

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K/A
(Amendment No. 2)

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2008

OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NUMBER: 1-33901

Fifth Street Finance Corp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR JURISDICTION OF
INCORPORATION OR ORGANIZATION)

445 Hamilton Ave, Suite 1206
White Plains, NY
(Address if principal executive offices)

26-1219283
(IRS EMPLOYER
IDENTIFICATION NO.)

10601
(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of March 31, 2008 is not applicable because the registrant completed its initial public offering in June 2008. Accordingly, there was no public market for the registrant's common stock on March 31, 2008, the last business day of the registrant's most recently completed second quarter. The registrant had 22,536,289 shares of common stock outstanding as of December 1, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the 2009 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III of this Annual Report on Form 10-K as indicated herein.

EXPLANATORY NOTE

We are filing this Amendment No. 2 to our Form 10-K for the fiscal year ended September 30, 2008 in response to certain comments made by the Staff of the SEC. On July 9, 2009, we filed Amendment No. 1 to our Form 10-K for the fiscal year ended September 30, 2008 ("Amendment No. 1"), which Form 10-K was originally filed with the SEC on December 11, 2008, for the sole purpose of including the financial statement schedule required by Rule 12-14 of Regulation S-X under the Securities Exchange Act of 1934 in the Form 10-K. Amendment No. 1 contained a separate report of our independent registered public accounting firm with respect to this schedule. Our independent registered public accounting firm has revised its report on our audited financial statements for the fiscal year ended September 30, 2008 to address the schedule. This revised report of our independent registered public accounting firm is contained in this amendment to our Form 10-K for the fiscal year ended September 30, 2008.

Further, as required by the rules of the SEC, this amendment to our Form 10-K for the fiscal year ended September 30, 2008, sets forth an amended "Item 8. Financial Statements and Supplementary Data" in its entirety, including the financial statement schedule required by Rule 12-14 of Regulation S-X and the revised report of our independent registered public accounting firm discussed above, and "Item 15. Exhibits and Financial Statement Schedules" in its entirety, including new certifications of our chief executive officer and chief financial officer. Except as described above, this amendment to our Form 10-K for the fiscal year ended September 30, 2008 does not modify or update in any way the financial position, results of operations, changes in net assets, cash flows, or other disclosures in, or exhibits to, our Form 10-K for the fiscal year ended September 30, 2008 and does not reflect events occurring after the original filing of the Form 10-K with the SEC on December 11, 2008.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Fifth Street Finance Corp.

We have audited the accompanying balance sheets, including the schedule of investments, of Fifth Street Finance Corp. (a Delaware corporation and successor to Fifth Street Mezzanine Partners III, L.P.) (the "Company") as of September 30, 2008 and 2007, and the related statements of operations, changes in net assets, and cash flows and the financial highlights (included in Note 12), for the year ended September 30, 2008 and the period February 15, 2007 (inception) through September 30, 2007. Our audits of the basic financial statements included the Schedule of Investments in and Advances to Affiliates. These financial statements, financial highlights and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, financial highlights and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included physical inspection or confirmation of securities owned as of September 30, 2008 and 2007. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Fifth Street Finance Corp. as of September 30, 2008 and 2007, and the results of its operations, changes in net assets and its cash flows and financial highlights for the year ended September 30, 2008 and the period February 15, 2007 (inception) through September 30, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

New York, New York
June 3, 2009

Fifth Street Finance Corp.

Balance Sheet

	September 30, 2008	September 30, 2007
ASSETS		
Investments, at fair value (cost 9/30/2008: \$295,821,250; 9/30/2007: \$89,834,209)		
Affiliate investments (cost 9/30/2008: \$83,576,276; 9/30/2007: \$38,716,308)	\$ 73,106,057	\$ 38,816,100
Non-control/Non- affiliate investments (cost 9/30/2008: \$212,244,974; 9/30/2007: \$51,117,901)	205,889,362	51,141,045
Unearned fee income	(5,236,265)	(1,566,293)
Total investments net of unearned fee income	273,759,154	88,390,852
Cash and cash equivalents	22,906,376	17,654,056
Interest receivable	2,367,806	754,623
Due from portfolio company	80,763	127,715
Prepaid management fee	—	252,586
Prepaid expenses	34,706	—
Deferred offering costs	—	149,687
Total Assets	\$ 299,148,805	\$ 107,329,519
LIABILITIES		
Accounts payable, accrued expenses, and other liabilities	\$ 567,691	\$ 417,107
Base management fee payable	1,381,212	—
Incentive fee payable	1,814,013	—
Due to FSC, Inc.	574,102	—
Interest payable	38,750	9,934
Payments received in advance from portfolio companies	133,737	—
Offering costs payable	303,461	86,783
Total Liabilities	4,812,966	513,824
Commitments (Note 3)		
Stockholders' Equity		
Common stock, \$0.01 par value, 49,800,000 shares authorized, 22,614,289 shares issued and outstanding	226,143	—
Additional paid-in capital	300,524,155	—
Net unrealized appreciation (depreciation) on investments	(16,825,831)	—
Net realized gain on investments	62,487	—
Accumulated undistributed net investment income	10,348,885	—
Total Partners' Capital	—	106,815,695
Total Stockholders' Equity	294,335,839	106,815,695
Total Liabilities and Stockholders' Equity	\$ 299,148,805	\$ 107,329,519

