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, 2011

OR

☐ **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	The NASDAQ Global Select Market

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 ☐

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

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

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

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

The registrant had 82,375,832 shares of common stock outstanding as of February 8, 2012.

FIFTH STREET FINANCE CORP.
FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2011
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PART I—FINANCIAL INFORMATION

Item 1. ***Consolidated Financial Statements***

Fifth Street Finance Corp.

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

	December 31, 2011	September 30, 2011
ASSETS		
Investments at Fair Value:		
Control investments (cost December 31, 2011: $13,831; cost September 30, 2011: $13,726)	$ 15,723	$ 14,500
Affiliate investments (cost December 31, 2011: $34,042; cost September 30, 2011: $34,182)	24,473	25,897
Non-control/Non-affiliate investments (cost December 31, 2011: $1,102,546; cost September 30, 2011: $1,108,174)	1,079,702	1,079,440
Total Investments at Fair Value (cost December 31, 2011: $1,150,419; cost September 30, 2011: $1,156,082)	**1,119,898**	**1,119,837**
Cash and cash equivalents	70,336	67,644
Interest and fees receivable	6,889	6,752
Due from portfolio company	1,281	552
Receivables from unsettled transactions	6,000	—
Deferred financing costs	13,636	14,668
Collateral posted to bank and other assets	432	264
Total Assets	**$1,218,472**	**$ 1,209,717**
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 1,617	$ 1,175
Base management fee payable	5,741	5,710
Incentive fee payable	5,247	4,997
Due to FSC, Inc.	1,761	1,480
Interest payable	4,270	4,669
Payments received in advance from portfolio companies	402	35
Credit facilities payable	209,269	178,024
SBA debentures payable	150,000	150,000
Convertible senior notes payable	124,500	135,000
Total Liabilities:	**502,807**	**481,090**
Net Assets:		
Common stock, $0.01 par value, 150,000 shares authorized, 72,376 shares issued and outstanding at December 31, 2011 and September 30, 2011	724	724
Additional paid-in-capital	829,620	829,620
Net unrealized depreciation on investments and interest rate swap	(30,143)	(35,976)
Net realized loss on investments and interest rate swap	(80,122)	(63,485)
Accumulated overdistributed net investment income	(4,414)	(2,256)
Total Net Assets (equivalent to $9.89 and $10.07 per common share at December 31, 2011 and September 30, 2011) (Note 12)	**715,665**	**728,627**
Total Liabilities and Net Assets	**$1,218,472**	**$ 1,209,717**

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

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

	Three months ended December 31, 2011	Three months ended December 31, 2010
Interest income:		
Control investments	$ 221	$ 1
Affiliate investments	704	1,163
Non-control/Non-affiliate investments	29,126	16,489
Interest on cash and cash equivalents	4	9
Total interest income	**30,055**	**17,662**
PIK interest income:		
Control investments	38	33
Affiliate investments	155	282
Non-control/Non-affiliate investments	3,222	2,829
Total PIK interest income	**3,415**	**3,144**
Fee income:		
Control investments	—	126
Affiliate investments	108	134
Non-control/Non-affiliate investments	5,885	4,267
Total fee income	**5,993**	**4,527**
Dividend and other income:		
Non-control/Non-affiliate investments	34	2
Total dividend and other income	**34**	**2**
Total investment income	**39,497**	**25,335**
Expenses:		
Base management fee	5,741	3,779
Incentive fee	5,247	3,514
Professional fees	1,091	690
Board of Directors fees	56	50
Interest expense	5,724	1,939
Administrator expense	816	354
General and administrative expenses	1,138	953
Total expenses	**19,813**	**11,279**
Gain on extinguishment of convertible senior notes	**1,305**	**—**
Net investment income	**20,989**	**14,056**
Unrealized appreciation on interest rate swap	**—**	**736**
Unrealized appreciation (depreciation) on investments:		
Control investments	1,114	8,071
Affiliate investments	(1,283)	(1,580)
Non-control/Non-affiliate investments	6,002	9,615
Net unrealized appreciation on investments	**5,833**	**16,106**
Realized gain (loss) on investments:		
Control investments	—	(7,765)
Affiliate investments	76	—
Non-control/Non-affiliate investments	(16,714)	(5,685)
Net realized loss on investments	**(16,638)**	**(13,450)**
Net increase in net assets resulting from operations	**$ 10,184**	**$ 17,448**
Net investment income per common share — basic	**$ 0.29**	**$ 0.26**
Earnings per common share — basic	**$ 0.14**	**$ 0.32**
Weighted average common shares outstanding — basic	72,376	54,641
Net investment income per common share — diluted	**$ 0.27**	**$ 0.26**
Earnings per common share — diluted	**$ 0.13**	**$ 0.32**
Weighted average common shares outstanding — diluted	80,913	54,641

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

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

	Three months ended December 31, 2011	Three months ended December 31, 2010
Operations:		
Net investment income	$ 20,989	$ 14,056
Net unrealized appreciation on investments and interest rate swap	5,833	16,842
Net realized loss on investments	(16,638)	(13,450)
Net increase in net assets from operations	**10,184**	**17,448**
Stockholder transactions:		
Distributions to stockholders	(23,146)	(17,464)
Net decrease in net assets from stockholder transactions	**(23,146)**	**(17,464)**
Capital share transactions:		
Issuance of common stock, net	—	4,814
Issuance of common stock under dividend reinvestment plan	—	950
Net increase in net assets from capital share transactions	**—**	**5,764**
Total increase (decrease) in net assets	**(12,962)**	**5,748**
Net assets at beginning of period	728,627	569,172
Net assets at end of period	**$ 715,665**	**$ 574,920**
Net asset value per common share	**$ 9.89**	**$ 10.44**
Common shares outstanding at end of period	72,376	55,059

See notes to Consolidated Financial Statements.

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Fifth Street Finance Corp.

Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three months ended December 31, 2011	Three months ended December 31, 2010
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 10,184	$ 17,448
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:		
Gain on extinguishment of convertible senior notes	(1,305)	—
Net unrealized appreciation on investments and interest rate swap	(5,833)	(16,842)
Net realized losses on investments and interest rate swap	16,638	13,450
PIK interest income	(3,415)	(3,144)
Recognition of fee income	(5,993)	(4,527)
Accretion of original issue discount on investments	(606)	(389)
Amortization of deferred financing costs	979	409
Change in operating assets and liabilities:		
Fee income received	4,962	8,006
Increase in interest and fees receivable	(419)	(850)
Increase in due from portfolio company	(728)	(49)
Increase in receivables from unsettled transactions	(6,000)	—
Decrease in collateral posted to bank and other assets	126	438
Increase in accounts payable, accrued expenses and other liabilities	443	122
Increase in base management fee payable	30	903
Increase in incentive fee payable	250	655
Increase in due to FSC, Inc.	281	179
Increase (decrease) in interest payable	(399)	865
Increase (decrease) in payments received in advance from portfolio companies	367	(185)
Purchases of investments and net revolver activity, net of syndications	(84,519)	(234,708)
Principal payments received on investments (scheduled payments)	12,721	4,015
Principal payments received on investments (payoffs)	53,499	49,721
PIK interest income received in cash	1,131	5,109
Proceeds from the sale of investments	11,636	—
Net cash provided (used) by operating activities	**4,030**	**(159,374)**
Cash flows from financing activities:		
Dividends paid in cash	(23,146)	(16,515)
Borrowings under SBA debentures payable	—	50,300
Borrowings under credit facilities	151,500	126,000
Repayments of borrowings under credit facilities	(120,255)	(37,000)
Repurchases of convertible senior notes	(8,926)	—
Proceeds from the issuance of common stock	—	4,993
Deferred financing costs paid	(215)	(1,970)
Offering costs paid	(296)	(178)
Net cash provided (used) by financing activities	**(1,338)**	**125,630**
Net increase (decrease) in cash and cash equivalents	**2,692**	**(33,744)**
Cash and cash equivalents, beginning of period	67,644	76,765
Cash and cash equivalents, end of period	**$ 70,336**	**$ 43,021**
Supplemental Information:		
Cash paid for interest	$ 5,143	$ 665
Non-cash financing activities:		
Issuance of shares of common stock under dividend reinvestment plan	$ —	$ 950

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Schedule of Investments
December 31, 2011
(dollar amounts in thousands)
(unaudited)

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Control Investments (3)				
Lighting By Gregory, LLC (9)(13)(14)	Housewares & specialties			
First Lien Term Loan A, 9.75% PIK due 2/28/2013		$ 4,475	$ 3,996	$ 2,078
First Lien Bridge Loan, 8% PIK due 3/31/2012		113	113	—
97.38% membership interest			1,210	—
			5,319	**2,078**
Coll Materials Group LLC(17)	Environmental & facilities services			
Second Lien Term Loan, 12% cash due 11/1/2014		6,885	6,885	6,892
50% Membership interest in CD Holdco, LLC			1,627	6,753
			8,512	**13,645**
Total Control Investments (2.2% of net assets)			**$13,831**	**$ 15,723**
Affiliate Investments (4)				
O'Currance, Inc. (13)(14)	Data Processing & Outsourced Services			
First Lien Term Loan A, 12.875% cash 4% PIK due 3/21/2012		11,531	$11,254	$ 1,960
First Lien Term Loan B, 12.875% cash 4% PIK due 3/21/2012		1,176	1,140	200
1.75% Preferred Membership interest in O'Currance Holding Co., LLC			130	—
3.3% Membership Interest in O'Currance Holding Co., LLC			251	—
			12,775	**2,160**
Caregiver Services, Inc.	Healthcare services			
Second Lien Term Loan A, LIBOR+6.85% (5.15% floor) cash due 2/25/2013		5,355	5,203	5,485
Second Lien Term Loan B, 12.5% cash 4% PIK due 2/25/2013		15,282	14,983	15,228
1,080,399 shares of Series A Preferred Stock			1,081	1,600
			21,267	**22,313**
Total Affiliate Investments (3.4% of net assets)			**$34,042**	**$ 24,473**
Non-Control/Non-Affiliate Investments (7)				
Repechage Investments Limited(13)(14)	Restaurants			
First Lien Term Loan, 12.75% cash 2.75% PIK due 10/16/2011(16)		3,583	3,412	1,932
7,500 shares of Series A Preferred Stock of Elephant & Castle, Inc.			750	—
			4,162	**1,932**
Traffic Control & Safety Corporation (9)	Construction and Engineering			
Senior Term Loan A, LIBOR+9.0% cash due 06/29/2012		5,000	4,913	5,026
Senior Revolver, LIBOR+9% cash due 6/29/2012		12,486	12,332	12,555
Second Lien Term Loan, 12% cash 3% PIK due 5/28/2015		21,008	20,829	10,917
Subordinated Loan, 15% PIK due 5/28/2015		5,531	5,531	—
24,750 shares of Series B Preferred Stock			248	—
43,494 shares of Series D Preferred Stock			435	—
25,000 shares of Common Stock			3	—
			44,291	**28,498**
TBA Global, LLC	Advertising			
53,994 Senior Preferred Shares			216	388
191,977 Shares A Shares			192	61
			408	**449**
Fitness Edge, LLC	Leisure facilities			
First Lien Term Loan A, LIBOR+5.25% (4.75% floor), cash due 7/31/2012		563	562	569
First Lien Term Loan B, 12% cash 2.5% PIK due 7/31/2012		5,813	5,795	5,905
1,000 Common Units			43	198
			6,400	**6,672**

Fifth Street Finance Corp.

Consolidated Schedule of Investments
December 31, 2011
(dollar amounts in thousands)
(unaudited)

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Capital Equipment Group, Inc. (9)				
Second Lien Term Loan, 12% cash 2.75% PIK due 7/10/2013	Industrial machinery	10,331	10,192	10,365
33,463 shares of Common Stock			345	668
			10,537	**11,033**
Rail Acquisition Corp. (14)	Electronic manufacturing services			
First Lien Term Loan, 8% cash 4% PIK due 9/1/2013		18,986	15,637	4,007
First Lien Revolver, 7.85% cash due 9/1/2013		4,691	4,691	4,691
			20,328	**8,698**
Western Emulsions, Inc.	Construction materials			
Second Lien Term Loan, 12.5% cash 2.5% PIK due 6/30/2014		6,888	6,789	7,013
			6,789	**7,013**
Storyteller Theaters Corporation	Movies & entertainment			
1,692 shares of Common Stock			—	62
20,000 shares of Preferred Stock			200	200
			200	**262**
HealthDrive Corporation (9)	Healthcare services			
First Lien Term Loan A, 10% cash due 7/17/2013		6,163	5,980	6,126
First Lien Term Loan B, 12% cash 1% PIK due 7/17/2013		10,309	10,249	10,329
First Lien Revolver, 12% cash due 7/17/2013 (11)			(6)	—
			16,223	**16,455**
idX Corporation	Distributors			
Second Lien Term Loan, 12.5% cash 2% PIK due 7/1/2014		18,992	18,752	19,218
			18,752	**19,218**
Cenegenics, LLC	Healthcare services			
414,419 Common Units			598	1,270
			598	**1,270**
Trans-Trade, Inc.	Air freight & logistics			
First Lien Term Loan A, 13% cash 2.5% PIK due 12/31/2012		12,602	12,394	11,914
First Lien Term Loan B, 12% cash due 12/31/2012		5,800	5,706	4,715
			18,100	**16,629**
Riverlake Equity Partners II, LP	Multi-sector holdings			
1.89% limited partnership interest (15)			240	240
			240	**240**
Riverside Fund IV, LP	Multi-sector holdings			
0.33% limited partnership interest (6)(15)			483	483
			483	**483**
Ambath/Rebath Holdings, Inc.	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 12/30/2014		3,250	3,250	3,068
First Lien Term Loan B, 12.5% cash 2.5% PIK due 12/30/2014		23,146	23,146	20,504
First Lien Term Revolver, LIBOR+6.5% (3% floor) cash due 12/30/2014 (10)		1,500	1,500	1,336
			27,896	**24,908**
JTC Education, Inc.	Education services			
First Lien Term Loan, LIBOR+9.5% (3% floor) cash due 12/31/2014		29,769	29,153	29,753
First Lien Revolver, LIBOR+9.5% (3.25% floor) cash due 12/31/2014		2,225	1,943	2,323
17,391 Shares of Series A-1 Preferred Stock			313	313
17,391 Shares of Common Stock			187	119
			31,596	**32,508**

Fifth Street Finance Corp.

Consolidated Schedule of Investments
December 31, 2011
(dollar amounts in thousands)
(unaudited)

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Tegra Medical, LLC (9)	Healthcare equipment			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 12/31/2014		21,490	21,228	21,441
First Lien Term Loan B, 12% cash 2% PIK due 12/31/2014		22,753	22,494	22,784
First Lien Revolver, LIBOR+7% (3% floor) cash due 12/31/2014		2,500	2,453	2,474
			46,175	**46,699**
Psilos Group Partners IV, LP	Multi-sector holdings			
2.52% limited partnership interest (12)(15)			—	—
			—	—
Mansell Group, Inc.	Advertising			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2015		10,399	10,250	10,475
First Lien Term Loan B, LIBOR+9% (3% floor) cash 1.5% PIK due 4/30/2015		9,177	9,046	9,212
First Lien Revolver, LIBOR+6% (3% floor) cash due 4/30/2015 (11)			(27)	—
			19,269	**19,687**
NDSSI Holdings, LLC (9)	Electronic equipment & instruments			
First Lien Term Loan A, LIBOR+9.75% (3% floor) cash 1% PIK due 12/31/2012		21,864	21,524	21,469
First Lien Term Loan B, LIBOR+9.75% (3% floor) cash 3.75% PIK due 12/31/2012		8,000	8,000	7,815
First Lien Revolver, LIBOR+7% (3% floor) cash due 12/31/2012		3,500	3,448	3,462
2,000 Series D Preferred Units			2,208	2,207
			35,180	**34,953**
Eagle Hospital Physicians, Inc. (9)	Healthcare services			
First Lien Term Loan, LIBOR+8.75% (3% floor) cash due 8/11/2015		25,039	24,584	24,916
First Lien Revolver, LIBOR+5.75% (3% floor) cash due 8/11/2015 (11)			(39)	—
			24,545	**24,916**
Enhanced Recovery Company, LLC	Diversified support services			
First Lien Term Loan A, LIBOR+7% (2% floor) cash due 8/13/2015		13,380	13,160	13,392
First Lien Term Loan B, LIBOR+10% (2% floor) cash 1% PIK due 8/13/2015		11,071	10,899	11,033
First Lien Revolver, LIBOR+7% (2% floor) cash due 8/13/2015 (11)			(62)	—
			23,997	**24,425**
Epic Acquisition, Inc.	Healthcare services			
First Lien Term Loan A, LIBOR+8.5% (3% floor) cash due 8/13/2015		7,844	7,723	7,862
First Lien Term Loan B, 12.25% cash 3% PIK due 8/13/2015		17,247	16,987	17,280
First Lien Revolver, LIBOR+6.5% (3% floor) cash due 8/13/2015(11)			(46)	—
			24,664	**25,142**
Specialty Bakers LLC	Food distributors			
First Lien Term Loan A, LIBOR+8.5% cash due 9/15/2015		7,988	7,829	7,999
First Lien Term Loan B, LIBOR+11% (2.5% floor) cash due 9/15/2015		11,000	10,787	10,968
First Lien Revolver, LIBOR+8.5% cash due 9/15/2015 (11)			(78)	—
			18,538	**18,967**
CRGT, Inc.	IT consulting & other services			
First Lien Term Loan A, LIBOR+7.5% cash due 10/1/2015		26,825	26,447	26,540
First Lien Term Loan B, 12.5% cash 10/1/2015		22,000	21,670	21,800
First Lien Revolver, LIBOR+7.5% cash due 10/1/2015(11)			(188)	—
			47,929	**48,340**

Fifth Street Finance Corp.

