical, communications or other technological failures or interruptions, computer viruses or the like, fires, floods, earthquakes or other natural disasters, civil and military disturbance, acts of war or terrorism, riots, revolution, acts of God, work stoppages, strikes, national disasters of any kind, or other similar events or acts; (b) errors by the Company (including any Authorized Person) in its instructions to the Custodian; or (c) changes in applicable law, regulation or orders.

10. **SECURITY CODES**

If the Custodian issues to the Company, security codes, passwords or test keys in order that it may verify that certain transmissions of information, including Proper Instructions, have been originated by the Company, the Company shall safeguard any security codes, passwords, test keys or other security devices which the Custodian shall make available.

11. **TAX LAW**

11.1 Domestic Tax Law. The Custodian shall have no responsibility or liability for any obligations now or hereafter imposed on the Company or the Custodian as custodian of the Securities or the Proceeds, by the tax law of the United States or any state or political subdivision thereof. The Custodian shall be kept indemnified by and be without liability to the Company for such obligations including taxes, (but excluding any income taxes assessable in respect of compensation paid to the Custodian pursuant to this agreement) withholding, certification and reporting requirements, claims for exemption or refund, additions for late payment interest, penalties and other expenses (including legal expenses) that may be assessed against the Company, or the Custodian as custodian of the Securities or Proceeds.

11.2 [Reserved].

12. **EFFECTIVE PERIOD, TERMINATION AND AMENDMENT**

12.1 Effective Date. This Agreement shall become effective as of its due execution and delivery by each of the parties. This Agreement shall continue in full force and effect until terminated as hereinafter provided. This Agreement may only be amended by mutual written agreement of the parties hereto. This Agreement may be terminated by the Custodian or the Company pursuant to Section 12.2.

12.2 Termination. This Agreement shall terminate upon the earliest of (a) the effective date of termination specified in any written notice of termination given by either party to the other which effective date shall be not less than ninety (90) days from the date that such notice is given in accordance with Section 15, and (b) such other date of termination as may be mutually agreed upon by the parties in writing.

12.3 Resignation. The Custodian may at any time resign under this Agreement by giving not less than ninety (90) days advance written notice thereof to the Company.

12.4 Successor. Prior to the effective date of termination of this Agreement, or the effective date of the resignation of the Custodian, as the case may be, the Company shall give Proper Instruction to the Custodian designating a successor Custodian, if applicable.

12.5 Payment of Fees, etc. Upon termination of this Agreement or resignation of the Custodian, the Company shall pay to the Custodian such compensation, and shall likewise reimburse the Custodian for its costs, expenses and disbursements, as may be due as of the date of such termination or resignation (or removal, as the case may be). All indemnifications in favor of the Custodian under this Agreement shall survive the termination of this Agreement, or any resignation or removal of the Custodian.

12.6 Final Report. In the event of any resignation or removal of the Custodian, the Custodian shall provide to the Company a complete final written report or data file transfer of any Confidential Information as of the date of such resignation or removal.

13. **REPRESENTATIONS AND WARRANTIES**

13.1 Representations of the Company. The Company represents and warrants to the Custodian that:

(a) it has the power and authority to enter into and perform its obligations under this Agreement, and it has duly authorized and executed this Agreement so as to constitute its valid and binding obligation; and

(b) in giving any instructions which purport to be “Proper Instructions” under this Agreement, the Company will act in accordance with the provisions of its certificate of incorporation and bylaws and any applicable laws and regulations.

13.2 Representations of the Custodian. The Custodian hereby represents and warrants to the Company that:

(a) it is qualified to act as a custodian pursuant to Section 26(a)(1) of the 1940 Act;

(b) it has the power and authority to enter into and perform its obligations under this Agreement;

(c) it has duly authorized and executed this Agreement so as to constitute its valid and binding obligations; and

(d) that it maintains business continuity policies and standards that include data file backup and recovery procedures that comply with all applicable regulatory requirements.

14. **PARTIES IN INTEREST; NO THIRD PARTY BENEFIT**

This Agreement is not intended for, and shall not be construed to be intended for, the benefit of any third parties and may not be relied upon or enforced by any third parties (other than successors and permitted assigns pursuant to Section 19).

15. **NOTICES**

Any Proper Instructions shall be given to the following address (or such other address as either party may designate by written notice to the other party), and otherwise any notices, approvals and other communications hereunder shall be sufficient if made in writing and given to the parties at the following address (or such other address as either of them may subsequently designate by notice to the other), given by (i) certified or registered mail, postage prepaid, (ii) recognized courier or delivery service, or (iii) confirmed telecopier or telex, with a duplicate sent on the same day by first class mail, postage prepaid:

(a) if to the Company, to

Fifth Street Finance Corp.
10 Bank Street
12th Floor
White Plains, NY 10606
Attention: William H. Craig, Chief Financial Officer
Fax: (914) 328-4214

(b) if to the Custodian (other than in its role as Document Custodian), to

U.S. Bank National Association
Corporate Trust Services
One Federal Street, 3rd Floor
Boston, MA 02110
Ref: Fifth Street Finance Corp.
Attention: Donald Higgins
Email: donald.higgins@usbank.com
Fax: 866.592.7151

(c) if to the Custodian solely in its role as Document Custodian, to

U.S. Bank National Association
1719 Range Way
Florence, South Carolina 29501
Mail Code: Ex — SC — FLOR

Ref: Fifth Street Finance Corp.
Attn: Steven Garrett
E-mail: steven.garrett@usbank.com
Facsimile No.: 843-673-0162

16. **CHOICE OF LAW AND JURISDICTION**

This Agreement shall be construed, and the provisions thereof interpreted under and in accordance with and governed by the laws of The Commonwealth of Massachusetts for all purposes (without regard to its choice of law provisions); except to the extent such laws are inconsistent with federal securities laws, including the 1940 Act.