See notes to Financial Statements.

Fifth Street Finance Corp.
Statements of Operations

	Year Ended September 30, 2008	For the Period February 15 through September 30, 2007
Investment Income:		
Interest income:		
Affiliate investments	\$ 10,344,477	\$ 2,900,314
Non-control/Non-affiliate investments	20,158,409	1,164,558
Interest on cash and cash equivalents	750,605	—
Total interest income	<u>31,253,491</u>	<u>4,064,872</u>
Fee income:		
Affiliate investments	702,463	164,222
Non-control/Non-affiliate investments	1,105,576	64,610
Total fee income	1,808,039	228,832
Dividend income:		
Affiliate investments	26,740	2,228
Non-control/Non-affiliate investments	130,971	—
Total dividend income	<u>157,711</u>	<u>2,228</u>
Total Investment income	<u>33,219,241</u>	<u>4,295,932</u>
Expenses:		
Base management fees	4,258,334	1,564,189
Incentive fees	4,117,554	—
Professional fees	1,389,541	211,057
Board of Directors fees	249,000	—
Organizational costs	200,747	413,101
Interest expense	917,043	522,316
Administrator expense	978,387	—
Line of credit guarantee expense	83,333	250,000
Transaction fees	206,726	357,012
General and administrative expenses	674,360	18,867
Total expenses	<u>13,075,025</u>	<u>3,336,542</u>
Net Investment income	<u>20,144,216</u>	<u>959,390</u>
Unrealized appreciation (depreciation) of investments:		
Affiliate investments	(10,570,012)	99,792
Non-control/Non-affiliate investments	(6,378,755)	23,144
Total unrealized appreciation (depreciation) on investments	<u>(16,948,767)</u>	<u>122,936</u>
Net realized gain from investments:		
Non-control/Non-affiliate investments	62,487	—
Total net realized gain from investments	<u>62,487</u>	<u>—</u>
Net increase in net assets resulting from operations	<u>3,257,936</u>	<u>\$ 1,082,326</u>
Earnings per common share-basic and diluted(1)	<u>\$ 0.21</u>	<u>N/A</u>
Weighted average common shares-basic and diluted	<u>15,557,469</u>	<u>N/A</u>

(1) The earnings per share calculation for the fiscal year ended September 30, 2008 is based on the assumption that if the number of shares issued at the time of the merger on January 2, 2008 (12,480,972 shares of common stock) had been issued at the beginning of the fiscal year on October 1, 2007, the Company's earnings per share would have been \$0.21 per share.

See notes to Financial Statements.

Fifth Street Finance Corp.
Statements of Changes in Net Assets

	Year Ended September 30, 2008	For the Period February 15 through September 30, 2007
Operations:		
Net investment income (loss)	\$ 20,144,216	\$ 959,390
Net realized gain (loss) on investment	62,487	—
Net unrealized appreciation (depreciation) on investments	(16,948,767)	122,936
Net increase (decrease) in net assets from operations	<u>3,257,936</u>	<u>1,082,326</u>
Stockholder distributions:		
Distributions to stockholders from net investment income	(10,754,721)	—
Net decrease in assets from stockholder distributions	<u>(10,754,721)</u>	<u>—</u>
Capital share transactions:		
Issuance of common stock	129,448,456	—
Issuance of common stock under dividend reinvestment plan	1,882,200	—
Issuance of common stock on conversion of partnership interest	169,420,000	—
Redemption of partnership interest for common stock	(169,420,000)	—
Fractional shares paid to partners from conversion	(358)	—
Capital contributions from partners	66,497,000	105,733,369
Capital withdrawals from partners	(2,810,369)	—
Net increase in assets from capital share transactions	<u>195,016,929</u>	<u>105,733,369</u>
Total increase in net assets	<u>187,520,144</u>	<u>106,815,695</u>
Net assets at beginning of period	<u>106,815,695</u>	<u>—</u>
Net assets at end of period	<u>\$ 294,335,839</u>	<u>\$ 106,815,695</u>
Net asset value per common share	<u>\$ 13.02</u>	<u>N/A</u>
Common shares outstanding at end of period	22,614,289	N/A