Consolidated Schedule of Investments
December 31, 2011
(dollar amounts in thousands)
(unaudited)

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Welocalize, Inc.	Internet software & services			
First Lien Term Loan A, LIBOR+8% (2% floor) cash due 11/19/2015		15,785	15,533	15,467
First Lien Term Loan B, LIBOR+9% (2% floor) cash 1.25% PIK due 11/19/2015		21,299	20,977	21,051
First Lien Revolver, LIBOR+7% (2% floor) cash due 11/19/2015		5,250	5,158	5,169
2,086,163 Common Units in RPWL Holdings, LLC			2,086	1,781
			43,754	**43,468**
Miche Bag, LLC	Apparel, accessories & luxury goods			
First Lien Term Loan A, LIBOR+9% (3% floor) cash due 12/7/2013		12,417	12,117	12,521
First Lien Term Loan B, LIBOR+10% (3% floor) cash 3% PIK due 12/7/2015		17,559	15,264	17,358
First Lien Revolver, LIBOR+7% (3% floor) cash due 12/7/2015(11)			(99)	—
10,371 Preferred Equity units in Miche Holdings, LLC(6)			1,037	1,169
146,289 Series D Common Equity units in Miche Holdings, LLC(6)			1,463	1,382
			29,782	**32,430**
Bunker Hill Capital II (QP), LP	Multi-sector holdings			
0.50% limited partnership interest(15)			54	54
			54	**54**
Dominion Diagnostics, LLC(9)	Healthcare services			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 12/17/2015		29,150	28,661	29,043
First Lien Term Loan B, LIBOR+10.5% (2.5% floor) cash 1% PIK due 12/17/2015		20,008	19,695	19,694
First Lien Revolver, LIBOR+6.5% (2.5% floor) cash due 12/17/2015(11)			(78)	—
			48,278	**48,737**
Advanced Pain Management	Healthcare services			
First Lien Term Loan, LIBOR+5% (1.75% floor) cash due 12/22/2015		7,688	7,572	7,600
First Lien Revolver, LIBOR+5% (1.75% floor) cash due 12/22/2015(11)		—	(5)	
			7,567	**7,600**
DISA, Inc.	Human resources & employment services			
First Lien Term Loan A, LIBOR+7.5% (0.75% floor) cash due 12/30/2015		12,190	12,009	12,242
First Lien Term Loan B, LIBOR+10% (1% floor) cash 1.5% PIK due 12/30/2015		8,427	8,310	8,629
First Lien Revolver, LIBOR+6% (1% floor) cash due 12/30/2015 (11)			(57)	—
			20,262	**20,871**
Saddleback Fence and Vinyl Products, Inc.	Building products			
First Lien Term Loan, 8% cash due 11/30/2013		648	648	648
First Lien Revolver, 8% cash due 11/30/2013			—	—
			648	**648**
Best Vinyl Fence & Deck, LLC	Building products			
First Lien Term Loan B, 8% PIK due 6/30/2012		4,106	4,106	1,885
			4,106	**1,885**
Physicians Pharmacy Alliance, Inc.	Healthcare services			
First Lien Term Loan, LIBOR+9% cash 1.5% PIK due 1/4/2016		16,618	16,343	16,374
First Lien Revolver, LIBOR+6% cash due 1/4/2016(11)			(32)	—
			16,311	**16,374**
Cardon Healthcare Network, LLC	Diversified support services			
First Lien Term Loan, LIBOR+10% (1.75% floor) cash due 1/6/2016(9)		10,800	10,624	10,829
First Lien Revolver, LIBOR+6.5% (1.75% floor) cash due 1/6/2016(11)			(32)	—
			10,592	**10,829**

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Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
U.S. Retirement Partners, Inc.	Diversified financial services			
First Lien Term Loan, LIBOR+9.5% (2% floor) cash due 1/6/2016		25,350	24,904	24,875
			24,904	**24,875**
IOS Acquisitions, Inc.	Oil & gas equipment & services			
First Lien Term Loan A, LIBOR+8% (2% floor) cash due 1/14/2016		8,235	8,131	8,235
First Lien Term Loan B, LIBOR+10% (2% floor) cash 2% PIK due 1/14/2016		10,672	10,538	10,602
First Lien Revolver, LIBOR+8% (2% floor) cash due 1/14/2016		1,000	968	1,025
			19,637	**19,862**
Phoenix Brands Merger Sub LLC(9)	Household products			
Senior Term Loan, LIBOR+5% (1.5% floor) cash due 1/31/2016		7,768	7,596	7,440
Subordinated Term Loan, 10% cash 3.875% PIK due 2/1/2017		20,590	20,152	19,689
First Lien Revolver, LIBOR+5% (1.5% floor) cash due 1/31/2016		3,000	2,863	2,916
			30,611	**30,045**
U.S. Collections, Inc.	Diversified support services			
First Lien Term Loan, LIBOR+5.25% (1.75% floor) cash due 3/31/2016		8,708	8,523	8,634
			8,523	**8,634**
CCCG, LLC(9)	Oil & gas equipment & services			
First Lien Term Loan, LIBOR+8% (1.75% floor) cash 1% PIK due 7/29/2015		34,739	33,945	34,384
			33,945	**34,384**
Maverick Healthcare Group, LLC	Healthcare equipment			
First Lien Term Loan, LIBOR+9% (1.75% floor) cash due 12/31/2016		24,750	24,248	23,904
			24,248	**23,904**
Refac Optical Group	Specialty stores			
First Lien Term Loan A, LIBOR+7.5% cash due 3/23/2016		14,075	13,784	14,135
First Lien Term Loan B, LIBOR+8.5% cash 1.75% PIK due 3/23/2016		20,202	19,770	20,309
First Lien Revolver, LIBOR+7.5% cash due 3/23/2016(11)			(111)	—
1,000 Shares of Common Stock in Refac Holdings, Inc.			1	—
1,000 Shares of Preferred Stock in Refac Holdings, Inc.			999	851
			34,443	**35,295**
Pacific Architects & Engineers, Inc.	Diversified support services			
First Lien Term Loan A, LIBOR+5% (1.5% floor) cash due 4/4/2017		3,994	3,933	3,992
First Lien Term Loan B, LIBOR+6% (1.5% floor) cash due 4/4/2017		4,700	4,632	4,711
			8,565	**8,703**
Ernest Health, Inc.	Healthcare services			
Second Lien Term Loan, LIBOR+8.5% (1.75% floor) cash due 5/13/2017		25,000	24,675	25,029
			24,675	**25,029**
Securus Technologies, Inc.	Integrated telecommunication services			
Second Lien Term Loan, LIBOR+8.25% (1.75% floor) cash due 5/31/2018		22,500	22,069	22,220
			22,069	**22,220**
Gundle/SLT Environmental, Inc.	Environmental & facilities services			
First Lien Term Loan, LIBOR+5.5% (1.5% floor) cash due 5/27/2016		7,960	7,869	8,015
			7,869	**8,015**

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Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Titan Fitness, LLC	Leisure facilities			
First Lien Term Loan A, LIBOR+8.75 (1.25% floor) cash due 6/30/2016		16,625	16,455	16,340
First Lien Term Loan B, LIBOR+10.75% (1.25% floor) cash 1.5% PIK due 6/30/2016		11,589	11,473	11,630
First Lien Term Loan C, 18% PIK due 6/30/2016		2,846	2,820	2,787
First Lien Revolver, LIBOR+8.75% (1.25% floor) cash due 6/30/2016(11)			(35)	
			30,713	**30,757**
Baird Capital Partners V, LP	Multi-sector holdings			
0.4% limited partnership interest(15)			386	386
			386	**386**
Charter Brokerage, LLC	Oil & gas equipment services			
Senior Term Loan, LIBOR+6.5% (1.5% floor) cash due 7/13/2016		17,174	17,015	16,949
Mezzanine Term Loan, 11.75% cash 2% PIK due 7/13/2017		10,093	10,004	10,095
Senior Revolver, LIBOR+6.5% (1.5% floor) cash due 7/13/2016		1,765	1,699	1,886
			28,718	**28,930**
Stackpole Powertrain International ULC(15)	Auto parts & equipment			
Subordinated Term Loan, 12% cash 2% PIK due 8/1/2018		18,151	17,982	18,046
1,000 Common Units			1,000	735
			18,982	**18,781**
Discovery Practice Management, Inc.	Healthcare services			
Senior Term Loan A, LIBOR+7.5% cash due 8/8/2016		6,875	6,797	6,823
Senior Term Loan B, 12% cash 3% PIK due 8/8/2016		6,296	6,227	6,369
Senior Revolver, LIBOR+7% cash due 8/8/2016(11)			(34)	—
			12,990	**13,192**
CTM Group, Inc.	Leisure products			
Mezzanine Term Loan A, 11% cash 2% PIK due 2/10/2017		10,584	10,476	10,514
Mezzanine Term Loan B, 18.4% PIK due 2/10/2017		3,326	3,295	3,444
			13,771	**13,958**
Bojangles	Restaurants			
First Lien Term Loan, LIBOR+6.5% (1.5% floor) cash due 8/17/2017		5,789	5,600	5,693
			5,600	**5,693**
Milestone Partners IV, LP	Multi-sector holdings			
3.07% limited partnership interest(12)(15)			—	—
			—	**—**
Insight Pharmaceuticals, LLC	Pharmaceuticals			
First Lien Term Loan, LIBOR+6% (1.5% floor) cash due 8/25/2016		9,975	9,904	10,165
Second Lien Term Loan, LIBOR+11.75% (1.5% floor) cash due 8/25/2017		17,500	17,339	17,258
			27,243	**27,423**
National Spine and Pain Centers, LLC	Healthcare services			
Mezzanine Term Loan, 11% cash 1.6% PIK due 9/27/2017		19,081	18,902	19,205
250,000 Class A Units			250	241
			19,152	**19,446**
RCPDirect, LP.	Multi-Sector Holdings			
0.91% limited partnership interest(15)			260	260
			260	**260**

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Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
The MedTech Group, Inc.	Healthcare equipment			
Senior Term Loan, LIBOR + 5.5% (1.5% floor) cash due 9/7/2016		13,000	12,890	13,000
			12,890	**13,000**
Digi-Star Acquisition Holdings, Inc.	Industrial Machinery			
Mezzanine Term Loan, 12% cash 1.5% PIK due 11/18/2017		10,018	9,896	10,018
225 Class A Preferred Units—Purchased			225	225
2,500 Class A Common Units—Purchased			25	25
			10,146	**10,268**
CPASS Acquisition Company	Internet software and services			
Senior Term Loan, LIBOR + 9% (1.5% floor) cash 1% PIK due 11/21/2016		5,005	4,887	5,006
Senior Revolver, LIBOR + 9% (1.5% floor) cash due 11/21/2016(11)			(19)	—
			4,868	**5,006**
Genoa Healthcare Holdings, LLC	Pharmaceuticals			
Senior Term Loan, LIBOR+5.75% (1.5% floor) cash due 12/1/2016		5,000	4,946	5,000
Mezzanine Term Loan, 12% cash 2% PIK due 6/1/2017		12,521	12,398	12,521
Senior Revolver, LIBOR+5.75% (1.5% floor) cash due 12/1/2016		1,158	1,136	1,158
500,000 Preferred units—Purchased			475	475
500,000 Class A Common Units			25	25
			18,980	**19,179**
SolutionSet, Inc.	Advertising			
Senior Term Loan, LIBOR +6% (1% floor) cash due 12/21/2016		10,000	9,901	10,000
			9,901	**10,000**
Slate Pharmaceuticals Acquisition Corp.	Healthcare services			
Subordinated Term Loan, 12% cash 1.5% PIK due 12/29/2017		20,001	19,803	20,164
			19,803	**20,164**
Total Non-Control/Non-Affiliate Investments (150.9% of net assets)			**$1,102,546**	**$1,079,702**
Total Portfolio Investments			**$1,150,419**	**$1,119,898**

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

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

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

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

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

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

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

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

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(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
NDSSI Holdings, Inc.	December 31, 2011	+0.5% on Term Loan	– 1.0% on Term Loan A	Per loan amendment
Tegra Medical, LLC	December 30, 2011		+0.5% on Term Loan B	Per loan amendment
Phoenix Brands Merger Sub LLC	December 22, 2011	+0.75% on Senior Term Loan, Subordinated Term Loan & Revolver		Per loan amendment
CCCG, LLC	November 15, 2011	+0.5% on Term Loan		Per waiver agreement
Eagle Hospital Physicians, Inc.	July 1, 2011	– 0.25% on Term Loan & Revolver		Per loan amendment
Dominion Diagnostics, LLC	April 1, 2011	– 0.5% on Term Loan A	– 1.0% on Term Loan B	Tier pricing per credit agreement
Lighting By Gregory, LLC	March 11, 2011	– 2.0% on Bridge Loan		Per loan amendment
Capital Equipment Group, Inc.	July 1, 2010	– 2.0% on Term Loan	– 0.75% on Term Loan	Per waiver agreement
Traffic Control & Safety Corporation.	June 1, 2010	– 4.0% on Second Lien Term Loan	+ 1.0% on Second Lien Term Loan	Per restructuring agreement
HealthDrive Corporation	April 30, 2009	+ 2.0% on Term Loan		Per waiver agreement

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

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

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

(13) Investment was on cash non-accrual status as of December 31, 2011.

(14) Investment was on PIK non-accrual status as of December 31, 2011.

(15) Investment is not a qualifying asset as defined under Section 55(a) of the 1940 Act.

(16) Repechage Investments Limited Term Loan is under negotiation and, as such, the maturity date of the loan has been temporarily suspended.

(17) In November 2011, Nicos Polymers & Grinding, Inc. was merged into Coll Materials Group, LLC. As a result of this transaction, the Company's 50% membership interest in CD Holdco, LLC now represents a 23.25% membership interest in Coll Materials Group, LLC and the first lien revolver and term loan were consolidated into a $6.9 million second lien term loan with a scheduled maturity of three years that bears monthly cash interest at a rate of 12.0% per annum.

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Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Control Investments(3)				
Lighting By Gregory, LLC(9)(13)(14)	Housewares & Specialties			
First Lien Term Loan A, 9.75% PIK due 2/28/2013		$ 4,366	$ 3,996	$ 2,526
First Lien Bridge Loan, 8% PIK due 3/31/2012		112	113	—
97.38% membership interest			1,210	—
			5,319	**2,526**
Nicos Polymers & Grinding, Inc.	Environmental & facilities services			
First Lien Term Loan, 8% cash due 12/4/2017		5,347	5,280	5,189
First Lien Revolver, 8% cash due 12/4/2017		1,500	1,500	1,551
50% Membership interest in CD Holdco, LLC			1,627	5,234
			8,407	**11,974**
Total Control Investments (2.0% of net assets)			**$13,726**	**$ 14,500**
Affiliate Investments(4)				
O'Currance, Inc.(13)(14)	Data Processing & Outsourced Services			
First Lien Term Loan A, 12.875% cash 4% PIK due 3/21/2012		$ 11,414	$11,254	$ 3,173
First Lien Term Loan B, 12.875% cash 4% PIK 3/21/2012		1,164	1,140	324
1.75% Preferred Membership interest in O'Currance Holding Co., LLC			130	—
3.3% Membership Interest in O'Currance Holding Co., LLC			250	—
			12,774	**3,497**
Caregiver Services, Inc.	Healthcare services			
Second Lien Term Loan A, LIBOR+6.85% (5.15% floor) cash due 2/25/2013		5,712	5,527	5,843
Second Lien Term Loan B, 12.5% cash 4% PIK due 2/25/2013		15,161	14,801	15,067
1,080,399 shares of Series A Preferred Stock			1,080	1,490
			21,408	**22,400**
Total Affiliate Investments (3.6% of net assets)			**$34,182**	**$ 25,897**
Non-Control/Non-Affiliate Investments(7)				
Repechage Investments Limited(13)(14)	Restaurants			
First Lien Term Loan, 12.75% cash 2.75% PIK due 10/16/2011		$ 3,558	$ 3,412	$ 1,829
7,500 shares of Series A Preferred Stock of Elephant & Castle, Inc.			750	—
			4,162	**1,829**
Traffic Control & Safety Corporation(9)	Construction and Engineering			
Senior Term Loan, LIBOR+9% cash due 6/29/2012		5,000	4,870	4,957
Senior Revolver, LIBOR+9% cash due 6/29/2012		11,986	11,754	11,966
Second Lien Term Loan, 12% cash 3% PIK due 5/28/2015		20,795	20,602	17,545
Subordinated Loan, 15% PIK due 5/28/2015		5,325	5,325	1,346
24,750 shares of Series B Preferred Stock			247	—
43,494 shares of Series D Preferred Stock			435	—
25,000 shares of Common Stock			3	—
			43,236	**35,814**
TBA Global, LLC	Advertising			
53,994 Senior Preferred Shares			216	388
191,977 Shares A Shares			192	74
			408	**462**
Fitness Edge, LLC	Leisure Facilities			
First Lien Term Loan A, LIBOR+5.25% (4.75% floor) cash due 7/31/2012		750	749	757
First Lien Term Loan B, 12.5% cash 2.5% PIK due 7/31/2012		5,776	5,750	5,814
1,000 Common Units(6)			43	181
			6,542	**6,752**

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Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Boot Barn	Apparel, accessories & luxury goods and footwear			
255.78 shares of Series A&B Preferred Stock			247	71
1,354 shares of Common Stock			9	9
			256	**80**
Premier Trailer Leasing, Inc.(9)(13)(14)	Trucking			
Second Lien Term Loan, 13.25% cash 3.25% PIK due 10/23/2012		19,070	17,064	—
285 shares of Common Stock			1	—
			17,065	**—**
Capital Equipment Group, Inc.(9)	Industrial machinery			
Second Lien Term Loan, 12% cash 2.75% PIK due 7/10/2013		10,278	10,112	10,226
33,463 shares of Common Stock			345	634
			10,457	**10,860**
Rail Acquisition Corp.	Electronic manufacturing services			
First Lien Term Loan, 8% cash 4% PIK due 9/1/2013		18,415	15,636	4,106
First Lien Revolver, 7.85% cash due 9/1/2013		4,554	4,554	4,554
			20,190	**8,660**
Western Emulsions, Inc.	Construction materials			
Second Lien Term Loan, 12.5% cash 2.5% PIK due 6/30/2014		6,844	6,736	6,840
			6,736	**6,840**
Storyteller Theaters Corporation	Movies & entertainment			
1,692 shares of Common Stock			—	62
20,000 shares of Preferred Stock			200	200
			200	**262**
HealthDrive Corporation	Healthcare services			
First Lien Term Loan A, 10% cash due 7/17/2013		6,263	6,049	6,352
First Lien Term Loan B, 12% cash 1% PIK due 7/17/2013		10,282	10,212	10,217
First Lien Revolver, 12% cash due 7/17/2013(11)			(7)	—
			16,254	**16,569**
idX Corporation	Distributors			
Second Lien Term Loan, 12.5% cash 2% PIK due 7/1/2014		18,895	18,631	18,938
			18,631	**18,938**
Cenegenics, LLC	Healthcare services			
414,419 Common Units(6)			598	1,060
			598	**1,060**
IZI Medical Products, Inc.	Healthcare technology			
First Lien Term Loan A, 12% cash due 3/31/2014		3,236	3,215	3,244
First Lien Term Loan B, 13% cash 3% PIK due 3/31/2014		17,258	16,861	17,061
First Lien Revolver, 10% cash due 3/31/2014(11)			(25)	—
453,755 Preferred units of IZI Holdings, LLC			454	642
			20,505	**20,947**
Trans-Trade, Inc.	Air freight & logistics			
First Lien Term Loan, 13% cash 2.5% PIK due 9/10/2014		12,523	12,287	11,763
First Lien Revolver, 12% cash due 9/10/2014		5,800	5,697	5,479
			17,984	**17,242**
Riverlake Equity Partners II, LP	Multi-sector holdings			
1.89% limited partnership interest(16)			122	122
			122	**122**
Riverside Fund IV, LP	Multi-sector holdings			
0.33% limited partnership interest(16)			445	445
			445	**445**