17. **ENTIRE AGREEMENT; COUNTERPARTS**

17.1 Complete Agreement. This Agreement constitutes the complete and exclusive agreement of the parties with regard to the matters addressed herein and supersedes and terminates as of the date hereof, all prior agreements, agreements or understandings, oral or written between the parties to this Agreement relating to such matters.

17.2 Counterparts. This Agreement may be executed in any number of counterparts and all counterparts taken together shall constitute one and the same instrument.

17.3 Facsimile Signatures. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for all purposes.

18. **AMENDMENT; WAIVER**

18.1 Amendment. This Agreement may not be amended except by an express written instrument duly executed by each of the Company and the Custodian.

18.2 Waiver. In no instance shall any delay or failure to act be deemed to be or effective as a waiver of any right, power or term hereunder, unless and except to the extent such waiver is set forth in an expressly written instrument signed by the party against whom it is to be charged.

19. **SUCCESSOR AND ASSIGNS**

19.1 Successors Bound. The covenants and agreements set forth herein shall be binding upon and inure to the benefit of each of the parties and their respective successors and permitted assigns. Neither party shall be permitted to assign their rights under this Agreement without the written consent of the other party; provided, however, that the foregoing shall not limit the ability of the Custodian to delegate certain duties or services to or perform them through agents or attorneys appointed with due care as expressly provided in this Agreement.

19.2 Merger and Consolidation. Any corporation or association into which the Custodian may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Custodian shall be a party, or any corporation or association to which the Custodian transfers all or substantially all of its corporate trust business, shall be the successor of the Custodian hereunder, and shall succeed to all of the rights, powers and duties of the Custodian hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

20. **SEVERABILITY**

The terms of this Agreement are hereby declared to be severable, such that if any term hereof is determined to be invalid or unenforceable, such determination shall not affect the remaining terms.

21. **INSTRUMENT UNDER SEAL; HEADINGS**

This Agreement is intended to take effect as, and shall be deemed to be, an instrument under seal.

22. **REQUEST FOR INSTRUCTIONS**

If, in performing its duties under this Agreement, the Custodian is required to decide between alternative courses of action, the Custodian may (but shall not be obliged to) request written instructions from the Company as to the course of action desired by it. If the Custodian does not receive such instructions within two (2) days after it has requested them, the Custodian may, but shall be under no duty to, take or refrain from taking any such courses of action. The Custodian shall act in accordance with instructions received from the Company in response to such request after such two-day period except to the extent it has already taken, or committed itself to take, action inconsistent with such instructions.

23. **OTHER BUSINESS**

Nothing herein shall prevent the Custodian or any of its affiliates from engaging in other business, or from entering into any other transaction or financial or other relationship with, or receiving fees from or from rendering services of any kind to the Company or any other Person. Nothing contained in this Agreement shall constitute the Company and/or the Custodian (and/or any other Person) as members of any partnership, joint venture, association, syndicate, unincorporated business or similar assignment as a result of or by virtue of the engagement or relationship established by this Agreement.

24. **<u>REPRODUCTION OF DOCUMENTS</u>**

This Agreement and all schedules, exhibits, attachments and amendment hereto may be reproduced by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process. The parties hereto each agree that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding, whether or not the original is in existence and whether or not such reproduction was made by a party in the regular course of business, and that any enlargement, facsimile or further production shall likewise be admissible in evidence.

25. **<u>MISCELLANEOUS</u>**

The Company acknowledges receipt of the following notice:

" **<u>IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT</u>.**

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. For a non-individual person such as a business entity, a charity, a trust or other legal entity the Custodian will ask for documentation to verify its formation and existence as a legal entity. The Custodian may also ask to see financial statements, licenses, identification and authorization documents from individuals claiming authority to represent the entity or other relevant documentation."

[PAGE INTENTIONALLY ENDS HERE. SIGNATURES APPEAR ON NEXT PAGE.]

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed and delivered by a duly authorized officer, intending the same to take effect as of the 31st day of January, 2011.

Witness:	**FIFTH STREET FINANCE CORP.**
	By: ______________________
Name:	Name:
Title:	Title:
Witness:	**U.S. BANK NATIONAL ASSOCIATION**
	By: ______________________
Name:	Name:
Title:	Title:

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, 2010 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 31 st day of January, 2011.

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, 2010 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 31 st day of January, 2011.

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, 2010** (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: January 31, 2011

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, 2010** (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: January 31, 2011