See notes to Financial Statements.

Fifth Street Finance Corp.
Statements of Cash Flows

	Year Ended September 30, 2008	For the Period February 15 through September 30, 2007
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 3,257,936	\$ 1,082,326
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Change in unrealized depreciation (appreciation) on investments	16,948,767	(122,936)
Paid-in-kind income, net of cash received	(4,782,986)	(588,795)
Realized (gain) on sale of investment	(62,487)	—
Accretion of original issue discount on investments	(954,436)	(265,739)
Recognition of fee income	(1,808,039)	(228,832)
Change in operating assets and liabilities:		
Fee income received	5,478,011	1,795,125
(Increase) in interest receivable	(1,613,183)	(754,623)
(Increase) Decrease in due from portfolio company	46,952	(127,715)
(Increase) Decrease in prepaid management fees	252,586	(252,586)
(Increase) in prepaid expenses	(34,706)	—
Increase in interest payable	28,816	9,934
Increase in due to FSC, Inc.	574,102	—
Increase in accounts payable, accrued expenses, and other liabilities	150,584	417,107
Increase in base management fee payable	1,381,212	—
Increase in incentive fee payable	1,814,013	—
Increase in payments received in advance from portfolio companies	133,737	—
Purchase of investments	(202,402,611)	(88,979,675)
Proceeds from sale of investment	62,487	—
Principal payments received on investments	2,152,992	—
Net cash used in operating activities	<u>(179,376,253)</u>	<u>(88,016,409)</u>
Cash flows from financing activities:		
Dividends paid in cash	(8,872,521)	—
Capital contributions	66,497,000	105,733,369
Capital withdrawals	(2,810,369)	—
Borrowings	79,250,000	86,562,983
Repayment of borrowings	(79,250,000)	(86,562,983)
Proceeds from the issuance of common stock	131,316,000	—
Proceeds from the issuance of preferred stock subject to mandatory redemption	15,000,000	—
Redemption of preferred stock	(15,000,000)	—
Offering costs paid	(1,501,179)	(62,904)
Redemption of partnership interests for cash	(358)	—
Net cash provided by financing activities	<u>184,628,573</u>	<u>105,670,465</u>
Net increase in cash and cash equivalents	<u>5,252,320</u>	<u>17,654,056</u>
Cash and cash equivalents, beginning of period	17,654,056	—
Cash and cash equivalents, end of period	<u>\$ 22,906,376</u>	<u>\$ 17,654,056</u>
Supplemental information:		
Cash paid for interest	\$ 888,227	\$ 512,382
Non-cash financing activities:		
Exchange of partnership interests for shares of common stock:		
Redemption of partnership interests (includes associated earnings)	(173,699,632)	—
Issuance of shares of common stock	173,699,632	—
Issuance of shares of common stock under dividend reinvestment plan	1,882,200	—
Reinvested common shares under dividend reinvestment plan	(1,882,200)	—

See notes to Financial Statements.

Fifth Street Finance Corp.