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Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
ADAPCO, Inc.	Fertilizers & agricultural chemicals			
First Lien Term Loan A, 10% cash due 12/17/2014		8,000	7,871	8,010
First Lien Term Loan B, 12% cash 2% PIK due 12/17/2014		15,521	15,306	15,371
First Lien Term Revolver, 10% cash due 12/17/2014		5,750	5,623	5,809
			28,800	**29,190**
Ambath/Rebath Holdings, Inc.	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 12/30/2014		3,500	3,500	3,497
First Lien Term Loan B, 12.5% cash 2.5% PIK due 12/30/2014		22,999	22,999	22,600
First Lien Term Revolver, LIBOR+6.5% (3% floor) cash due 12/30/2014(10)		1,500	1,500	1,479
			27,999	**27,576**
JTC Education, Inc.	Education services			
First Lien Term Loan, LIBOR+9.5% (3% floor) cash due 12/31/2014		30,134	29,467	29,780
First Lien Revolver, LIBOR+9.5% (3.25% floor) cash due 12/31/2014(11)			(305)	—
17,391 Shares of Series A-1 Preferred Stock			313	313
17,391 Shares of Common Stock			187	83
			29,662	**30,176**
Tegra Medical, LLC	Healthcare equipment			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 12/31/2014		22,540	22,244	22,744
First Lien Term Loan B, 12% cash 2% PIK due 12/31/2014		22,551	22,270	22,226
First Lien Revolver, LIBOR+7% (3% floor) cash due 12/31/2014		2,500	2,449	2,501
			46,963	**47,471**
Psilos Group Partners IV, LP	Multi-sector holdings			
2.52% limited partnership interest(12)(16)			—	—
			—	**—**
Mansell Group, Inc.	Advertising			
First Lien Term Loan A, LIBOR+7% (3% floor) cash due 4/30/2015		10,675	10,512	10,654
First Lien Term Loan B, LIBOR+9% (3% floor) cash 1.5% PIK due 4/30/2015		9,142	9,001	9,067
First Lien Revolver, LIBOR+6% (3% floor) cash due 4/30/2015(11)			(29)	—
			19,484	**19,721**
NDSSI Holdings, LLC	Electronic equipment & instruments			
First Lien Term Loan, LIBOR+9.75% (3% floor) cash 1% PIK due 12/31/2012		29,788	29,370	29,278
First Lien Revolver, LIBOR+7% (3% floor) cash due 12/31/2012		3,500	3,435	3,538
2,000 Series D Preferred Units			2,047	2,047
			34,852	**34,863**
Eagle Hospital Physicians, Inc.(9)	Healthcare services			
First Lien Term Loan, LIBOR+8.75% (3% floor) cash due 8/11/2015		25,400	24,907	25,246
First Lien Revolver, LIBOR+5.75% (3% floor) cash due 8/11/2015(11)			(42)	—
			24,865	**25,246**
Enhanced Recovery Company, LLC	Diversified support services			
First Lien Term Loan A, LIBOR+7% (2% floor) cash due 8/13/2015		13,961	13,713	13,945
First Lien Term Loan B, LIBOR+10% (2% floor) cash 1% PIK due 8/13/2015		11,070	10,882	11,015
First Lien Revolver, LIBOR+7% (2% floor) cash due 8/13/2015(11)			(69)	—
			24,526	**24,960**
Epic Acquisition, Inc.	Healthcare services			
First Lien Term Loan A, LIBOR+8% (3% floor) cash due 8/13/2015		8,329	8,189	8,343
First Lien Term Loan B, 12.25% cash 3% PIK due 8/13/2015		17,246	16,962	17,281
First Lien Revolver, LIBOR+6.5% (3% floor) cash due 8/13/2015(11)			(50)	—
			25,101	**25,624**

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Specialty Bakers LLC	Food distributors			
First Lien Term Loan A, LIBOR+8.5% cash due 9/15/2015		8,325	8,148	8,220
First Lien Term Loan B, LIBOR+11% (2.5% floor) cash due 9/15/2015		11,000	10,770	10,756
First Lien Revolver, LIBOR+8.5% cash due 9/15/2015		2,000	1,916	2,029
			20,834	**21,005**
CRGT, Inc.	IT consulting & other services			
First Lien Term Loan A, LIBOR+7.5% cash due 10/1/2015		27,913	27,495	27,659
First Lien Term Loan B, 12.5% cash 10/1/2015		22,000	21,648	21,869
First Lien Revolver, LIBOR+7.5% cash due 10/1/2015(11)			(200)	—
			48,943	**49,528**
Welocalize, Inc.	Internet software & services			
First Lien Term Loan A, LIBOR+8% (2% floor) cash due 11/19/2015		15,990	15,720	15,668
First Lien Term Loan B, LIBOR+9% (2% floor) cash 1.25% PIK due 11/19/2015		21,231	20,888	20,983
First Lien Revolver, LIBOR+7% (2% floor) cash due 11/19/2015		5,250	5,152	5,162
2,086,163 Common Units in RPWL Holdings, LLC			2,086	1,973
			43,846	**43,786**
Miche Bag, LLC	Apparel, accessories & luxury goods			
First Lien Term Loan A, LIBOR+9% (3% floor) cash due 12/7/2013		13,708	13,353	13,735
First Lien Term Loan B, LIBOR+10% (3% floor) cash 3% PIK due 12/7/2015		17,425	14,983	17,115
First Lien Revolver, LIBOR+7% (3% floor) cash due 12/7/2015(11)			(105)	—
10,371 Preferred Equity units in Miche Holdings, LLC(6)			1,037	1,169
146,289 Series D Common Equity units in Miche Holdings, LLC(6)			1,463	1,496
			30,731	**33,515**
Bunker Hill Capital II (QP), LP	Multi-sector holdings			
0.50% limited partnership interest(16)			40	40
			40	**40**
Dominion Diagnostics, LLC(9)	Healthcare services			
First Lien Term Loan A, LIBOR+7% (2.5% floor) cash due 12/17/2015		29,550	29,030	29,442
First Lien Term Loan B, LIBOR+10.5% (2.5% floor) cash 1% PIK due 12/17/2015		20,008	19,675	19,546
First Lien Revolver, LIBOR+6.5% (2.5% floor) cash due 12/17/2015(11)			(83)	—
			48,622	**48,988**
Advanced Pain Management	Healthcare services			
First Lien Term Loan, LIBOR+5% (1.75% floor) cash due 12/22/2015		8,046	7,923	8,007
First Lien Revolver, LIBOR+5% (1.75% floor) cash due 12/22/2015		133	129	135
			8,052	**8,142**
DISA, Inc.	Human resources & employment services			
First Lien Term Loan A, LIBOR+7.5% (0.75% floor) cash due 12/30/2015		12,460	12,256	12,542
First Lien Term Loan B, LIBOR+10% (1% floor) cash 1.5% PIK due 12/30/2015		8,395	8,264	8,410
First Lien Revolver, LIBOR+6% (1% floor) cash due 12/30/2015(11)			(63)	—
			20,457	**20,952**
Saddleback Fence and Vinyl Products, Inc.	Building products			
First Lien Term Loan, 8% cash due 11/30/2013		773	773	773
First Lien Revolver, 8% cash due 11/30/2013			—	—
			773	**773**

Fifth Street Finance Corp.

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Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Best Vinyl Fence & Deck, LLC	Building products			
First Lien Term Loan A, 8% cash due 11/30/2013		2,061	1,947	2,061
First Lien Term Loan B, 8% PIK due 7/31/2011(15)		3,969	3,969	2,000
First Lien Revolver, 8% cash due 11/30/2013			—	—
			5,916	**4,061**
Physicians Pharmacy Alliance, Inc.	Healthcare services			
First Lien Term Loan, LIBOR+9% cash 1.5% PIK due 1/4/2016		16,766	16,461	16,702
First Lien Revolver, LIBOR+6% cash due 1/4/2016(11)			(35)	—
			16,426	**16,702**
Cardon Healthcare Network, LLC	Diversified support services			
First Lien Term Loan, LIBOR+10% (1.75% floor) cash due 1/6/2016(9)		11,250	11,051	11,210
First Lien Revolver, LIBOR+6.5% (1.75% floor) cash due 1/6/2016(11)			(35)	—
			11,016	**11,210**
U.S. Retirement Partners, Inc.	Diversified financial services			
First Lien Term Loan, LIBOR+9.5% (2% floor) cash due 1/6/2016		13,600	13,311	13,329
			13,311	**13,329**
IOS Acquisitions, Inc.	Oil & gas equipment & services			
First Lien Term Loan A, LIBOR+8% (2% floor) cash due 1/14/2016		8,700	8,576	8,656
First Lien Term Loan B, LIBOR+10% (2% floor) cash 2% PIK due 1/14/2016		10,618	10,466	10,480
First Lien Revolver, LIBOR+8% (2% floor) cash due 1/14/2016		750	714	777
			19,756	**19,913**
Actient Pharmaceuticals, LLC	Healthcare services			
First Lien Term Loan, LIBOR+6.25% (2% floor) cash due 7/29/2015		9,180	9,018	9,169
			9,018	**9,169**
Phoenix Brands Merger Sub LLC	Household products			
Senior Term Loan, LIBOR+5% (1.5% floor) cash due 1/31/2016		8,036	7,875	7,674
Subordinated Term Loan, 10% cash 3.875% PIK due 2/1/2017		20,390	20,035	19,071
First Lien Revolver, LIBOR+5% (1.5% floor) cash due 1/31/2016		3,429	3,303	3,198
			31,213	**29,943**
U.S. Collections, Inc.	Diversified support services			
First Lien Term Loan, LIBOR+5.25% (1.75% floor) cash due 3/31/2016		10,847	10,649	10,828
			10,649	**10,828**
CCCG, LLC	Oil & gas equipment & services			
First Lien Term Loan, LIBOR+8% (1.75% floor) cash 1% PIK due 7/29/2015		34,738	34,115	34,152
			34,115	**34,152**
Maverick Healthcare Group, LLC	Healthcare equipment			
First Lien Term Loan, LIBOR+9% (1.75% floor) cash due 12/31/2016		24,813	24,292	24,440
			24,292	**24,440**
Refac Optical Group	Specialty stores			
First Lien Term Loan A, LIBOR+7.5% cash due 3/23/2016		14,220	13,920	14,273
First Lien Term Loan B, LIBOR+8.5% cash 1.75% PIK due 3/23/2016		20,162	19,731	20,078
First Lien Revolver, LIBOR+7.5% cash due 3/23/2016(11)			(113)	—
1,000 Shares of Common Stock in Refac Holdings, Inc.			1	—
1,000 Shares of Preferred Stock in Refac Holdings, Inc.			999	847
			34,538	**35,198**

Fifth Street Finance Corp.

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Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Pacific Architects & Engineers, Inc.	Diversified support services			
First Lien Term Loan A, LIBOR+5% (1.5% floor) cash due 4/4/2017		4,416	4,352	4,332
First Lien Term Loan B, LIBOR+6% (1.5% floor) cash due 4/4/2017		5,000	4,929	4,903
			9,281	**9,235**
Ernest Health, Inc.	Healthcare services			
Second Lien Term Loan, LIBOR+8.5% (1.75% floor) cash due 5/13/2017		25,000	24,656	25,049
			24,656	**25,049**
Securus Technologies, Inc.	Integrated telecommunication services			
Second Lien Term Loan, LIBOR+8.25% (1.75% floor) cash due 5/31/2018		26,500	25,995	26,374
			25,995	**26,374**
Gundle/SLT Environmental, Inc.	Environmental & facilities services			
First Lien Term Loan, LIBOR+5.5% (1.5% floor) cash due 5/27/2016		7,980	7,904	7,977
			7,904	**7,977**
Titan Fitness, LLC	Leisure facilities			
First Lien Term Loan A, LIBOR+8.75 (1.25% floor) cash due 6/30/2016		17,063	16,878	16,938
First Lien Term Loan B, LIBOR+10.75% (1.25% floor) cash 1.5% PIK due 6/30/2016		11,545	11,422	11,343
First Lien Term Loan C, 18% PIK due 6/30/2016		2,721	2,693	2,593
First Lien Revolver, LIBOR+8.75% (1.25% floor) cash due 6/30/2016		543	506	821
			31,499	**31,695**
Baird Capital Partners V, LP	Multi-sector holdings			
0.4% limited partnership interest(16)			299	299
			299	**299**
Charter Brokerage, LLC	Oil & gas equipment services			
Senior Term Loan, LIBOR+6.5% (1.5% floor) cash due 7/13/2016		17,411	17,242	17,411
Mezzanine Term Loan, 11.75% cash 2% PIK due 7/13/2017		10,043	9,948	10,043
Senior Revolver, LIBOR+6.5% (1.5% floor) cash due 7/13/2016		1,176	1,107	1,177
			28,297	**28,631**
Stackpole Powertrain International ULC(16)	Auto parts & equipment			
Subordinated Term Loan, 12% cash 2% PIK due 8/1/2018		18,059	17,883	18,059
1,000 Common Units			1,000	1,000
			18,883	**19,059**
Discovery Practice Management, Inc.	Healthcare services			
Senior Term Loan A, LIBOR+7.5% cash due 8/8/2016		7,027	6,942	7,027
Senior Term Loan B, 12% cash 3% PIK due 8/8/2016		6,248	6,174	6,248
Senior Revolver, LIBOR+7% cash due 8/8/2016(11)			(37)	—
			13,079	**13,275**
CTM Group, Inc.	Leisure products			
Mezzanine Term Loan A, 11% cash 2% PIK due 2/10/2017		10,530	10,417	10,530
Mezzanine Term Loan B, 18.4% PIK due 2/10/2017		3,181	3,147	3,181
			13,564	**13,711**
Bojangles	Restaurants			
First Lien Term Loan, LIBOR+6.5% (1.5% floor) cash due 8/17/2017		10,000	9,803	10,000
			9,803	**10,000**
Milestone Partners IV, LP	Multi-sector holdings			
3.07% limited partnership interest(12)(16)			—	—
			—	**—**

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Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Insight Pharmaceuticals, LLC	Pharmaceuticals			
First Lien Term Loan, LIBOR+6% (1.5% floor) cash due 8/25/2016		10,000	9,926	10,000
Second Lien Term Loan, LIBOR+11.75% (1.5% floor) cash due 8/25/2017		17,500	17,331	17,500
			27,257	**27,500**
National Spine and Pain Centers, LLC	Healthcare services			
Mezzanine Term Loan, 11% cash 1.6% PIK due 9/27/2017		19,002	18,816	19,002
250,000 Class A Units			250	250
			19,066	**19,252**
Total Non-Control/Non-Affiliate Investments (148.1% of net assets)			**$1,108,174**	**$1,079,440**
Total Portfolio Investments			**$1,156,082**	**$1,119,837**

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

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

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

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

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

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

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

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

(9) Interest rates have been adjusted on certain term loans and revolvers. These rate adjustments are temporary in nature due to 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
Cardon Healthcare Network, LLC	July 1, 2011	– 2.5% on Term Loan		Tier pricing per credit agreement
Eagle Hospital Physicians, Inc.	July 1, 2011	– 0.25% on Term Loan & Revolver		Per loan agreement
Dominion Diagnostics, LLC	April 1, 2011	– 0.5% on Term Loan A	– 1.0% on Term Loan B	Tier pricing per credit agreement
Lighting by Gregory, LLC	March 11, 2011	– 2.0% on Bridge Loan		Per loan amendment
Capital Equipment Group, Inc.	July 1, 2010	– 2.0% on Term Loan	– 0.75% on Term Loan	Per waiver agreement
Traffic Control & Safety Corporation	June 1, 2010	– 4.0% on Second Lien Term Loan	+ 1.0% on Second Lien Term Loan	Per restructuring agreement
Premier Trailer Leasing, Inc.	August 4, 2009	+ 4.0% on Term Loan		Default interest per credit agreement

Fifth Street Finance Corp.

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

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

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

(13) Investment was on cash non-accrual status as of September 30, 2011.

(14) Investment was on PIK non-accrual status as of September 30, 2011.

(15) Best Vinyl Fence & Deck, LLC Term Loan B was under negotiation and, as such, the maturity date of the loan had been temporarily suspended.

(16) Investment is not a qualifying asset as defined under Section 55(a) of the 1940 Act.

FIFTH STREET FINANCE CORP.

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

Note 1. Organization

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

Effective January 2, 2008, the Partnership merged with and into Fifth Street Finance Corp. (the "Company"), an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940 (the "1940 Act"). Fifth Street Finance Corp. is managed by the Investment Adviser. Prior to January 2, 2008, references to the Company are to the Partnership. 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 for accounting purposes, and the portfolio investments held by the subsidiaries are included in the Company's Consolidated Financial Statements. All significant intercompany balances and transactions have been eliminated.