Schedule of Investments
September 30, 2008

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal/ No. of Shares/ No. of Units	Cost	Fair Value	Percent of Stockholders' Equity
United States:					
Control Investments(3)					
Affiliate Investments(4)					
<i>O'Curran, Inc.</i>					
3.3% Membership Interest in O'Curran Holding Company LLC	Data Processing & Outsourced Services		\$ 250,000	\$ 97,156	—
1.75% Preferred Membership Interest			130,413	130,413	—
First Lien Term Loan, 16.875% due 3/21/2012		\$ 9,500,000	10,018,321	10,018,321	3.4%
First Lien Term Loan, 16.875% due 3/21/2012		\$ 3,750,000	3,640,702	3,640,702	1.2%
			14,039,436	13,886,592	
<i>CPAC, Inc.</i>					
Common Stock	Household Products & Specialty Chemicals	2,297	2,297,000	—	—
Second Lien Term Loan, 17.5% due 4/13/2012		\$ 10,000,000	9,696,804	3,766,496	1.3%
			11,993,804	3,766,496	
<i>Elephant & Castle, Inc.</i>					
Series A Preferred Stock	Restaurants	7,500	750,000	196,386	0.1%
Second Lien Term Loan, 15.5% due 4/20/2012		\$ 7,500,000	7,276,448	7,276,448	2.5%
			8,026,448	7,472,834	
<i>MK Network, LLC(10)</i>					
Membership Units(6)	Healthcare Technology	6,114	584,795	760,441	0.3%
First Lien Term Loan, 13.5% due 6/1/2012		\$ 9,500,000	9,254,484	9,254,484	3.1%
			9,839,279	10,014,925	
<i>Rose Tarlow, Inc.(9)</i>					
0.1% membership interest in RTMH Acquisition Company	Home Furnishing Retail		25,000	11,607	—
6.9% membership interest in RTMH Acquisition Company			1,275,000	591,939	0.2%
First Lien (Revolver), Libor + 4%, 9% floor due 1/25/2014		\$ 350,000	350,000	350,000	0.1%
First Lien Term Loan, 12.0% due 1/25/2014		\$ 10,000,000	9,977,845	9,977,845	3.4%
			11,627,845	10,931,391	
<i>Martini Park, LLC</i>					
5% membership interest	Restaurants	500,000	650,000	—	—
First Lien Term Loan, 14.0% due 2/20/2013		\$ 4,000,000	3,479,018	3,009,904	1.0%
			4,129,018	3,009,904	
<i>Caregiver Services, Inc.</i>					
Series A Preferred Stock	Healthcare Services	1,080,398	1,080,398	1,183,867	0.4%
Second Lien Term Loan, LIBOR + 6.85%, 12% floor due 2/25/2013		\$ 10,000,000	9,649,100	9,649,100	3.3%
Second Lien Term Loan, 16.5% due 2/25/2013		\$ 13,500,000	13,190,948	13,190,948	4.5%
			23,920,446	24,023,915	
Total Affiliate Investments			\$ 83,576,276	\$ 73,106,057	24.8%

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal/ No. of Shares/ No. of Units	Cost	Fair Value	Percent of Stockholders' Equity
Non-Control/Non-Affiliate Investments(7)					
<i>Best Vinyl Acquisition Corporation.(8)</i>					
Series A Preferred Stock	Building Products	25,641	253,846	253,846	0.1%
Common Stock		25,641	2,564	4,753	—
Second Lien Term Loan, 12.0% due 3/30/2013		\$ 7,000,000	6,807,923	6,807,923	2.3%
			7,064,333	7,066,522	
<i>Traffic Control & Safety Corporation</i>					
Series B Preferred Stock	Construction and Engineering	24,750	247,500	179,899	0.1%
Common Stock		25,000	2,500	—	—
Second Lien Term Loan, 15% due 6/29/2014		\$ 18,416,667	18,741,967	18,741,967	6.4%
			18,991,967	18,921,866	
<i>Nicos Polymers & Grinding Inc.(8) 3.32% Membership</i>					
Interest in Crownbrook Acquisition I LLC	Commodity Chemicals		168,086	72,756	—
First Lien Term Loan, LIBOR +5%, 10% floor due 7/17/2012		\$ 3,175,000	3,216,510	3,216,510	1.1%
First Lien Term Loan, 13.5% due 7/17/2012		\$ 5,625,000	5,687,800	5,687,800	1.9%
			9,072,396	8,977,066	
<i>TBA Global, LLC (8)</i>					
Senior Preferred Shares	Media: Advertising	53,944	215,975	143,418	0.1%
Series A Shares		191,977	191,977	—	—
Second Lien Term Loan, LIBOR +5%, 10% floor due 8/3/2010		\$ 2,500,000	2,531,982	2,531,982	0.9%
Second Lien Term Loan, 14.5% due 8/3/2012		\$ 10,000,000	10,056,070	10,056,070	3.4%
			12,996,004	12,731,470	
<i>Fitness Edge, LLC</i>					
Common Units	Leisure Facilities	1,000	42,908	55,033	—
First Lien Term Loan, LIBOR +5.25%, 10% floor due 8/08/2012		\$ 2,500,000	2,250,000	2,250,000	0.8%
First Lien Term Loan, 15% due 8/08/2012		\$ 4,225,000	5,320,380	5,320,380	1.8%
			7,613,288	7,625,413	
<i>Filet of Chicken.(8)</i>					
Second Lien Term Loan, 14.5% due 7/31/2012	Food Distributors	\$ 12,433,227	12,193,531	12,193,531	4.1%
			12,193,531	12,193,531	
<i>Boot Barn</i>					
Common Stock	Footwear and Apparel	1,176	131	—	—
Series A Preferred Stock		20,000	247,060	146,435	0.1%
Second Lien Term Loan, 14.5% due 10/3/2013		\$ 17,800,000	18,095,933	18,095,933	6.1%
			18,343,124	18,242,368	
<i>American Hardwoods Industries Holdings, LLC (8)</i>					
Membership Units	Lumber Products	24,375	250,000	—	—
Second Lien Term Loan, 15.0% due 10/15/2012		\$ 10,000,000	10,267,204	4,557,565	1.5%
			10,517,204	4,557,565	
<i>Premier Trailer Leasing, Inc.</i>					
Common Stock	Trailer Leasing Services	285	1,140	—	—
Second Lien Term Loan, 16.5% due 10/23/2012		\$ 16,750,000	17,276,694	17,276,694	5.9%
			17,277,834	17,276,694	
<i>Pacific Press Technologies, Inc.</i>					
Common Stock	Capital Goods	8,463	94,513	132,014	—
Common Stock		25,000	250,000	349,196	0.1%
Second Lien Term Loan, 14.75% due 1/10/2013		\$ 9,400,000	9,460,564	9,460,564	3.2%
			9,805,077	9,941,774	
<i>Goldco, LLC</i>					
Second Lien Term Loan, 17.5% due 1/31/2013	Restaurants	\$ 7,500,000	7,705,761	7,705,761	2.6%
			7,705,761	7,705,761	—

Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal/ No. of Shares/ No. of Units	Cost	Fair Value	Percent of Stockholders' Equity
Lighting by Gregory, LLC	Housewares & Specialties				
1.1% membership interest			110,000	98,459	—
First Lien Term Loan, 9.75% due 2/28/2013		\$ 5,000,000	4,500,002	4,500,002	1.5%
First Lien Term Loan, 14.5% due 2/28/2013		\$ 7,000,000	7,010,208	7,010,208	2.4%
			<u>11,620,210</u>	<u>11,608,669</u>	
Central Industrial Supply Co.	Manufacturing — Mechanical Products				
First Lien Term Loan, 17% due 4/1/2013		\$ 16,375,000	15,800,700	15,800,700	5.4%
			15,800,700	15,800,700	
Western Emulsions, Inc.	Emulsions Manufacturing				
Second Lien Term Loan, 15% due 6/30/2014		\$ 9,600,000	9,661,464	9,661,464	3.3%
			9,661,464	9,661,464	
Storyteller Theatres Corporation(1)	Entertainment — Theatres				
First Lien Term Loan, 15% due 7/16/2014		\$ 11,800,000	11,824,413	11,824,413	4.0%
Common Stock			1,692	169	—
Preferred Stock			200,000	196,587	0.1%
			12,024,582	12,021,000	
HealthDrive Corporation	Healthcare Facilities				
First Lien (Revolver), 12% due 7/17/2013		\$ 500,000	500,000	500,000	0.2%
First Lien Term Loan, 10% due 7/17/2013		\$ 8,000,000	8,000,000	8,000,000	2.7%
First Lien Term Loan, 13% due 7/17/2013		\$ 10,000,000	10,008,333	10,008,333	3.4%
			18,508,333	18,508,333	
idX Corporation	Merchandise Display				
Second Lien Term Loan, 14.5% due 7/1/2014		\$ 13,000,000	13,049,166	13,049,166	4.5%
			13,049,166	13,049,166	
Total Non-Control/Non-Affiliate Investments			<u>212,244,974</u>	<u>205,889,362</u>	<u>70.0%</u>
Total Portfolio Investments			<u>295,821,250</u>	<u>278,995,419</u>	<u>94.8%</u>
Unearned Income			<u>(5,236,265)</u>	<u>(5,236,265)</u>	
Total Investments Net of Unearned Income			<u>290,584,985</u>	<u>273,759,154</u>	