On November 28, 2011, the Company transferred the listing of its common stock from the New York Stock Exchange to the NASDAQ Global Select Market, where it continues to trade under the symbol "FSC." The following table reflects common stock offerings that have occurred from inception through December 31, 2011:

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
February 4, 2011	Follow-on public offering (including underwriters' exercise of over-allotment option)	11,500,000	$ 12.65	$145.5 million
June 24, 2011	Follow-on public offering (including underwriters' exercise of over-allotment option)	5,558,469	$ 11.72	$ 65.1 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.

FIFTH STREET FINANCE CORP.

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

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

SBA regulations currently limit the amount of SBA-guaranteed debentures that an SBIC may issue to $150 million when it has at least $75 million in regulatory capital. Affiliated SBICs are permitted to issue up to a combined maximum amount of $225 million in SBA-guaranteed debentures when they have at least $112.5 million in combined regulatory capital. As of December 31, 2011, the Company's SBIC subsidiary had $75 million in regulatory capital and $150 million in SBA-guaranteed debentures outstanding, which had a fair value of $113.4 million. These debentures bear interest at a weighted average interest rate of 3.567% (excluding the SBA annual charge), as follows:

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

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 definition of senior securities in the Company's 200% asset coverage test under the 1940 Act. This allows the Company increased flexibility under the 200% asset coverage test by permitting it to borrow up to $150 million more than it would otherwise be able to under the 1940 Act absent the receipt of this exemptive relief.

Note 2. Significant Accounting Policies

Basis of Presentation and Liquidity:

The Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and 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.

FIFTH STREET FINANCE CORP.

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

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 $1.1 billion and $1.1 billion at December 31, 2011 and September 30, 2011, respectively. The portfolio investments represent 156.5% and 153.7% of net assets at December 31, 2011 and September 30, 2011, respectively, and their fair values have been determined by the Company's Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

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

Fair Value Measurements:

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

FIFTH STREET FINANCE CORP.

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

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 the bond yield method in determining the fair value 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 market approach in determining the fair value of the Company's investment in the portfolio company. If there is deterioration in the credit quality of the portfolio company or an investment is in workout status, the Company may use alternative methodologies, 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 (earnings before interest, taxes, depreciation, and amortization), 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 Company's finance department;
- Preliminary valuations are then reviewed and discussed with principals of the Investment Adviser;

FIFTH STREET FINANCE CORP.

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

- 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 finance department compares and contrasts its preliminary valuations to the preliminary valuations of the independent valuation firms;
- The finance department prepares a valuation report for the 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 finance department 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 regarding the fair value of the investments in the Company's portfolio; and
- The Board of Directors discusses valuations and determines the fair value of each investment in the Company's portfolio in good faith.

The fair value of all of the Company's investments at December 31, 2011 and September 30, 2011 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 authorized the engagement of 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. The Company intends 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.

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 payment-in-kind or "PIK" interest provisions. PIK interest is computed at the contractual rate specified in each investment agreement and added to the principal balance of the investment and recorded as income.

Fee income consists of the monthly 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 a portion of the 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. Exit fees are fees which are payable upon the exit of a debt security. These fees are to be paid to the Company upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. The receipt of such fees is contingent upon the occurrence of one of the events listed above for each of the investments. A percentage of these fees is included in net investment income over the life of the loan.

Gain on Extinguishment of Convertible Senior Notes:

The Company may repurchase its Convertible Senior Notes in accordance with the 1940 Act and the rules promulgated thereunder and may surrender these Notes to the Trustee for cancellation. If the repurchase occurs at a purchase price below par value, a gain on the extinguishment of these Notes is recorded. The amount of the gain recorded is the difference between the reacquisition price and the net carrying amount of the Notes, net of the proportionate amount of unamortized debt issuance costs.

Cash and Cash Equivalents:

Cash and cash equivalents consist of demand deposits and highly liquid investments with maturities of three months or less, when acquired. The Company places its cash and cash equivalents with financial institutions and, at times, cash held in bank accounts may exceed the Federal Deposit Insurance Corporation insured limit. Included in cash and cash equivalents is $1.0 million that is held at Wells Fargo Bank, National Association (“Wells Fargo”) in connection with the Company’s 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 or amending 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 consisted of cash posted as collateral with respect to the Company’s interest rate swap, which was terminated in August 2011. The Company was restricted in terms of access to this collateral until such swap was terminated or the swap agreement expired. Cash collateral posted was held in an account at Wells Fargo.

Interest Rate Swap:

The Company does not utilize hedge accounting and marks its interest rate swaps to fair value on a quarterly basis through its Consolidated Statement of Operations.

FIFTH STREET FINANCE CORP.

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

Offering Costs:

Offering costs consist of fees and expenses incurred in connection with the public offer and sale of the Company's common stock, including legal, accounting, and printing fees. There were no offering costs charged to capital during the three months ended December 31, 2011.

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, 2009 and 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 loss 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, 2009 or 2010. 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 May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04").

FIFTH STREET FINANCE CORP.

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

ASU 2011-04 amends ASC 820, which will require entities to change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 clarifies the application of existing fair value measurement and disclosure requirements related to the application of the highest and best use and valuation premise concepts for financial and nonfinancial instruments, measuring the fair value of an instrument classified in shareholders' equity, and disclosures about fair value measurements. ASU 2011-04 changes the measurement of the fair value of financial instruments that are managed within a portfolio and the application of premiums and discounts in a fair value measurement related to size as a characteristic of the reporting entity's holding rather than a characteristic of the asset or liability. ASU 2011-04 requires additional disclosures about fair value measurements categorized within Level 3 of the fair value hierarchy including the valuation processes used by the reporting entity, the sensitivity of the fair value to changes in unobservable inputs, and the interrelationships between those unobservable inputs, if any. All the amendments to ASC 820 made by ASU 2011-04 are effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 is not expected to have a material impact on the Company's Consolidated Financial Statements, except it will enhance the disclosures around fair value of investments.

Note 3. Portfolio Investments

At December 31, 2011, 156.5% of net assets or $1.1 billion was invested in 67 long-term portfolio investments and 9.8% of net assets or $70.3 million was invested in cash and cash equivalents. In comparison, at September 30, 2011, 153.7% of net assets or $1.1 million was invested in 65 long-term portfolio investments and 9.3% of net assets or $67.6 million was invested in cash and cash equivalents. As of December 31, 2011, 87.0% of the Company's portfolio at fair value consisted of debt investments that 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, limited partnership interests or limited liability company interests. These instruments generally do not produce a current return but are held for potential investment appreciation and capital gain.

During the three months ended December 31, 2011 and December 31, 2010, the Company recorded realized losses of $16.6 million and $13.5 million, respectively. During the three months ended December 31, 2011 and December 31, 2010, the Company recorded unrealized appreciation of $5.8 million and $16.8 million, respectively.

The composition of the Company's investments as of December 31, 2011 and September 30, 2011 at cost and fair value was as follows:

	December 31, 2011		September 30, 2011	
	Cost	Fair Value	Cost	Fair Value
Investments in debt securities	$ 1,131,375	$ 1,097,725	$ 1,137,754	$ 1,099,708
Investments in equity securities	19,044	22,173	18,328	20,129
Total	**$ 1,150,419**	**$ 1,119,898**	**$ 1,156,082**	**$ 1,119,837**

FIFTH STREET FINANCE CORP.

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

The composition of the Company's debt investments as of December 31, 2011 and September 30, 2011 at fixed rates and floating rates was as follows:

	December 31, 2011		September 30, 2011	
	Fair Value	% of Debt Portfolio	Fair Value	% of Debt Portfolio
Fixed rate debt securities	$ 341,245	31.09%	$ 359,873	32.72%
Floating rate debt securities	756,480	68.91%	739,835	67.28%
Total	**$1,097,725**	**100.00%**	**$1,099,708**	**100.00%**

The following table presents the financial instruments carried at fair value as of December 31, 2011, by caption on the Company's Consolidated Statement of Assets and Liabilities for each of the three levels of hierarchy established by ASC 820.

	Level 1	Level 2	Level 3	Total
Investments in debt securities (first lien)	$ —	$ —	$ 834,405	$ 834,405
Investments in debt securities (second lien)	—	—	139,624	139,624
Investments in debt securities (subordinated)	—	—	123,696	123,696
Investments in equity securities (preferred)	—	—	7,429	7,429
Investments in equity securities (common)	—	—	14,744	14,744
Total investments at fair value	**$ —**	**$ —**	**$1,119,898**	**$1,119,898**

The following table presents the financial instruments carried at fair value as of September 30, 2011, by caption on the Company's Consolidated Statement of Assets and Liabilities for each of the three levels of hierarchy established by ASC 820.

	Level 1	Level 2	Level 3	Total
Investments in debt securities (first lien)	$ —	$ —	$ 875,092	$ 875,092
Investments in debt securities (second lien)	—	—	143,383	143,383
Investments in debt securities (subordinated)	—	—	81,233	81,233
Investments in equity securities (preferred)	—	—	7,167	7,167
Investments in equity securities (common)	—	—	12,962	12,962
Total investments at fair value	**$ —**	**$ —**	**$1,119,837**	**$1,119,837**

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.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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The following table provides a roll-forward in the changes in fair value from September 30, 2011 to December 31, 2011 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, 2011	$875,092	$143,383	$ 81,233	$ 7,167	$12,962	$1,119,837
New investments & net revolver activity	40,754	—	42,500	700	565	84,519
Redemptions/repayments	(78,715)	(32,133)	—	(688)	(11)	(111,547)
Net accrual of PIK interest income	695	562	866	161	—	2,284
Accretion of original issue discount	546	60	—	—	—	606
Net change in unearned income	1,102	708	(497)	—	—	1,313
Net unrealized appreciation (depreciation)	(5,069)	9,980	(406)	101	1,227	5,833
Net change from unrealized to realized	—	17,064	—	(12)	1	17,053
Transfer into (out of) Level 3	—	—	—	—	—	—
Fair value as of December 31, 2011	**$834,405**	**$139,624**	**$ 123,696**	**$ 7,429**	**$14,744**	**$1,119,898**
Net unrealized appreciation (depreciation) relating to Level 3 assets still held at December 31, 2011 and reported within net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations for the three months ended December 31, 2011	$ (4,274)	$ (7,084)	$ (406)	$ 113	$ 1,226	$ (10,425)

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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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	$416,324	$137,851	$ 4,405	$ 2,892	$ 2,349	$563,821
New investments & net revolver activity	229,848	—	1,065	1,037	3,823	235,773
Redemptions/repayments	(3,813)	(50,988)	—	—	—	(54,801)
Net accrual of PIK interest income	1,795	(3,971)	211	—	—	(1,965)
Accretion of original issue discount	156	233	—	—	—	389
Net change in unearned income	(4,277)	799	—	—	—	(3,478)
Net unrealized appreciation (depreciation)	15,819	372	(361)	34	242	16,106
Net change from unrealized to realized	(13,450)	—	—	—	—	(13,450)
Transfer into (out of) Level 3	—	—	—	—	—	—
Fair value as of December 31, 2010	**$642,402**	**$ 84,296**	**$ 5,320**	**$ 3,963**	**$ 6,414**	**$742,395**
Net unrealized 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	$ 592	$ (361)	$ 34	$ 242	$ 6,066

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). The Company 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 Company's off-balance sheet arrangements consisted of $101.1 million and $108.8 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of December 31, 2011 and September 30, 2011, respectively. Such commitments are subject to the portfolio companies' satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Statement of Assets and Liabilities and are not reflected on the Company's Consolidated Statements of Assets and Liabilities.

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

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A summary of the composition of the unfunded commitments (consisting of revolvers, term loans and limited partnership interests) as of December 31, 2011 and September 30, 2011 is shown in the table below:

	December 31, 2011	September 30, 2011
CRGT, Inc.	$ 12,500	$ 12,500
JTC Education, Inc.	11,775	14,000
Charter Brokerage, LLC	5,588	6,176
Refac Optical Group	5,500	5,500
Rail Acquisition Corp.	5,309	5,446
Miche Bag, LLC	5,000	5,000
Dominion Diagnostics, LLC	5,000	5,000
Enhanced Recovery Company, LLC	4,000	4,000
DISA, Inc.	4,000	4,000
Specialty Bakers, LLC	4,000	2,000
Titan Fitness, LLC	3,500	2,957
Phoenix Brands Merger Sub LLC	3,429	3,000
Epic Acquisition, Inc.	3,000	3,000
Discovery Practice Management, Inc.	3,000	3,000
Traffic Control & Safety Corporation.	2,514	3,014
Eagle Hospital Physicians, Inc.	2,500	2,500
HealthDrive Corporation	2,000	2,000
Mansell Group, Inc.	2,000	2,000
Physicians Pharmacy Alliance, Inc.	2,000	2,000
Cardon Healthcare Network, LLC	2,000	2,000
Milestone Partners IV, LP (limited partnership interest)	2,000	2,000
Tegra Medical, LLC	1,500	1,500
IOS Acquisitions, Inc.	1,000	1,250
Psilos Group Partners IV, LP (limited partnership interest)	1,000	1,000
CPASS Acquisition Company	1,000	—
Bunker Hill Capital II (QP), LP (limited partnership interest)	946	960
Genoa Healthcare Holdings, LLC	842	—
Riverlake Equity Partners II, LP (limited partnership interest)	760	878
Welocalize, Inc.	750	750
RCPDirect, LP (limited partnership interest)	740	—
Baird Capital Partners V, LP (limited partnership interest)	614	701
Riverside Fund IV, LP (limited partnership interest)	517	555
Saddleback Fence and Vinyl Products, Inc.	400	400
Advanced Pain Management	400	267
Best Vinyl Fence & Deck, LLC	—	1,000
Trans-Trade, Inc.	—	200
ADAPCO, Inc.	—	4,250
IZI Medical Products, Inc.	—	2,500
Flatout, Inc.	—	1,500
Total	**$ 101,084**	**$ 108,804**

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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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, 2011		September 30, 2011	
Cost:				
First lien debt	$ 855,220	74.34%	$ 890,729	77.05%
Second lien debt	147,716	12.84%	161,455	13.97%
Subordinated debt	128,439	11.16%	85,570	7.40%
Purchased equity	12,016	1.04%	11,263	0.97%
Equity grants	5,605	0.49%	6,158	0.53%
Limited partnership interests	1,423	0.13%	907	0.08%
Total	**$1,150,419**	**100.00%**	**$1,156,082**	**100.00%**

	December 31, 2011		September 30, 2011	
Fair value:				
First lien debt	$ 834,405	74.51%	$ 875,092	78.14%
Second lien debt	139,624	12.47%	143,383	12.80%
Subordinated debt	123,696	11.05%	81,233	7.25%
Purchased equity	14,497	1.29%	12,548	1.12%
Equity grants	6,253	0.56%	6,675	0.60%
Limited partnership interests	1,423	0.12%	906	0.09%
Total	**$1,119,898**	**100.00%**	**$1,119,837**	**100.00%**

The Company invests in portfolio companies located in North America. 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, 2011		September 30, 2011	
Cost:				
Northeast U.S.	$ 394,495	34.29%	$ 389,185	33.66%
Southwest U.S.	247,238	21.50%	273,513	23.66%
Southeast U.S.	232,039	20.17%	244,988	21.19%
West U.S.	169,898	14.77%	142,745	12.35%
Midwest U.S.	87,767	7.63%	86,768	7.51%
Canada	18,982	1.64%	18,883	1.63%
Total	**$1,150,419**	**100.00%**	**$1,156,082**	**100.00%**

	December 31, 2011		September 30, 2011	
Fair value:				
Northeast U.S.	$ 397,169	35.46%	$ 389,898	34.82%
Southwest U.S.	235,540	21.03%	248,588	22.20%
Southeast U.S.	233,596	20.86%	246,358	22.00%
West U.S.	144,906	12.94%	127,522	11.39%
Midwest U.S.	89,906	8.03%	88,412	7.90%
Canada	18,781	1.68%	19,059	1.69%
Total	**$1,119,898**	**100.00%**	**$1,119,837**	**100.00%**

FIFTH STREET FINANCE CORP.

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

The composition of the Company's portfolio by industry at cost and fair value as of December 31, 2011 and September 30, 2011 were as follows:

	December 31, 2011		September 30, 2011	
Cost:				
Healthcare services	$ 236,075	20.52%	$ 227,145	19.65%
Healthcare equipment	83,314	7.24%	71,254	6.16%
Oil & gas equipment & services	82,300	7.15%	82,168	7.11%
Diversified support services	51,677	4.49%	55,472	4.80%
Internet software & services	48,622	4.23%	43,846	3.79%
IT consulting & other services	47,930	4.17%	48,943	4.23%
Pharmaceuticals	46,224	4.02%	27,257	2.36%
Construction and engineering	44,290	3.85%	43,236	3.74%
Leisure facilities	37,113	3.23%	38,041	3.29%
Electronic equipment & instruments	35,180	3.06%	34,852	3.01%
Specialty stores	34,442	2.99%	34,538	2.99%
Education services	31,596	2.75%	29,662	2.57%
Household products	30,611	2.66%	31,213	2.70%
Apparel, accessories & luxury goods	29,781	2.59%	30,986	2.68%
Advertising	29,578	2.57%	19,892	1.72%
Home improvement retail	27,896	2.42%	27,999	2.42%
Diversified financial services	24,904	2.16%	13,311	1.15%
Integrated telecommunication services	22,069	1.92%	25,995	2.25%
Industrial machinery	20,682	1.80%	10,457	0.90%
Electronic manufacturing services	20,327	1.77%	20,190	1.75%
Human resources & employment services	20,262	1.76%	20,457	1.77%
Auto parts & equipment	18,982	1.65%	18,883	1.63%
Distributors	18,752	1.63%	18,631	1.61%
Food distributors	18,538	1.61%	20,834	1.80%
Air freight & logistics	18,100	1.57%	17,984	1.56%
Environmental & facilities services	16,382	1.42%	16,311	1.41%
Leisure products	13,770	1.20%	13,564	1.17%
Data processing & outsourced services	12,775	1.11%	12,775	1.10%
Restaurants	9,763	0.85%	13,966	1.21%
Construction materials	6,789	0.59%	6,736	0.58%
Housewares & specialties	5,319	0.46%	5,319	0.46%
Building products	4,754	0.41%	6,689	0.58%
Multi-sector holdings	1,423	0.13%	907	0.09%
Movies & entertainment	199	0.02%	199	0.02%
Fertilizers & agricultural chemicals	—	0.00%	28,800	2.49%
Healthcare technology	—	0.00%	20,505	1.77%
Trucking	—	0.00%	17,065	1.48%
Total	**$1,150,419**	**100.00%**	**$1,156,082**	**100.00%**

FIFTH STREET FINANCE CORP.