- (1) All debt investments are income producing. Equity is non-income producing unless otherwise noted.
- (2) See Note 3 for summary geographic location.
- (3) Control Investments are defined by the Investment Company Act of 1940 (“1940 Act”) as investments in companies in which the Company owns more than 25% of the voting securities or maintains greater than 50% of the board representation. As of September 30, 2008, the Company did not have a controlling interest in any of its investments.
- (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 or Affiliate Investments.
- (8) Rates have been temporarily increased on the term loans, as follows:
 - Best Vinyl: Interest Rate + 0.5% on Term Loan
 - TBA Global: PIK + 2.0% on Term Loan A and B
 - Filet of Chicken: Interest Rate + 1.0%; PIK + 1.0% on Term Loan
 - American Hardwoods: PIK + 0.75% on Term Loan
 - Nicos: PIK + 2.0% on Term Loan A and B
- (9) Rose Tarlow, Inc. has an undrawn revolver of \$2,650,000 at LIBOR + 4%, 9% floor.
- (10) MK Network, LLC has an undrawn revolver of \$2,000,000 at Prime + 1.5%, 10% floor.
- (11) Storyteller Theatres Corporation has an undrawn revolver of \$2,000,000 at LIBOR + 3.5%, 10% floor.

See notes to Financial Statements.

Fifth Street Finance Corp.

Schedule of Investments
September 30, 2007

Portfolio Company/Type of Investment(1)(2)	Industry	Principal/ No. of Shares/ No. of Units	Cost	Fair Value	Percent of Partners' Capital
United States:					
Control Investments(3)					
Affiliate Investments(4)					
<i>O'Curran, Inc</i>					
	Data Processing & Outsourced Services				
3.3% Membership Interest in O'Curran Holding Company LLC			\$ 250,000	\$ 89,587	0.1%
1.75% Preferred Membership Interest			130,413	130,413	0.1%
First Lien Term Loan, 16.875% due 3/21/2012		\$ 9,500,000	9,590,060	9,590,060	9.0%
			9,970,473	9,810,060	
<i>CPAC, Inc</i>					
	Household Products & Specialty Chemicals				
Common Stock		2,297	2,297,000	2,297,000	2.2%
Second Lien Term Loan, 17.5% due 4/13/2012		\$ 10,000,000	9,015,137	9,015,137	8.4%
			11,312,137	11,312,137	
<i>Elephant & Castle, Inc.(5)</i>					
	Restaurants				
Series A Preferred Stock		7,500	750,000	500,000	0.5%
Second Lien Term Loan, 15.5% due 4/20/2012		\$ 7,500,000	6,911,378	6,911,378	6.5%
			7,661,378	7,411,378	
<i>MK Network, LLC</i>					
	Healthcare Technology				
Membership Units(6)		6,114	584,795	1,095,000	1.0%
Second Lien Term Loan, 13.5% due 6/1/2012		\$ 9,500,000	9,187,525	9,187,525	8.6%
			9,772,320	10,282,525	—
			38,716,308	38,816,100	36.4%
Total Affiliate Investments					
Non-Control/Non-Affiliate Investments(7)					
<i>Best Vinyl Acquisition Corporation</i>					
	Building Products				
Series A Preferred Stock		25,641	253,846	175,000	0.2%
Common Stock		25,641	2,564	—	0.0%
Second Lien Term Loan, 12% due 3/30/2013		\$ 5,000,000	4,765,188	4,765,188	4.5%
			5,021,598	4,940,188	
<i>Safety Systems Acquisition Corporation</i>					
	Construction and Engineering				
Series B Preferred Stock		24,750	247,500	247,500	0.2%
Common Stock		25,000	2,500	67,500	0.1%
Second Lien Term Loan, 15% due 6/29/2014		\$ 5,000,000	5,696,671	5,696,671	5.3%
			5,946,671	6,011,671	
<i>Nicos Polymers & Grinding Inc.</i>					
	Commodity Chemicals				
3.32% Membership Interest in Crownbrook Acquisition I LLC			168,086	215,000	0.2%
First Lien Term Loan, LIBOR +5%, 10% floor due 7/17/2012		\$ 3,175,000	3,175,000	3,175,000	3.0%
Second Lien Term Loan, 13.5% due 7/17/2012		\$ 5,625,000	5,515,093	5,515,093	5.2%
			8,858,179	8,905,093	