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

	December 31, 2011		September 30, 2011	
Fair Value:				
Healthcare services	$ 240,637	21.49%	$ 231,478	20.67%
Healthcare equipment	83,603	7.47%	71,911	6.42%
Oil & gas equipment & services	83,177	7.43%	82,696	7.38%
Diversified support services	52,590	4.70%	56,232	5.02%
Internet software & services	48,474	4.33%	43,786	3.91%
IT consulting & other services	48,340	4.32%	49,528	4.42%
Pharmaceuticals	46,601	4.16%	27,500	2.46%
Leisure facilities	37,429	3.34%	38,447	3.43%
Specialty stores	35,295	3.15%	35,198	3.14%
Electronic equipment & instruments	34,953	3.12%	34,863	3.11%
Education services	32,508	2.90%	30,176	2.69%
Apparel, accessories & luxury goods	32,430	2.90%	33,595	3.00%
Advertising	30,136	2.69%	20,183	1.80%
Household products	30,045	2.68%	29,943	2.67%
Construction and engineering	28,498	2.54%	35,814	3.20%
Home improvement retail	24,909	2.22%	27,576	2.46%
Diversified financial services	24,875	2.22%	13,329	1.19%
Integrated telecommunication services	22,220	1.98%	26,374	2.36%
Environmental & facilities services	21,660	1.93%	19,952	1.78%
Industrial machinery	21,301	1.90%	10,860	0.97%
Human resources & employment services	20,871	1.86%	20,952	1.87%
Distributors	19,218	1.72%	18,938	1.69%
Food distributors	18,967	1.69%	21,006	1.88%
Auto parts & equipment	18,781	1.68%	19,059	1.70%
Air freight & logistics	16,630	1.48%	17,243	1.54%
Leisure products	13,958	1.25%	13,711	1.22%
Electronic manufacturing services	8,698	0.78%	8,660	0.77%
Restaurants	7,625	0.68%	11,829	1.06%
Construction materials	7,013	0.63%	6,840	0.61%
Building products	2,533	0.23%	4,833	0.43%
Data processing & outsourced services	2,160	0.19%	3,497	0.31%
Housewares & specialties	2,078	0.19%	2,526	0.23%
Multi-sector holdings	1,423	0.13%	907	0.11%
Movies & entertainment	262	0.02%	258	0.02%
Fertilizers & agricultural chemicals	—	0.00%	29,190	2.61%
Healthcare technology	—	0.00%	20,947	1.87%
Total	**$1,119,898**	**100.00%**	**$1,119,837**	**100.00%**

The Company’s investments are generally in small and mid-sized companies in a variety of industries. At December 31, 2011 and September 30, 2011, 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, 2011 and December 31, 2010, no individual investment produced income that exceeded 10% of investment income.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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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, 2011 and December 31, 2010 was as follows:

	Three months ended December 31, 2011	Three months ended December 31, 2010
Beginning unearned fee income balance	$ 18,333	$ 11,901
Net fees received	4,772	4,706
Unearned fee income recognized	(6,085)	(1,228)
Ending unearned fee income balance	**$ 17,020**	**$ 15,379**

As of December 31, 2011, the Company had structured $6.3 million in aggregate exit fees across 9 portfolio investments upon the future exit of those investments. Exit fees are fees which are payable upon the exit of a debt investment. These fees are to be paid to the Company upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. The receipt of such fees is contingent upon the occurrence of one of the events listed above for each of the investments. A percentage of these fees is included in net investment income over the life of the loan.

Note 5. Share Data

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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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.

On February 4, 2011, the Company completed a follow-on public offering of 11,500,000 shares of its common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $12.65 per share. The net proceeds totaled $138.6 million after deducting investment banking commissions of $6.5 million and offering costs of $0.3 million.

On June 24, 2011, the Company completed a follow-on public offering of 5,558,469 shares of its common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $11.72 per share. The net proceeds totaled $62.7 million after deducting investment banking commissions of $2.3 million and offering costs of $0.2 million.

The following table sets forth the computation of basic and diluted earnings per share, pursuant to ASC 260-10 *Earnings per Share*, for the three months ended December 31, 2011 and December 31, 2010:

	Three months ended December 31, 2011	Three months ended December 31, 2010
Earnings per common share — basic:		
Net increase in net assets resulting from operations	$ 10,184	$ 17,448
Weighted average common shares outstanding — basic	72,376	54,641
Earnings per common share — basic	**$ 0.14**	**$ 0.32**
Earnings per common share — diluted:		
Net increase in net assets resulting from operations, before adjustments	$ 10,184	$ 17,448
Adjustments for interest on convertible senior notes, base management fees, incentive fees and gain on extinguishment of convertible senior notes	458	—
Net increase in net assets resulting from operations, as adjusted	$ 10,642	$ 17,448
Weighted average common shares outstanding — basic	72,376	54,641
Adjustments for dilutive effect of convertible notes	8,537	—
Weighted average common shares outstanding — diluted	80,913	54,641
Earnings per common share — diluted	**$ 0.13**	**$ 0.32**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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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, 2011:

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	5.2 million	24,850	0.3 million
8/2/2010	11/3/2010	11/24/2010	0.11	5.7 million	26,569	0.3 million
8/2/2010	12/1/2010	12/29/2010	0.11	5.7 million	28,238	0.3 million
11/30/2010	1/4/2011	1/31/2011	0.1066	5.4 million	36,038	0.5 million
11/30/2010	2/1/2011	2/28/2011	0.1066	5.5 million	29,072	0.4 million
11/30/2010	3/1/2011	3/31/2011	0.1066	6.5 million	43,766	0.6 million
1/30/2011	4/1/2011	4/29/2011	0.1066	6.5 million	45,193	0.6 million
1/30/2011	5/2/2011	5/31/2011	0.1066	6.5 million	48,870	0.6 million
1/30/2011	6/1/2011	6/30/2011	0.1066	6.5 million	55,367	0.6 million
5/2/2011	7/1/2011	7/29/2011	0.1066	7.1 million	58,829(1)	0.6 million
5/2/2011	8/1/2011	8/31/2011	0.1066	7.1 million	64,431(1)	0.6 million
5/2/2011	9/1/2011	9/30/2011	0.1066	7.2 million	52,487(1)	0.5 million
8/1/2011	10/14/2011	10/31/2011	0.1066	7.3 million	40,388(1)	0.4 million
8/1/2011	11/15/2011	11/30/2011	0.1066	7.3 million	43,034(1)	0.4 million
8/1/2011	12/13/2011	12/23/2011	0.1066	7.3 million	43,531(1)	0.4 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 expired December 31, 2011, with the Company not repurchasing any shares of its common stock pursuant to the repurchase program.

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 ("Wells Agreement"), with respect to a three-year credit facility ("Wells Fargo facility") with Wells Fargo, as successor to Wachovia Bank, National Association, Wells Fargo Securities, LLC, as administrative agent, each of the additional institutional and conduit lenders party thereto from time to time, and each of the lender agents party thereto from time to time, 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.

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. On February 28, 2011, the Company amended the Wells Fargo facility to, among other things, reduce the interest rate to LIBOR plus 3.0% per annum, with no LIBOR floor, and extend the maturity date of the facility to February 25, 2014. 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 30, 2011, the Company amended the Wells Fargo facility to, among other things, reduce the interest rate to LIBOR plus 2.75% per annum, with no LIBOR floor.

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 Wells Agreement and other documents entered into in connection with the Wells Fargo facility. Funding was formed for the sole purpose of entering into the Wells Fargo facility and has no other operations.

The Wells Agreement and related agreements governing the Wells Fargo facility required both Funding and 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 Wells 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 uses 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, 2011, the Company had $45.3 million of borrowings outstanding under the Wells Fargo facility, which borrowings had a fair value of $45.3 million.

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 allowed 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 had 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 was $90 million, and the ING facility included an accordion feature that allowed 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 the Company’s wholly-owned subsidiary, FSFC Holdings, Inc., and its indirect wholly-owned subsidiary, Fifth Street Fund of Funds LLC, subject to certain exclusions for, among other things, equity interests in any of the Company’s SBIC subsidiaries, and equity interests in Funding and Funding II (which is defined and discussed below) as further set forth in a Guarantee, Pledge and Security Agreement (“ING Security Agreement”) entered into in connection with the ING Credit Agreement, among FSFC Holdings, Inc., ING Capital LLC, as collateral agent, and the Company. Fifth Street Fund of Funds LLC and FSFC Holdings, Inc. were formed to hold certain of the Company’s portfolio companies for tax purposes and have no other operations. None of the Company’s SBIC subsidiaries, Funding or Funding II is party to the ING facility and their respective assets have not been pledged in connection therewith. The ING facility provides that the Company may use the proceeds and letters of credit under the facility for general corporate purposes, including acquiring and funding leveraged loans, mezzanine loans, high-yield securities, convertible securities, preferred stock, common stock and other investments.

On February 22, 2011, the Company amended the ING facility to, among other things, expand the borrowing capacity to $215 million. In addition, the ING facility’s accordion feature was increased to allow for potential future expansion up to a total of $300 million and the maturity date was extended to February 22, 2014. On July 8, 2011, the Company amended the ING facility to, among other things, expand the borrowing capacity to $230 million and increase the accordion feature to allow for potential future expansion up to a total of $350 million. In addition, the ING facility’s interest rate was reduced to LIBOR plus 3.0% per annum, with no LIBOR floor, when the facility is drawn more than 35%. Otherwise, the interest rate will be LIBOR plus 3.25% per annum, with no LIBOR floor.

Pursuant to the ING Security Agreement, FSFC Holdings, Inc. and Fifth Street Fund of Funds LLC guaranteed the obligations under the ING Security Agreement, including the Company’s obligations to the lenders and the administrative agent under the ING Credit Agreement. Additionally, the Company pledged its entire equity interest in FSFC Holdings, Inc. and FSFC Holdings, Inc. pledged its entire equity interest in Fifth Street Fund of Funds LLC 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., Fifth Street Fund of Funds LLC 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. On November 29, 2011, the Company amended the ING Credit Agreement to ensure that, based on the Company's estimate of taxable income for the fiscal year ended September 30, 2011, the Company would remain in compliance with the annual distribution limit provision when it finalizes its taxable income amount upon the filing of its tax return in June 2012.

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, 2011, the Company had $144.0 million of borrowings outstanding under the ING facility, which borrowings had a fair value of $144.0 million.

On September 16, 2011, Fifth Street Funding II, LLC, a consolidated wholly-owned bankruptcy remote, special purpose subsidiary ("Funding II"), entered into a Loan and Servicing Agreement ("Sumitomo Agreement") with respect to a seven-year credit facility ("Sumitomo facility") with Sumitomo Mitsui Banking Corporation ("SMBC"), an affiliate of Sumitomo Mitsui Financial Group, Inc., as administrative agent, and each of the lenders from time to time party thereto, in the amount of $200 million. The Sumitomo facility bears interest at a rate of LIBOR plus 2.25% per annum with no LIBOR floor, matures on September 16, 2018 and includes an option for a one-year extension.

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

The Sumitomo Agreement and related agreements governing the Sumitomo facility required both Funding II and the Company to, among other things (i) make representations and warranties regarding the collateral as well as each of its businesses, (ii) agree to certain indemnification obligations, and (iii) comply with various covenants, servicing procedures, limitations on acquiring and disposing of assets, reporting requirements and other customary requirements for similar credit facilities. The Sumitomo facility agreements also include usual and customary default provisions such as the failure to make timely payments under the facility, a change in control of Funding II, and the failure by Funding II or the Company to materially perform under the Sumitomo Agreement and related agreements governing the Sumitomo facility, which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting the Company's liquidity, financial condition and results of operations. Funding II was formed for the sole purpose of entering into the Sumitomo facility and has no other operations.

The Sumitomo facility is secured by all of the assets of Funding II. Each loan origination under the facility is subject to the satisfaction of certain conditions. There is no assurance that Funding II will be able to borrow funds under the Sumitomo facility at any particular time or at all. As of December 31, 2011, the Company had $20.0 million of borrowings outstanding under the Sumitomo facility, which borrowings had a fair value of $20.0 million.

As of December 31, 2011, 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, the ING facility or the Sumitomo facility.

Interest expense for the three months ended December 31, 2011 and December 31, 2010 was $5.7 million and $1.9 million, respectively.

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

Accumulated PIK interest activity for the three months ended December 31, 2011 and December 31, 2010 was as follows:

	Three months ended December 31, 2011	Three months ended December 31, 2010
PIK balance at beginning of period	$ 22,672	$ 19,301
Gross PIK interest accrued	3,672	3,384
PIK income reserves	(257)	(240)
PIK interest received in cash	(1,131)	(5,109)
PIK balance at end of period	**$ 24,956**	**$ 17,336**

As of December 31, 2011, the Company had stopped accruing cash and/or PIK interest and original issue discount ("OID") on four investments, including three that had not paid all of their scheduled cash interest payments for the period ended December 31, 2011. As of December 31, 2010, the Company had stopped accruing cash interest, PIK interest and OID on three investments that had not paid all of their scheduled cash interest payments for the period ended December 31, 2010.

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Cash non-accrual status is inclusive of PIK and other noncash income, where applicable. The percentages of the Company's portfolio investments at cost and fair value by accrual status for the periods ended December 31, 2011, September 30, 2011 and December 31, 2010 were as follows:

	December 31, 2011				September 30, 2011				December 31, 2010			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Accrual	$1,112,527	96.71%	$1,109,720	99.09%	$1,116,762	96.60%	$1,111,986	99.30%	$718,285	95.14%	$723,365	97.44%
PIK non-accrual	15,636	1.36%	4,007	0.36%	—	0.00%	—	0.00%	—	0.00%	—	0.00%
Cash non-accrual	22,256	1.93%	6,171	0.55%	39,320	3.40%	7,851	0.70%	36,679	4.86%	19,030	2.56%
Total	**$1,150,419**	**100.00%**	**$1,119,898**	**100.00%**	**$1,156,082**	**100.00%**	**$1,119,837**	**100.00%**	**$754,964**	**100.00%**	**$742,395**	**100.00%**

The non-accrual status of the Company's portfolio investments as of December 31, 2011, September 30, 2011 and December 31, 2010 was as follows:

	December 31, 2011	September 30, 2011	December 31, 2010
Lighting by Gregory, LLC	Cash non-accrual	Cash non-accrual	Cash non-accrual
MK Network, LLC	—	—	Cash non-accrual
O'Currance, Inc.	Cash non-accrual	Cash non-accrual	—
Premier Trailer Leasing, Inc.	—	Cash non-accrual	Cash non-accrual
Repechage Investments Limited	Cash non-accrual	Cash non-accrual	—
Rail Acquisition Corp.	PIK non-accrual	—	—

Income non-accrual amounts related to the above investments for the three months ended December 31, 2011 and December 31, 2010 were as follows:

	Three months ended December 31, 2011	Three months ended December 31, 2010
Cash interest income	$ 1,190	$ 2,106
PIK interest income	828	240
OID income	90	31
Total	**$ 2,108**	**$ 2,377**

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, 2011, the Company has net loss carryforwards of $11.8 million to offset net capital gains, to the extent provided by federal tax law. Of the capital loss carryforwards, $1.5 million will expire on September 30, 2017 and $10.3 million will expire on September 30, 2019. During the year ended September 30, 2011, the Company realized capital losses from the sale of investments after October 31, 2010 and prior to year end ("post-October capital losses") of $29.9 million, which for tax purposes are treated as arising on the first day of the following year.

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Listed below is a reconciliation of "net increase in net assets resulting from operations" to taxable income for the three months ended December 31, 2011.

	Three months ended December 31, 2011
Net increase in net assets resulting from operations	$ 10,184
Net change in unrealized (appreciation) depreciation	(5,833)
Book/tax difference due to deferred loan origination fees, net	(2,083)
Book/tax difference due to organizational and deferred offering costs	(22)
Book/tax difference due to interest income on certain loans	571
Book/tax difference due to capital losses not recognized	16,638
Other book-tax differences	(34)
Taxable/Distributable Income(1)	**$ 19,421**

(1) The Company's taxable income for 2012 is an estimate and will not be finally determined until the Company files its tax return for the fiscal year ended September 30, 2012. Therefore, the final taxable income may be different than the estimate.

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

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

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

The Company's Board of Directors has declared the following distributions from inception to December 31, 2011:

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	12/29/0209	$ 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
Monthly	1/30/2011	4/1/2011	4/29/2011	$ 0.1066
Monthly	1/30/2011	5/2/2011	5/31/2011	$ 0.1066
Monthly	1/30/2011	6/1/2011	6/30/2011	$ 0.1066
Monthly	5/2/2011	7/1/2011	7/29/2011	$ 0.1066
Monthly	5/2/2011	8/1/2011	8/31/2011	$ 0.1066
Monthly	5/2/2011	9/1/2011	9/30/2011	$ 0.1066
Monthly	8/1/2011	10/14/2011	10/31/2011	$ 0.1066
Monthly	8/1/2011	11/15/2011	11/30/2011	$ 0.1066
Monthly	8/1/2011	12/13/2011	12/23/2011	$ 0.1066
Monthly	11/10/2011	1/13/2012	1/31/2012	$ 0.0958
Monthly	11/10/2011	2/15/2012	2/29/2012	$ 0.0958
Monthly	11/10/2011	3/15/2012	3/30/2012	$ 0.0958

For income tax purposes, the Company estimates that its distributions for the calendar year 2012 will be composed primarily of ordinary income, and will be reflected as such on the Form 1099-DIV for the calendar year 2012. 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, 2009 and 2010, the Company incurred a de minimis federal excise tax for those calendar years. The Company does not expect to incur a federal excise tax for calendar year 2011.

Note 9. Realized Gains or Losses and Net Unrealized Appreciation or Depreciation on Investments and Interest Rate Swaps

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 or interest rate swap 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.

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

Net unrealized appreciation or depreciation on investments or interest rate swaps reflects the net change in the valuation of the portfolio pursuant to the Company's valuation guidelines and the reclassification of any prior period unrealized appreciation or depreciation.