Portfolio Company/Type of Investment(1)(2)	Industry	Principal/ No. of Shares/ No. of Units	Cost	Fair Value	Percent of Partners' Capital
TBA Global, LLC					
Media: Advertising					
Senior Preferred Shares		53,944	215,975	215,975	0.2%
Series A Shares		191,977	191,977	184,025	0.2%
Second Lien Term Loan, LIBOR +5%, 10% floor due 8/3/2010		\$ 2,500,000	2,500,000	2,500,000	2.3%
Second Lien Term Loan, 14.5% due 8/3/2012		\$ 10,000,000	9,637,793	9,637,793	9.0%
			12,545,745	12,537,793	
Fitness Edge, LLC					
Leisure Facilities					
Common Stock		1,000	42,908	43,500	0.0%
First Lien Term Loan, LIBOR +5.25%, 10% floor due 8/08/2012		\$ 2,500,000	2,500,000	2,500,000	2.3%
First Lien Term Loan, 15% due 8/08/2012		\$ 4,225,000	4,199,196	4,199,196	3.9%
			6,742,104	6,742,696	
Filet of Chicken					
Food Distributors					
Common Stock		36	421,992	421,992	0.4%
Second Lien Term Loan, 14.5% due 7/31/2012		\$ 12,000,000	11,581,612	11,581,612	10.8%
			12,003,604	12,003,604	
Total Non-Control/Non-Affiliate Investments			51,117,901	51,141,045	47.8%
Total Portfolio Investments			89,834,209	89,957,145	84.2%
Unearned Income			(1,566,293)	(1,566,293)	
Total Investments Net of Unearned Income			88,267,916	88,390,852	

- (1) All debt investments are income producing. Equity is non-income producing unless otherwise noted.
- (2) See Note 3 for summary geographic location.
- (3) Control Investments are defined by the Investment Company Act of 1940 ("1940 Act") as investments in companies in which the partnership owns more than 25% of the voting securities or maintains greater than 50% of the board representation. As of September 30, 2007, the Partnership did not have a controlling interest in any of its investments.
- (4) Affiliate Investments are defined by the 1940 Act as investments in companies in which the partnership owns between 5% and 25% of the voting securities.
- (5) Equity ownership is held in Repechage Restaurant Group USA, Inc.
- (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 or Affiliate Investments.

See notes to Financial Statements.

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

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

Effective January 2, 2008, the Partnership merged with and into Fifth Street Finance Corp., or the Company, an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940 (the "1940 Act"). The merger involved the exchange of shares between companies under common control. In accordance with the guidance on exchanges of shares between entities under common control contained in Statement of Financial Accounting Standards No. 141, Business Combinations ("SFAS 141"), the Company's results of operations and cash flows for the year ended September 30, 2008 are presented as if the merger had occurred as of October 1, 2007. Accordingly, no adjustments were made to the carrying value of assets and liabilities (or the cost basis of investments) as a result of the merger. Fifth Street Finance Corp. is managed by the Investment Adviser. Prior to January 2, 2008, references to the Company are to the Partnership. On and as of January 2, 2008, references to the Company, FSC, "we" or "our" are to Fifth Street Finance Corp., unless the context otherwise requires.

On June 17, 2008, Fifth Street Finance Corp. completed an initial public offering of 10,000,000 shares of its common stock at the offering price of \$14.12 per share. The Company's shares are currently listed on the New York Stock Exchange under the symbol "FSC."

Note 2. Significant Accounting Policies

Basis of Presentation and Liquidity:

The financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for financial information and pursuant to the requirements for reporting on Form 10-K and Regulation S-X. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the current year have been included. These financial statements and notes thereto should be read in conjunction with the September 30, 2007 financial statements and notes thereto included in the Company's financial statements as filed with the Securities and Exchange Commission in the Company's final prospectus dated June 11, 2008.

Although the Company expects to fund the growth of the Company's 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 substantially all of its taxable income in order to satisfy the requirements applicable to regulated investment companies, or "RIC"s, under Subchapter M of the Internal Revenue Code.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") and Article 6 of Regulation S-X under the Securities Act of 1933 requires management to make certain estimates and assumptions affecting amounts reported in the financial statements. These estimates are based on the information that is currently available to the Company and on various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ materially from those estimates under different assumptions and conditions. The most significant estimate

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

inherent in the preparation of the Company's financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation.