During the three months ended December 31, 2011, the Company recorded investment realization events, including the following:

- In November 2011, the Company recorded a realized loss in the amount of $18.1 million as a result of a Delaware bankruptcy court judge ruling which confirmed a Chapter 11 plan of reorganization that provided no recovery on the Company's investment in Premier Trailer Leasing, Inc.;
- In November 2011, the Company received a cash payment of $20.2 million from IZI Medical Products, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited above par (including associated fees) and the Company received an additional $1.3 million proceeds from its equity investment, realizing a gain of $0.8 million;
- In December 2011, the Company received a cash payment of $23.0 million from ADAPCO, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited above par (including associated fees) and no realized gain or loss was recorded on this transaction;
- In December 2011, the Company received a cash payment of $2.0 million from Best Vinyl Fence & Deck, LLC in full satisfaction of all obligations related to the Term Loan A under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In December 2011, the Company received a cash payment of $9.2 million from Actient Pharmaceuticals LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In December 2011, the Company sold $4.0 million of its $10.0 million debt investment in Bojangles and no realized gain or loss was recorded on this transaction. The proceeds related to this sale had not yet been received as of December 31, 2011 and are recorded as receivables from unsettled transactions in the Consolidated Statement of Assets and Liabilities; and
- In December 2011, the Company sold $2.0 million of its $11.5 million debt investment in US Collections, Inc. and no realized gain or loss was recorded on this transaction. The proceeds related to this sale had not yet been received as of December 31, 2011 and are recorded as receivables from unsettled transactions in the Consolidated Statement of Assets and Liabilities.

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

- 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, 2011, the Company recorded net unrealized appreciation of $5.8 million. This consisted of $1.3 million of net unrealized appreciation on equity investments and $17.1 million of net reclassifications to realized losses on our investments, offset by $12.6 million of net unrealized depreciation on debt investments. During the three months ended December 31, 2010, the Company recorded net unrealized appreciation of $16.8 million. This consisted of $10.3 million of net reclassifications to realized losses on our investments, $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.

Note 10. Concentration of Credit Risks

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

Note 11. Related Party Transactions

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

Base management Fee

The base management fee is calculated at an annual rate of 2% of the Company's gross assets, which includes any borrowings for investment purposes. 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.

For the three months ended December 31, 2011 and December 31, 2010, base management fees were $5.7 million and $3.8 million, respectively. At December 31, 2011, the Company had a liability on its Consolidated Statement of Assets and Liabilities in the amount of $5.7 million reflecting the unpaid portion of the base management fee payable to the Investment Adviser.

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

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.

GAAP requires the Company to accrue for the theoretical capital gains incentive fee that would be payable after giving effect to the net realized and unrealized capital appreciation and depreciation. It should be noted that a fee so calculated and accrued would not necessarily be payable under the investment advisory agreement, and

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

may never be paid based upon the computation of capital gains incentive fees in subsequent periods. Amounts ultimately paid under the investment advisory agreement will be consistent with the formula reflected in the investment advisory agreement.

The Company does not currently accrue for capital gains incentive fees due to the accumulated realized and unrealized losses in the portfolio.

For the three months ended December 31, 2011 and December 31, 2010, incentive fees were $5.2 million and $3.5 million, respectively. At December 31, 2011, the Company had a liability on its Consolidated Statement of Assets and Liabilities in the amount of $5.2 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. Such reimbursement is at cost with no profit to, or markup by, FSC, Inc. 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, 2011, the Company accrued administration expenses of $1.1 million, including $0.3 million of general and administrative expenses, which are due to FSC, Inc. At December 31, 2011, $1.8 million (inclusive of these administration expenses) was included in Due to FSC, Inc. in the Consolidated Statement of Assets and Liabilities.

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

Note 12. Financial Highlights

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010
Net asset value at beginning of period	$ 10.07	$ 10.43
Net investment income	0.29	0.26
Net unrealized appreciation on investments and interest rate swap	0.08	0.31
Net realized loss on investments and interest rate swap	(0.23)	(0.24)
Dividends paid	(0.32)	(0.32)
Net asset value at end of period	**$ 9.89**	**$ 10.44**
Per share market value at beginning of period	$ 9.32	$ 11.14
Per share market value at end of period	$ 9.57	$ 12.14
Total return(1)	6.08%	11.93%
Common shares outstanding at beginning of period	72,376	54,550
Common shares outstanding at end of period	72,376	55,059
Net assets at beginning of period	$ 728,627	$ 569,172
Net assets at end of period	$ 715,665	$ 574,920
Average net assets(2)	$ 725,333	$ 572,151
Ratio of net investment income to average net assets(3)	11.48%	9.75%
Ratio of total expenses to average net assets(3)	10.84%	7.82%
Ratio of portfolio turnover to average investments at fair value	5.38%	2.17%
Weighted average outstanding debt(4)	$ 438,146	$ 102,678
Average debt per share	$ 6.05	$ 1.86

(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 during interim periods.

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

(3) Interim periods are annualized.

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

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 an amendment to the Company's restated certificate of incorporation to remove the Company's authority to issue shares of Series A Preferred Stock.

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

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 paid a fixed interest rate of 0.99% and received a floating rate based on the prevailing one-month LIBOR.

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.

In August 2011, the Company terminated the swap agreement and realized a loss of $1.3 million, which included a reclassification of $0.8 million of prior unrealized depreciation.

Note 15. Convertible Senior Notes

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

The Convertible Notes mature on April 1, 2016 (the “Maturity Date”), unless previously converted or repurchased in accordance with their terms. The Convertible Notes bear interest at a rate of 5.375% per year payable semiannually in arrears on April 1 and October 1 of each year, commencing on October 1, 2011. The Convertible Notes are the Company’s senior unsecured obligations and rank senior in right of payment to the Company’s existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to the Company’s existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company’s secured indebtedness (including existing unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries or financing vehicles.

Prior to the close of business on the business day immediately preceding January 1, 2016, holders may convert their Convertible Notes only under certain circumstances set forth in the Indenture, such as during specified periods when the Company’s shares of common stock trade at more than 110% of the then applicable conversion price or the Convertible Notes trade at less than 98% of their conversion value. On or after January 1, 2016 until the close of business on the business day immediately preceding the Maturity Date, holders may convert their Convertible Notes at any time. Upon conversion, the Company will deliver shares of its common stock. The conversion rate was initially, and currently is, 67.7415 shares of common stock per $1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately $14.76 per share of common stock). The conversion rate is subject to customary anti-dilution adjustments, including for any cash dividends or distributions paid on shares of the Company’s common stock in excess of a monthly dividend of $0.1066 per share, but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders. Based on the current conversion rate, the maximum number of shares of common stock that would be issued upon conversion of the $124.5 million convertible debt currently outstanding is 8,433,817. If the Company delivers shares of common stock upon a conversion at the time that net asset value per share exceeds the conversion price in effect at such time, the Company’s stockholders may incur dilution. In addition, the Company’s stockholders will experience dilution in their ownership percentage of common stock upon the issuance of common stock in connection with the conversion of the Company's convertible senior notes and any dividends paid on common stock will also be paid on shares issued in connection with such conversion after such issuance. The shares of common stock issued upon a conversion are not subject to registration rights.

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

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

During the three months ended December 31, 2011, the Company recorded interest expense of $1.9 million related to the Convertible Notes.

The Company may repurchase the Convertible Notes in accordance with the 1940 Act and the rules promulgated thereunder. Any Convertible Notes repurchased by the Company may, at the Company's option, be surrendered to the Trustee for cancellation, but may not be reissued or resold by the Company. Any Convertible Notes surrendered for cancellation will be promptly cancelled and no longer outstanding under the Indenture. During the three months ended December 31, 2011, the Company repurchased $10.5 million principal of the Convertible Notes in the open market for an aggregate purchase price of $8.9 million and surrendered them to the Trustee for cancellation. The Company recorded a gain on the extinguishment of these Convertible Notes in the amount of the difference between the reacquisition price and the net carrying amount, net of the proportionate amount of unamortized debt issuance costs. The net gain recorded was $1.3 million.

As of December 31, 2011, there were $124.5 million Convertible Notes outstanding, which had a fair value of $112.4 million.

Note 16. Subsequent Events

The Company's management evaluated subsequent events through the date of issuance of these consolidated financial statements. There have been no subsequent events that occurred during such period that would require disclosure in, or would be required to be recognized in, the Consolidated Financial Statements as of and for the three months ended December 31, 2011, except as disclosed below.

On January 26, 2012, the Company completed a follow-on public offering of 10,000,000 shares of its common stock at a net offering price of $10.07 per share. The proceeds totaled $100.7 million.

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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, 2011 and elsewhere in this quarterly report on Form 10-Q for the quarter ended December 31, 2011. 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.

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

Overview

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

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

On June 17, 2008, we completed an initial public offering of 10,000,000 shares of our common stock at the offering price of $14.12 per share. Our stock was listed on the New York Stock Exchange until November 28, 2011 when the Company transferred the listing to the NASDAQ Global Select Market, where it continues to trade 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.

On February 4, 2011, we completed a follow-on public offering of 11,500,000 shares of our common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $12.65 per share.

On April 12, 2011, we issued $152 million unsecured convertible senior notes ("Convertible Notes") which are convertible into shares of our common stock at an initial, and current, rate of 67.7415 shares of common stock per $1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately $14.76 per share of common stock).

On June 24, 2011, we completed a follow-on public offering of 5,558,469 shares of our common stock, which included the underwriters' exercise of their over-allotment option, at the offering price of $11.72 per share.

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. Although we believe that we currently have sufficient capital available to fund investments, a prolonged period of market disruptions may cause us to reduce the volume of loans we originate and/or fund, which could have an adverse effect on our business, financial condition, and results of operations. In this regard, because our common stock has at times traded at a price below our then current net asset value per share and we are limited in our ability to sell our common stock at a price below net asset value per share, we may be limited in our ability to raise equity capital.

Critical Accounting Policies

Basis of Presentation

The preparation of financial statements in accordance with 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 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 our finance department;
- 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;
- Our finance department compares and contrasts its preliminary valuations to the preliminary valuations of the independent valuation firms;
- Our finance department prepares a valuation report for the 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 our finance department 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, 2011, and September 30, 2011, 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 authorized the engagement of 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. We intend to have a portion of the portfolio valued by an independent third party on a quarterly basis, with a substantial portion being valued on an annual basis.

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 June 30, 2010	53.1%
For the quarter ending September 30, 2010	61.8%
For the quarter ending December 31, 2010	73.9%
For the quarter ending March 31, 2011	82.0%
For the quarter ending June 30, 2011	82.9%
For the quarter ending September 30, 2011	91.2%
For the quarter ending December 31, 2011	89.1%

(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

As of December 31, 2011 and September 30, 2011, approximately 91.9% and 92.6%, 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 some 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. Exit fees are payable upon the exit of a debt security. These fees are to be paid to us upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. The receipt of such fees is contingent upon the occurrence of one of the events listed above for each of the investments. A percentage of these fees is included in net investment income over the life of the loan. As of December 31, 2011, we had structured $6.3 million in aggregate exit fees across 9 portfolio investments upon the future exit of those investments.

Payment-in-Kind (PIK) Interest

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

For a discussion of risks we are subject to as a result of our use of PIK interest in connection with our investments, see "Risk Factors — Risks Relating to Our Business and Structure — We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income," "— We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive" and "— Our incentive fee may induce our investment adviser to make speculative investments" in our annual report on Form 10-K for the year ended September 30, 2011. In addition, if it is subsequently determined that we will not be able to collect any previously accrued PIK interest, the fair value of our loans or debt securities would decline by the amount of such previously accrued, but uncollectible, PIK interest. The accrual of PIK interest on our debt investments increases the recorded cost basis of these investments in our consolidated financial statements and, as a result, increases the cost basis of these investments for purposes of computing the capital gains incentive fee payable by us to our investment adviser.

To maintain our status as a RIC, PIK income must be paid out to our stockholders in the form of dividends even though we have not yet collected the cash and may never collect the cash relating to the PIK interest. Accumulated PIK interest was $25.0 million and represented 2.2% of the fair value of our portfolio of investments as of December 31, 2011 and $22.7 million or 2.0% as of September 30, 2011. The net increase in loan balances as a result of contracted PIK arrangements are separately identified in our Consolidated Statements of Cash Flows.

Portfolio Composition

Our investments principally consist of loans, purchased equity investments and equity grants in privately-held companies. Our loans are typically secured by either a first or second lien on the assets of the portfolio company, generally have terms of up to six years (but an expected average life of between three and four years). We are currently focusing our origination efforts on a prudent mix of first lien, second lien and subordinated loans which we believe will provide superior risk-adjusted returns while maintaining adequate credit protection.

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, 2011	September 30, 2011
Cost:		
First lien debt	74.34%	77.05%
Second lien debt	12.84%	13.97%
Subordinated debt	11.16%	7.40%
Purchased equity	1.04%	0.97%
Equity grants	0.49%	0.53%
Limited partnership interests	0.13%	0.08%
Total	**100.00%**	**100.00%**

	December 31, 2011	September 30, 2011
Fair value:		
First lien debt	74.51%	78.14%
Second lien debt	12.47%	12.80%
Subordinated debt	11.05%	7.25%
Purchased equity	1.29%	1.12%
Equity grants	0.56%	0.60%
Limited partnership interests	0.12%	0.09%
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, 2011	September 30, 2011
Cost:		
Healthcare services	20.52%	19.65%
Healthcare equipment	7.24%	6.16%
Oil & gas equipment & services	7.15%	7.11%
Diversified support services	4.49%	4.80%
Internet software & services	4.23%	3.79%
IT consulting & other services	4.17%	4.23%
Pharmaceuticals	4.02%	2.36%
Construction and engineering	3.85%	3.74%
Leisure facilities	3.23%	3.29%
Electronic equipment & instruments	3.06%	3.01%
Specialty stores	2.99%	2.99%
Education services	2.75%	2.57%
Household products	2.66%	2.70%
Apparel, accessories & luxury goods	2.59%	2.68%
Advertising	2.57%	1.72%
Home improvement retail	2.42%	2.42%
Diversified financial services	2.16%	1.15%
Integrated telecommunication services	1.92%	2.25%
Industrial machinery	1.80%	0.90%
Electronic manufacturing services	1.77%	1.75%
Human resources & employment services	1.76%	1.77%
Auto parts & equipment	1.65%	1.63%
Distributors	1.63%	1.61%
Food distributors	1.61%	1.80%
Air freight & logistics	1.57%	1.56%
Environmental & facilities services	1.42%	1.41%
Leisure products	1.20%	1.17%

	December 31, 2011	September 30, 2011
Data processing & outsourced services	1.11%	1.10%
Restaurants	0.85%	1.21%
Construction materials	0.59%	0.58%
Housewares & specialties	0.46%	0.46%
Building products	0.41%	0.58%
Multi-sector holdings	0.13%	0.09%
Movies & entertainment	0.02%	0.02%
Fertilizers & agricultural chemicals	0.00%	2.49%
Healthcare technology	0.00%	1.77%
Trucking	0.00%	1.48%
Total	**100.00%**	**100.00%**
Fair Value:		
Healthcare services	21.49%	20.67%
Healthcare equipment	7.47%	6.42%
Oil & gas equipment & services	7.43%	7.38%
Diversified support services	4.70%	5.02%
Internet software & services	4.33%	3.91%
IT consulting & other services	4.32%	4.42%
Pharmaceuticals	4.16%	2.46%
Leisure facilities	3.34%	3.43%
Specialty stores	3.15%	3.14%
Electronic equipment & instruments	3.12%	3.11%
Education services	2.90%	2.69%
Apparel, accessories & luxury goods	2.90%	3.00%
Advertising	2.69%	1.80%
Household products	2.68%	2.67%
Construction and engineering	2.54%	3.20%
Home improvement retail	2.22%	2.46%
Diversified financial services	2.22%	1.19%
Integrated telecommunication services	1.98%	2.36%
Environmental & facilities services	1.93%	1.78%
Industrial machinery	1.90%	0.97%
Human resources & employment services	1.86%	1.87%
Distributors	1.72%	1.69%
Food distributors	1.69%	1.88%
Auto parts & equipment	1.68%	1.70%
Air freight & logistics	1.48%	1.54%
Leisure products	1.25%	1.22%
Electronic manufacturing services	0.78%	0.77%
Restaurants	0.68%	1.06%
Construction materials	0.63%	0.61%
Building products	0.23%	0.43%
Data processing & outsourced services	0.19%	0.31%
Housewares & specialties	0.19%	0.23%
Multi-sector holdings	0.13%	0.11%
Movies & entertainment	0.02%	0.02%
Fertilizers & agricultural chemicals	0.00%	2.61%
Healthcare technology	0.00%	1.87%
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. In the current period, we have determined that there should be an individual rating assigned to each tranche of securities in the same portfolio company where appropriate. This may arise when the perceived risk of loss on the investment varies significantly between tranches due to their respective seniority in the capital structure.

- Investment 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, 2011 and September 30, 2011:

	December 31, 2011			September 30, 2011		
	Fair Value	Percentage of Total Portfolio	Leverage Ratio	Fair Value	Percentage of Total Portfolio	Leverage Ratio
1	$ 157,514	14.07%	2.67	$ 81,335	7.26%	3.16
2	941,289	84.05%	3.95	1,021,990	91.26%	3.87
3	—	0.00%	—	8,660	0.77%	NM (1)
4	10,917	0.97%	NM (1)	—	0.00%	—
5	10,178	0.91%	NM (1)	7,852	0.71%	NM (1)
Total	**$ 1,119,898**	**100.00%**	**3.86**	**$ 1,119,837**	**100.00%**	**3.82**

(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, 2011, we had modified the payment terms of our investments in 10 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, 2011, we had stopped accruing cash and/or PIK interest and original issue discount ("OID") on four investments, three of which had not paid all of their scheduled cash interest payments for the period ended December 31, 2011. As of December 31, 2010, we had stopped accruing cash interest, PIK interest and OID on three investments that had not paid all of their scheduled cash interest payments.

Cash non-accrual status is inclusive of PIK and other noncash income, where applicable. The percentage of our portfolio investments at cost and fair value by accrual status for the periods ended December 31, 2011, September 30, 2011 and December 31, 2010 was as follows:

	December 31, 2011				September 30, 2011				December 31, 2010			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Accrual	$1,112,527	96.71%	$1,109,720	99.09%	$1,116,762	96.60%	$1,111,986	99.30%	$718,285	95.14%	$723,365	97.44%
PIK non-accrual	15,636	1.36%	4,007	0.36%	—	0.00%	—	0.00%	—	0.00%	—	0.00%
Cash non-accrual	22,256	1.93%	6,171	0.55%	39,320	3.40%	7,851	0.70%	36,679	4.86%	19,030	2.56%
Total	**$1,150,419**	**100.00%**	**$1,119,898**	**100.00%**	**$1,156,082**	**100.00%**	**$1,119,837**	**100.00%**	**$754,964**	**100.00%**	**$742,395**	**100.00%**

The non-accrual status of our portfolio investments as of December 31, 2011, September 30, 2011 and December 31, 2010 was as follows:

	December 31, 2011	September 30, 2011	December 31, 2010
Lighting by Gregory, LLC	Cash non-accrual	Cash non-accrual	Cash non-accrual
MK Network, LLC	—	—	Cash non-accrual
O'Currance, Inc.	Cash non-accrual	Cash non-accrual	—
Premier Trailer Leasing, Inc.	—	Cash non-accrual	Cash non-accrual
Repechage Investments Limited	Cash non-accrual	Cash non-accrual	—
Rail Acquisition Corp.	PIK non-accrual	—	—

Income non-accrual amounts related to the above investments for the three months ended December 31, 2011 and December 31, 2010 were as follows:

	Three months ended December 31, 2011	Three months ended December 31, 2010
Cash interest income	$ 1,190	$ 2,106
PIK interest income	828	240
OID income	90	31
Total	**$ 2,108**	**$ 2,377**

Discussion and Analysis of Results and Operations

Results of Operations

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

Comparison of the three months ended December 31, 2011 and December 31, 2010

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.

Total investment income for the three months ended December 31, 2011 and December 31, 2010 was $39.5 million and $25.3 million, respectively. For the three months ended December 31, 2011, this amount primarily consisted of $33.5 million of interest income from portfolio investments (which included $3.4 million of PIK interest) and $6.0 million of fee income. 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.

The increase in our total investment income for the three months ended December 31, 2011 as compared to the three months ended December 31, 2010 was primarily attributable to a higher average level of outstanding debt investments, which was principally due to a net increase of 19 debt investments in our portfolio, partially offset by scheduled amortization repayments received and other debt payoffs and a decrease in the weighted average yield on our debt investments from 13.16% to 12.27% during the year-over-year period.

Expenses

Expenses for the three months ended December 31, 2011 and December 31, 2010 were $19.8 million and $11.3 million, respectively. Expenses increased for the three months ended December 31, 2011 as compared to the three months ended December 31, 2010 by $8.5 million. This was due primarily to increases in:

- Base management fee, which was attributable to a 50.8% increase in the fair value of the investment portfolio due to an increase in new investment originations and fundings in the year-over-year period;
- Incentive fee, which was attributable to a 49.3% increase in pre-incentive fee net investment income for the year-over-year period; and
- Interest expense, which was attributable to a 326.7% increase in weighted average debt outstanding for the year-over-year period. The significant increase in debt outstanding for the three months ended December 31, 2011 as compared to the three months ended December 31, 2010 is attributable to our ability to obtain attractively priced debt to finance our investment operations.

Gain on Extinguishment of Convertible Senior Notes

During the three months ended December 31, 2011, we repurchased $10.5 million of our Convertible Notes in the open market and surrendered them to the Trustee for cancellation. The aggregate purchase price of these Convertible Notes was $8.9 million. As such we recorded a gain in the amount of the difference between the reacquisition price and the net carrying amount of these Convertible Notes, net of the proportionate amount of unamortized debt issuance costs. The net gain on extinguishment of debt we recorded was $1.3 million. Because this net gain was included in the amount that must be distributed to our stockholders in order for us to maintain our RIC status and is classified as a component of net investment income in our Consolidated Statements of Operations, such net gain was included in “Pre-Incentive Fee Net Investment Income” for purposes of the payment of the income incentive fee to the Investment Adviser under our investment advisory agreement.

Net Investment Income

As a result of the $14.2 million increase in total investment income and the $1.3 million gain on extinguishment of debt, as compared to the $8.5 million increase in total expenses, net investment income for the three months ended December 31, 2011 reflected a $6.9 million, or 49.3%, increase compared to the three months ended December 31, 2010.

Realized Gain (Loss) on Investments and Interest Rate Swap

Realized gain (loss) is the difference between the proceeds received from dispositions of portfolio investments and interest rate swaps 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, 2011, we recorded investment realization events, including the following:

- In November 2011, we recorded a realized loss in the amount of $18.1 million as a result of a Delaware bankruptcy court judge ruling which confirmed a Chapter 11 plan of reorganization that provided no recovery on our investment in Premier Trailer Leasing, Inc.;
- In November 2011, we received a cash payment of $20.2 million from IZI Medical Products, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited above par (including associated fees) and we received an additional $1.3 million proceeds from our equity investment, realizing a gain of $0.8 million;
- In December 2011, we received a cash payment of $23.0 million from ADAPCO, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited above par (including associated fees) and no realized gain or loss was recorded on this transaction;
- In December 2011, we received a cash payment of $2.0 million from Best Vinyl Fence & Deck, LLC in full satisfaction of all obligations related to the Term Loan A under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In December 2011, we received a cash payment of $9.2 million from Actient Pharmaceuticals LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In December 2011, we sold $4.0 million of our $10.0 million debt investment in Bojangles and no realized gain or loss was recorded on this transaction. The proceeds related to this sale had not yet been received as of December 31, 2011 and are recorded as receivables from unsettled transactions in the Consolidated Statement of Assets and Liabilities; and
- In December 2011, we sold $2.0 million of our $11.5 million debt investment in US Collections, Inc. and no realized gain or loss was recorded on this transaction. The proceeds related to this sale had not yet been received as of December 31, 2011 and are recorded as receivables from unsettled transactions in the Consolidated Statement of Assets and Liabilities.

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

- In October 2010, we 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, we 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, we restructured our investment in Vanguard Vinyl, Inc. The restructuring 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. The restructuring 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 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, we 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, we restructured our investment in Lighting by Gregory, LLC. The restructuring resulted in a material modification of the terms of the loan agreement. As such, we recorded a realized loss in the amount of $7.8 million in accordance with ASC 470-50.

Net Unrealized Appreciation or Depreciation on Investments and Interest Rate Swap

Net unrealized appreciation or depreciation is the net change in the fair value of our investments and interest rate swap 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, 2011, we recorded net unrealized appreciation of $5.8 million. This consisted of $1.3 million of net unrealized appreciation on equity investments and $17.1 million of net reclassifications to realized losses on our investments, offset by $12.6 million of net unrealized depreciation on debt investments. During the three months ended December 31, 2010, we recorded net unrealized appreciation of $16.8 million. This consisted of $10.3 million of net reclassifications to realized losses on our investments, $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 our interest rate swap.

Financial Condition, Liquidity and Capital Resources

Cash Flows

We have a number of alternatives available to fund the growth of our investment portfolio and our operations, including, but not limited to, raising equity, increasing debt and funding from operational cash flow. Additionally, we may reduce investment size by syndicating a portion of any given transaction. We intend to fund our future distribution obligations through operating cash flow or with funds obtained through future equity and debt offerings or credit facilities, as we deem appropriate.

For the three months ended December 31, 2011, we experienced a net increase in cash and cash equivalents of $2.7 million. During that period, we had $4.0 million of cash provided by operating activities, primarily from $73.0 million of principal payments, PIK payments and sale proceeds received and $21.0 million of net investment income, offset by the funding of $84.5 million of investments and net revolvers. During the same period cash used by financing activities was $1.3 million, primarily consisting of $23.1 million of cash dividends paid, $8.9 million of net repurchases of our convertible senior notes, $0.3 million of offering costs paid and $0.2 million of deferred financing costs paid, partially offset by $31.2 million of net borrowings under our credit facilities.

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 $234.7 million of investments and net revolvers, partially offset by $58.8 million of principal and PIK 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.

As of December 31, 2011, we had $70.3 million in cash and cash equivalents, portfolio investments (at fair value) of $1.1 billion, $6.9 million of interest and fees receivable, $6.0 million of receivables from unsettled transactions, $150.0 million of SBA debentures payable, $209.3 million of borrowings outstanding under our credit facilities, $124.5 million of convertible senior notes payable and unfunded commitments of $101.1 million.

As of September 30, 2011, we had $67.6 million in cash and cash equivalents, portfolio investments (at fair value) of $1.1 billion, $6.8 million of interest and fees receivable, $150.0 million of SBA debentures payable, $178.0 million of borrowings outstanding under our credit facilities, $135.0 million of convertible senior notes payable and unfunded commitments of $108.8 million.

Other Sources of Liquidity

We intend to continue to generate cash primarily from cash flows from operations, including interest earned, future borrowings and future offerings of securities. 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, 2011, we were in compliance with this requirement. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing, such as the maturity, covenant package and rate structure of the proposed borrowings, our ability to raise funds through the issuance of shares of our common stock and the risks of such borrowings within the context of our investment outlook. Ultimately, we only intend to use leverage if the expected returns from borrowing to make investments will exceed the cost of such borrowing. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

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 at the time of issuance at a market-driven spread over U.S. Treasury Notes with 10-year maturities.

SBA regulations currently limit the amount that our SBIC subsidiary may borrow 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, 2011, 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 $150.0 million of SBA debentures were outstanding as of December 31, 2011 that had a fair value of $113.4 million. These debentures bear interest at a weighted average interest rate of 3.567% (excluding the SBA annual charge), as follows:

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

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 definition of senior securities in the 200% asset coverage test under the 1940 Act. This allows us increased flexibility under the 200% asset coverage test by permitting us to borrow up to $150 million more than we would otherwise be able to absent the receipt of this exemptive relief.

We have also submitted an application to the SBA for a second SBIC license. On May 27, 2011, we received a letter from the Investment Division of the SBA that invited us to continue moving forward with this application. 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. If we are able to successfully obtain such an additional SBIC license, we would have similar relief from the 200% asset coverage ratio limitation as described above with respect to the SBIC debt securities issued by such SBIC subsidiary.

Significant capital transactions that occurred since October 1, 2010

The following table reflects the dividend distributions per share that our Board of Directors has declared and we have paid, including shares issued under our DRIP, on our common stock since October 1, 2010:

Date Declared	Record Date	Payment Date	Amount per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
November 30, 2010	January 4, 2011	January 31, 2011	0.1066	5.4 million	36,038	0.5 million
November 30, 2010	February 1, 2011	February 28, 2011	0.1066	5.5 million	29,072	0.4 million
November 30, 2010	March 1, 2011	March 31, 2011	0.1066	6.5 million	43,766	0.6 million
January 30, 2011	April 1, 2011	April 29, 2011	0.1066	6.5 million	45,193	0.6 million
January 30, 2011	May 2, 2011	May 31, 2011	0.1066	6.5 million	48,870	0.6 million
January 30, 2011	June 1, 2011	June 30, 2011	0.1066	6.5 million	55,367	0.6 million
May 2, 2011	July 1, 2011	July 29, 2011	0.1066	7.1 million	58,829	0.6 million
May 2, 2011	August 1, 2011	August 31, 2011	0.1066	7.1 million	64,431	0.6 million
May 2, 2011	September 1, 2011	September 30, 2011	0.1066	7.2 million	52,487	0.5 million
August 1, 2011	October 14, 2011	October 31, 2011	0.1066	7.3 million	40,388(1)	0.4 million
August 1, 2011	November 15, 2011	November 30, 2011	0.1066	7.3 million	43,034(1)	0.4 million
August 1, 2011	December 13, 2011	December 23, 2011	0.1066	7.3 million	43,531(1)	0.4 million
November 11, 2011	January 13, 2012	January 31, 2012	0.0958	6.6 million	29,902(1)	0.3 million

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

The following table reflects share transactions that occurred from October 1, 2010 through December 31, 2011:

Date	Transaction	Shares	Share Price	Gross Proceeds
December 2010	At-the-market offering	429,110	11.87(3)	5.1 million
February 4, 2011	Public offering(1)	11,500,000	12.65	145.5 million
June 24, 2011	Public offering(2)	5,558,469	11.72	65.1 million

(1) Includes the underwriters' full exercise of their over-allotment option
(2) Includes the underwriters' partial exercise of their over-allotment option
(3) Average offering price

Borrowings

On November 16, 2009, we and Fifth Street Funding, LLC, a consolidated wholly-owned bankruptcy remote special purpose subsidiary ("Funding"), entered into a Loan and Servicing Agreement ("Wells Agreement") with respect to a 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.

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 February 28, 2011, we amended the Wells Fargo facility to, among other things, reduce the interest rate to LIBOR plus 3.0% per annum, with no LIBOR floor, and extend the maturity date of the facility to February 25, 2014. 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 30, 2011, we amended the Wells Fargo facility to, among other things, reduce the interest rate to LIBOR plus 2.75% per annum, with no LIBOR floor.

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 Wells Agreement and other documents entered into in connection with the Wells Fargo facility. Funding was formed for the sole purpose of entering into the Wells Fargo facility and has no other operations.

The Wells Agreement and related agreements governing the Wells Fargo facility required both Funding and us to, among other things (i) make representations and warranties regarding the collateral as well as each of our businesses, (ii) agree to certain indemnification obligations, and (iii) comply with various covenants, servicing procedures, limitations on acquiring and disposing of assets, reporting requirements and other customary requirements for similar credit facilities. 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 Wells 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 use 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, 2011, we had $45.3 million of borrowings outstanding under the Wells Fargo facility, which borrowings had a fair value of $45.3 million.

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 allowed 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 had a maturity date of May 27, 2013. The ING facility also allowed us to request letters of credit from ING Capital LLC, as the issuing bank. The initial commitment under the ING facility was $90 million, and the ING facility included 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 our wholly-owned subsidiary, FSFC Holdings, Inc., and our indirect wholly-owned subsidiary, Fifth Street Fund of Funds LLC, subject to certain exclusions for, among other things, equity interests in any of our SBIC subsidiaries and equity interests in Funding and Fifth Street Funding II, LLC as further set forth in a Guarantee, Pledge and Security Agreement ("ING Security Agreement") entered into in connection with the ING Credit Agreement, among FSFC Holdings, Inc., ING Capital LLC, as collateral agent, and us. Fifth Street Fund of Funds LLC and FSFC Holdings, Inc. were formed to hold certain of our portfolio companies for tax purposes and have no other operations. None of our SBIC subsidiaries Funding, Fifth Street Funding II, LLC is party to the ING facility and their respective assets have not been pledged in connection therewith. The ING facility provides that we may use the proceeds and letters of credit under the facility for general corporate purposes, including acquiring and funding leveraged loans, mezzanine loans, high-yield securities, convertible securities, preferred stock, common stock and other investments.

On February 22, 2011, we amended the ING facility to, among other things, expand the borrowing capacity to $215 million. In addition, the ING facility's accordion feature was increased to allow for potential future expansion up to a total of $300 million and the maturity date was extended to February 22, 2014. On July 8, 2011, we amended the ING facility to, among other things, expand the borrowing capacity to $230 million and increase the accordion feature to allow for potential future expansion up to a total of $350 million. In addition, the ING facility's interest rate was reduced to LIBOR plus 3.0% per annum, with no LIBOR floor, when the facility is drawn more than 35%. Otherwise, the interest rate will be LIBOR plus 3.25% per annum, with no LIBOR floor.

Pursuant to the ING Security Agreement, FSFC Holdings, Inc. and Fifth Street Fund of Funds LLC guaranteed the obligations under the ING Security Agreement, including our obligations to the lenders and the administrative agent under the ING Credit Agreement. Additionally, we pledged our entire equity interest in FSFC Holdings, Inc. and FSFC Holdings, Inc. pledged its entire equity interest in Fifth Street Fund of Funds LLC 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., Fifth Street Fund of Funds LLC 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. On November 29, 2011, we amended the ING Credit Agreement to ensure that, based on our estimate of taxable income for the fiscal year ended September 30, 2011, we would remain in compliance with the annual distribution limit provision when we finalize our taxable income amount upon the filing of our tax return in June 2012.

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, 2011, we had $144.0 million of borrowings outstanding under the ING facility, which borrowings had a fair value of $144.0 million.

On September 16, 2011, Fifth Street Funding II, LLC, a consolidated wholly-owned bankruptcy remote, special purpose subsidiary ("Funding II"), entered into a Loan and Servicing Agreement ("Sumitomo Agreement") with respect to a seven-year credit facility ("Sumitomo facility") with Sumitomo Mitsui Banking Corporation ("SMBC"), an affiliate of Sumitomo Mitsui Financial Group, Inc., as administrative agent, and each of the lenders from time to time party thereto, in the amount of $200 million. The Sumitomo facility bears interest at a rate of LIBOR plus 2.25% per annum with no LIBOR floor, matures on September 16, 2018 and includes an option for a one-year extension.

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

The Sumitomo Agreement and related agreements governing the Sumitomo facility required both Funding II and us to, among other things (i) make representations and warranties regarding the collateral as well as each of our businesses, (ii) agree to certain indemnification obligations, and (iii) comply with various covenants, servicing procedures, limitations on acquiring and disposing of assets, reporting requirements and other customary requirements for similar credit facilities. The Sumitomo facility agreements also include usual and customary default provisions such as the failure to make timely payments under the facility, a change in control of Funding II, and the failure by Funding II or us to materially perform under the Sumitomo Agreement and related agreements governing the Sumitomo facility, which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations. Funding II was formed for the sole purpose of entering into the Sumitomo facility and has no other operations.

The Sumitomo facility is secured by all of the assets of Funding II. Each loan origination under the facility is subject to the satisfaction of certain conditions. We cannot be assured that Funding II will be able to borrow funds under the Sumitomo facility at any particular time or at all. As of December 31, 2011, we had $20.0 million of borrowings outstanding under the Sumitomo facility, which borrowings had a fair value of $20.0 million.

As of December 31, 2011, except for assets that were funded through our SBIC subsidiary, substantially all of our assets were pledged as collateral under the Wells Fargo facility, ING facility or the Sumitomo facility.

Interest expense for the three months ended December 31, 2011 and 2010 was $5.7 million and $1.9 million, respectively.

The following table describes significant financial covenants with which we must comply under each of our credit facilities on a quarterly basis. The Sumitomo facility does not require us to comply with significant financial covenants.

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 $510 million plus 50% of the aggregate net proceeds of all sales of equity interests after February 25, 2011	$541 million	$729 million
	Minimum shareholders' equity (exclusive of affiliates)	Net assets exclusive of affiliates other than Funding shall not be less than $250 million	$250 million	$637 million
	Asset coverage ratio	Asset coverage ratio shall not be less than 2.00:1	2.00:1	3.33:1
ING facility	Minimum shareholders' equity	Net assets shall not be less than the greater of (a) 55% of total assets; and (b) $510 million plus 50% of the aggregate net proceeds of all sales of equity interests after February 22, 2011	$665 million	$729 million
	Asset coverage ratio	Asset coverage ratio shall not be less than 2.25:1	2.25:1	3.33:1
	Interest coverage ratio	Interest coverage ratio shall not be less than 2.50:1	2.50:1	9.83:1
	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	$728 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, 2011. We were also in compliance with all financial covenants under these credit facilities based on the financial information contained in this Form 10-Q for the quarter ended December 31, 2011.

We and our SBIC subsidiary are also subject to certain regulatory requirements relating to our borrowings. For a discussion of such requirements, see "Item 1. Business — Regulation — Business Development Company Regulations" and "— Small Business Investment Company Regulations" in our Annual Report on Form 10-K for the year ended September 30, 2011.

The following table reflects credit facility and debenture transactions that occurred from October 1, 2009 through December 31, 2011. Amounts available and drawn are as of December 31, 2011:

Facility	Date	Transaction	Total Facility Amount	Upfront fee Paid	Total Facility Availability	Amount Drawn	Remaining Availability	Interest Rate
Wells Fargo facility	11/16/2009	Entered into credit facility	$ 50 million	$0.8 million				LIBOR + 4.00%
	5/26/2010	Expanded credit facility	100 million	0.9 million				LIBOR + 3.50%
	2/28/2011	Amended credit facility	100 million	0.4 million				LIBOR + 3.00%
	11/30/2011	Amended credit facility	100 million	—	$ 45 million(1)	$ 45 million	$ —	LIBOR + 2.75%
ING facility	5/27/ 2010	Entered into credit facility	90 million	0.8 million				LIBOR + 3.50%
	2/22/ 2011	Expanded credit facility	215 million	1.6 million				LIBOR + 3.50%
	7/8/ 2011	Expanded credit facility	230 million	0.4 million	230 million	144 million	86 million	LIBOR + 3.00%/3.25%(2)
SBA	2/16/ 2010	Received capital commitment	75 million	0.8 million				
	9/21/ 2010	Received capital commitment	150 million	0.8 million	150 million	150 million	—	3.567%(3)
Sumitomo facility	9/16/2011	Entered into credit facility	200 million	2.5 million	29 million(1)	20 million	9 million	LIBOR + 2.25%

(1) Availability to increase upon our decision to further collateralize the facility.
(2) LIBOR plus 3.0% when the facility is drawn more than 35%. Otherwise, LIBOR plus 3.25%.
(3) Weighted average interest rate of 3.567% (excludes the SBA annual charge of 0.285%).

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

The Convertible Notes mature on April 1, 2016 (the “Maturity Date”), unless previously converted or repurchased in accordance with their terms. The Convertible Notes bear interest at a rate of 5.375% per year payable semiannually in arrears on April 1 and October 1 of each year, commencing on October 1, 2011. The Convertible Notes are our senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries or financing vehicles.

Prior to the close of business on the business day immediately preceding January 1, 2016, holders may convert their Convertible Notes only under certain circumstances set forth in the Indenture, such as during specified periods when our shares of common stock trade at more than 110% of the then applicable conversion price or the Convertible Notes trade at less than 98% of their conversion value. On or after January 1, 2016 until the close of business on the business day immediately preceding the Maturity Date, holders may convert their Convertible Notes at any time. Upon conversion, we will deliver shares of our common stock. The conversion rate was initially, and currently is, 67.7415 shares of common stock per $1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately $14.76 per share of common stock). The conversion rate is subject to customary anti-dilution adjustments, including for any cash dividends or distributions paid on shares of our common stock in excess of a monthly dividend of $0.1066 per share, but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders. Based on the current conversion rate, the maximum number of shares of common stock that would be issued upon conversion of the $124.5 million convertible debt currently outstanding is 8,433,817. If we deliver shares of common stock upon a conversion at the time our net asset value per share exceeds the conversion price in effect at such time, our stockholders may incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of our common stock upon our issuance of common stock in connection with the conversion of our convertible senior notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance. The shares of common stock issued upon a conversion are not subject to registration rights.

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

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

For the three months ended December 31, 2011, we recorded interest expense of $1.9 million related to the Convertible Notes.

We may repurchase the Convertible Notes in accordance with the 1940 Act and the rules promulgated thereunder. Any Convertible Notes repurchased by us may, at our option, be surrendered to the Trustee for cancellation, but may not be reissued or resold by us. Any Convertible Notes surrendered for cancellation will be promptly cancelled and no longer outstanding under the Indenture. During the three months ended December 31, 2011, we repurchased $10.5 million principal of the Convertible Notes in the open market for an aggregate purchase price of $8.9 million and surrendered them to the Trustee for cancellation.

As of December 31, 2011, there were $124.5 million Convertible Notes outstanding, which had a fair value of $112.4 million.

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, 2011, our only off-balance sheet arrangements consisted of $101.1 million of unfunded commitments, which was comprised of $94.5 million to provide debt financing to certain of our portfolio companies and $6.6 million related to unfunded limited partnership interests. As of September 30, 2011, our only off-balance sheet arrangements consisted of $108.8 million, which was comprised of $102.7 million to provide debt financing to certain of our portfolio companies and $6.1 million related to unfunded limited partnership interests. Such commitments are subject to our portfolio companies' satisfaction of certain financial and nonfinancial convenants and 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.

A summary of the composition of unfunded commitments (consisting of revolvers, term loans and limited partnership interests) as of December 31, 2011 and September 30, 2011 is shown in the table below:

	December 31, 2011	September 30, 2011
CRGT, Inc.	$ 12,500	$ 12,500
JTC Education, Inc.	11,775	14,000
Charter Brokerage, LLC	5,588	6,176
Refac Optical Group	5,500	5,500
Rail Acquisition Corp.	5,309	5,446
Miche Bag, LLC	5,000	5,000
Dominion Diagnostics, LLC	5,000	5,000
Enhanced Recovery Company, LLC	4,000	4,000
DISA, Inc.	4,000	4,000
Specialty Bakers, LLC	4,000	2,000
Titan Fitness, LLC	3,500	2,957
Phoenix Brands Merger Sub LLC	3,429	3,000
Epic Acquisition, Inc.	3,000	3,000
Discovery Practice Management, Inc.	3,000	3,000
Traffic Control & Safety Corporation.	2,514	3,014
Eagle Hospital Physicians, Inc.	2,500	2,500
HealthDrive Corporation	2,000	2,000
Mansell Group, Inc.	2,000	2,000
Physicians Pharmacy Alliance, Inc.	2,000	2,000
Cardon Healthcare Network, LLC	2,000	2,000
Milestone Partners IV, LP (limited partnership interest)	2,000	2,000
Tegra Medical, LLC	1,500	1,500
IOS Acquisitions, Inc.	1,000	1,250
Psilos Group Partners IV, LP (limited partnership interest)	1,000	1,000
CPASS Acquisition Company	1,000	—
Bunker Hill Capital II (QP), LP (limited partnership interest)	946	960
Genoa Healthcare Holdings, LLC	842	—
Riverlake Equity Partners II, LP (limited partnership interest)	760	878
Welocalize, Inc.	750	750
RCPDirect, LP (limited partnership interest)	740	—
Baird Capital Partners V, LP (limited partnership interest)	614	701
Riverside Fund IV, LP (limited partnership interest)	517	555
Saddleback Fence and Vinyl Products, Inc.	400	400
Advanced Pain Management	400	267
Best Vinyl Fence & Deck, LLC	—	1,000
Trans-Trade, Inc.	—	200
ADAPCO, Inc.	—	4,250
IZI Medical Products, Inc.	—	2,500
Flatout, Inc.	—	1,500
Total	**$ 101,084**	**$ 108,804**

Contractual Obligations

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

	Debt Outstanding as of September 30, 2011	Debt Outstanding as of December 31, 2011	Weighted average debt outstanding for the three months ended December 31, 2011	Maximum debt outstanding for the three months ended December 31, 2011
SBA debentures payable	$ 150,000	$ 150,000	$ 150,000	$ 150,000
Wells Fargo facility	39,524	45,269	38,727	$ 45,269
ING facility	133,500	144,000	109,837	$ 145,000
Sumitomo facility	5,000	20,000	13,054	$ 26,000
Convertible senior notes payable	135,000	124,500	126,528	$ 135,000
Total debt	**$ 463,024**	**$ 483,769**	**$ 438,146**	**$ 490,769**

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

	Payments due by period as of December 31, 2011				
	Total	< 1 year	1-3 years	3-5 years	> 5 years
SBA debentures payable	$150,000	$ —	$ —	$ —	$ 150,000
Interest due on SBA debentures	53,813	5,773	11,556	11,572	24,912
Wells Fargo facility	45,269	—	45,269	—	—
Interest due on Wells Fargo facility	2,972	1,379	1,593	—	—
ING facility	144,000	—	144,000	—	—
Interest due on ING facility	10,246	4,770	5,476	—	—
Sumitomo facility	20,000	—	—	—	20,000
Interest due on Sumitomo facility	3,738	557	1,113	1,113	955
Convertible senior notes payable	124,500	—	—	124,500	—
Interest due on convertible senior notes	28,473	6,692	13,384	8,397	—
Total	**$ 583,011**	**$ 19,171**	**$ 222,391**	**$ 145,582**	**$ 195,867**

Regulated Investment Company Status and Dividends

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

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

To maintain RIC tax treatment, we must, among other things, distribute, with respect to each taxable year, at least 90% of our investment company net taxable income (i.e., our net ordinary income and our realized net short-term capital gains in excess of realized net long-term capital losses, if any). As a RIC, we are also subject to a federal excise tax, based on 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 incurred a de minimis U.S. federal excise tax for calendar years 2008, 2009 and 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, we are 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.

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

Related Party Transactions

We have entered into an investment advisory agreement with Fifth Street Management LLC, our investment adviser. Fifth Street Management 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 excludes cash and cash equivalents, and (b) an incentive fee based on our performance. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our "Pre-Incentive Fee Net Investment Income" for the immediately preceding quarter, subject to a preferred return, or "hurdle," and a "catch up" feature. The second part is determined and payable in arrears as of the end of each fiscal year (or upon termination of the investment advisory agreement) and equals 20% of our "Incentive Fee Capital Gains," which equals our realized capital gains on a cumulative basis from inception through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee.

The investment advisory agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. During the three months ended December 31, 2011 and 2010, we have paid our investment adviser $11.0 million and $7.3 million, respectively, under the investment advisory agreement.

Pursuant to the administration agreement with FSC, Inc., which is controlled by Mr. Tannenbaum, FSC, Inc. will furnish us with the facilities and administrative services necessary to conduct our day-to-day operations, including equipment, clerical, bookkeeping and recordkeeping services at such facilities. In addition, FSC, Inc. will assist us in connection with the determination and publishing of our net asset value, the preparation and filing of tax returns and the printing and dissemination of reports to our stockholders. We will reimburse FSC, Inc. the 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. Such reimbursement is at cost with no profit to, or markup by, FSC, Inc. 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. We have paid FSC, Inc. $1.1 million and $0.8 million during the three months ended December 31, 2011 and 2010 and, respectively, under the administration agreement.

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

Recent Developments

On January 26, 2012, we completed a follow-on public offering of 10,000,000 shares of our common stock at a net offering price of $10.07 per share. The proceeds totaled $100.7 million.

On February 7, 2012, our Board of Directors declared the following dividends:

- $0.0958 per share, payable on April 30, 2012 to stockholders of record on April 13, 2012;
- $0.0958 per share, payable on May 31, 2012 to stockholders of record on May 15, 2012; and
- $0.0958 per share, payable on June 29, 2012 to stockholders of record on June 15, 2012.

At our upcoming annual meeting of shareholders to be held in April 2012, we intend to seek shareholder approval to amend our investment advisory agreement to reduce the "hurdle rate" required for our investment adviser to earn, and be paid, the income incentive fee. Specifically, the amendment would reduce the quarterly hurdle rate used in calculating the income-related portion of our investment adviser's incentive fee from 2.0% (or 8.0% annually) to 1.75% (or 7.0% annually) and adjust the related quarterly catch-up hurdle rate from 2.5% to 2.1875% (or from 10.0% to 8.75% annually). If the amendment goes into effect and remains in effect, it would permanently increase the probability that our investment adviser will receive an income incentive fee earlier, and in higher amounts, than it would have received under the current investment advisory agreement, if at all.

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 our debt investments include floating interest rates. In addition, our investments are carried at fair value as determined in good faith by our Board of Directors in accordance with the 1940 Act (See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Investment Valuation"). Our valuation methodology utilizes discount rates in part in valuing our investments, and changes in those discount rates may have an impact on the valuation of our investments.

As of December 31, 2011, 68.9% of our debt investment portfolio (at fair value) and 65.9% of our debt investment portfolio (at cost) bore interest at floating rates. The composition of our floating rate debt investments by cash interest rate floor (excluding PIK) as of December 31, 2011 and September 30, 2011 was as follows:

	December 31, 2011		September 30, 2011	
	Fair Value	% of Floating Rate Portfolio	Fair Value	% of Floating Rate Portfolio
Under 1%	$122,002	16.13%	$125,453	16.96%
1% to under 2%	282,385	37.33%	261,878	35.40%
2% to under 3%	170,554	22.55%	168,928	22.83%
3% to under 4%	175,485	23.20%	176,976	23.92%
4% to under 5%	569	0.08%	757	0.10%
5% and over	5,485	0.71%	5,843	0.79%
Total	**$756,480**	**100.00%**	**$739,835**	**100.00%**

Based on our Consolidated Statement of Assets and Liabilities as of December 31, 2011, the following table shows the approximate increase (decrease) in components of net assets resulting from operations of hypothetical base rate changes in interest rates, assuming no changes in our investment and capital structure.

Basis point increase(1)	Interest income	Interest expense	Net increase (decrease)
100	$ 1,000	$ (2,000)	$ (1,000)
200	5,000	(4,000)	1,000
300	11,000	(6,000)	5,000
400	19,000	(8,000)	11,000
500	26,000	(10,000)	16,000

(1) A decline in interest rates would not have a material impact on our financial statements.

We regularly measure exposure to interest rate risk. We assess interest rate risk and manage our interest rate exposure on an ongoing basis by comparing our interest rate sensitive assets to our interest rate sensitive liabilities. Based on this review, we determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates. The following table shows a comparison of the interest rate base for our interest-bearing cash and outstanding investments, at principal, and our outstanding borrowings as of December 31, 2011 and September 30, 2011:

	December 31, 2011		September 30, 2011	
	Interest Bearing Cash and Investments	Borrowings	Interest Bearing Cash and Investments	Borrowings
Money market rate	$ 70,336	$ —	$ 67,644	$ —
Prime rate	7,305	29,000	38,890	53,000
LIBOR				
30 day	51,763	180,269	51,368	125,024
90 day	702,455	—	654,932	—
Fixed rate	393,567	274,500	418,981	285,000
Total	**$ 1,225,426**	**$483,769**	**$ 1,231,815**	**$463,024**

On August 16, 2010, we entered into an interest rate swap agreement that was scheduled to expire 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 paid a fixed interest rate of 0.99% and received a floating rate based on the prevailing one-month LIBOR. In August 2011, we terminated our interest rate swap agreement and realized a loss of $1.3 million, which included a reclassification of $0.8 million of prior unrealized depreciation. As of December 31, 2011, we were no longer party to any interest rate swap agreements.

Item 4. *Controls and Procedures*

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.

There have been no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2011 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*.

Except as described below, there have been no material changes during the three months ended December 31, 2011 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2011.

Risks Related to Our Investments

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

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

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

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

None.

Item 6. *Exhibits.*

Exhibit Number	Description of Exhibit
10.1	Amendment No. 3 to the Amended and Restated Loan and Servicing Agreement among Registrant, Fifth Street Funding, LLC, Wells Fargo Securities, LLC and Wells Fargo Bank, N.A., dated as of November 30, 2011 (Incorporated by reference to Exhibit 10.1 filed with Fifth Street Finance Corp.'s Form 8-K (File No. 001-33901) filed on December 5, 2011).
10.2	Amendment No. 1 to the Purchase and Sale Agreement by and between Registrant and Fifth Street Funding, LLC, dated as of November 30, 2011 (Incorporated by reference to Exhibit 10.2 filed with Fifth Street Finance Corp.'s Form 8-K (File No. 001-33901) filed on December 5, 2011).
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.

Table of Contents

SIGNATURES

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

Fifth Street Finance Corp.

Date: February 8, 2012	/s/ Leonard M. Tannenbaum Leonard M. Tannenbaum Chairman and Chief Executive Officer
Date: February 8, 2012	/s/ Alexander C. Frank Alexander C. Frank Chief Financial Officer

EXHIBIT INDEX

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

* Submitted herewith.

Exhibit 31.1

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended December 31, 2011 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 8th day of February, 2012.

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

Exhibit 31.2

I, Alexander C. Frank, 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, 2011 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 8th day of February, 2012.

By: /s/ Alexander C. Frank
Alexander C. Frank
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, 2011** (the “Report”) of **Fifth Street Finance Corp.** (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, **Leonard M. Tannenbaum,** the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

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

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

/s/ Leonard M. Tannenbaum

Name: Leonard M. Tannenbaum

Date: February 8, 2012

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, 2011** (the "Report") of **Fifth Street Finance Corp.** (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, **Alexander C. Frank,** 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/ Alexander C. Frank

Name: Alexander C. Frank

Date: February 8, 2012