The financial statements include portfolio investments at fair value (excluding unearned income) of \$279.0 million and \$90.0 million at September 30, 2008 and September 30, 2007, respectively. The portfolio investments represent 94.8% and 84.2% of stockholder's equity/partners' capital at September 30, 2008 and September 30, 2007, respectively, and their fair values have been determined by the Company's Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. The illiquidity of these portfolio investments may make it difficult for the Company to sell these investments when desired and, if the Company is required to sell these investments, it may realize significantly less than the investments' recorded value.

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

Recently Issued Accounting Pronouncements:

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133, which requires additional disclosures for derivative instruments and hedging activities. SFAS 161 is effective for the Company beginning January 1, 2009. The Company does not have any derivative instruments nor has it engaged in any hedging activities. Thus, SFAS 161 has no impact on the Company's current financial statements.

Significant Accounting Policies:

Investments:

a) Valuation:

- 1) Investments for which market quotations are readily available are valued at such market quotations.
- 2) Short-term investments that mature in 60 days or less, such as United States Treasury Bills, are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and thereafter assuming a constant amortization to maturity of the difference between the principal amount due at maturity and cost. Short-term securities that mature in more than 60 days are valued at current market quotations by an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, or otherwise by a principal market maker or a primary market dealer). Investments in money market mutual funds are valued at their net asset value as of the close of business on the day of valuation.
- 3) It is expected that most of the investments in the Company's portfolio will not have readily available market values. Debt and equity securities whose market prices are not readily available are valued at fair value. The factors that may be taken into account in fairly valuing investments include, as relevant, the portfolio company's ability to make payments, its estimated earnings and projected discounted cash flows, the nature and realizable value of any collateral, the sensitivity of the

FIFTH STREET FINANCE CORP.

NOTES TO FINANCIAL STATEMENTS — (Continued)

investments to fluctuations in interest rates, the financial environment in which the portfolio company operates, comparisons to securities of similar publicly traded companies and other relevant factors. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of these investments may differ significantly from the values that would have been used had a ready market existed for such investments, and any such differences could be material.

4) In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurement ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements, but does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently analyzing the effect of adoption of this statement on its financial position, including its net asset value, and results of operations. The Company is required to adopt this statement on a prospective basis beginning in the quarter ending December 31, 2008. Adoption of this statement could have a material effect on the Company's financial statements, including the Company's net asset value. However, the actual impact on its financial statements in the period of adoption and subsequent to the period of adoption cannot be determined at this time as it will be influenced by the estimates of fair value for that period and the number and amount of investments the Company originates, acquires or exits.

5) In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the combined balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of Statement 157. While SFAS 159 become effective for the Company's 2009 fiscal year, the Company did not elect the fair value measurement option for any of its financial assets or liabilities.

6) In October 2008, the FASB issued Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active ("FSP 157-3"). FSP 157-3 provides an illustrative example of how to determine the fair value of a financial asset in an inactive market. The FSP does not change the fair value measurement principles set forth in SFAS 157.

b) Realized gain or loss on the sale of investments is the difference between the proceeds received from dispositions of portfolio investments and their stated cost.

c) 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 and reserves for any previously accrued and uncollected interest when it is determined that interest is no longer collectible.

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

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

e) The Company has investments in debt securities which contain a payment in kind or "PIK" interest provision. PIK interest is computed at the contractual rate specified in each investment agreement and added to the principal balance of the investment and recorded as interest income. For the year ended September 30, 2008 and for the period from February 15, 2007 through September 30, 2007, the Company recorded PIK income of \$4.9 million and \$0.6 million, respectively.

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

Valuation of Investments

The Company invests primarily in illiquid securities issued by private companies and/or thinly-traded public companies ("Investments"). These Investments may be subject to restrictions on resale and generally have no established trading market. Fair value for Investments is determined in good faith in accordance with the valuation policy, based on the enterprise value of the portfolio companies. The enterprise value is the value at which an enterprise could be sold in a transaction between two willing parties other than through a forced or liquidation sale. Typically, private companies are bought and sold based on multiples of EBITDA (earnings before interest, taxes, depreciation, and amortization), cash flows, net income, revenues, or in limited cases, book value. There is no single methodology for determining enterprise value and for any one portfolio company enterprise value is generally described as a range of values from which a single estimate of enterprise value is derived. In determining the enterprise value of a portfolio company various factors are analyzed, including the portfolio company's historical and projected financial results. Discounted cash flow models may be prepared and analyzed based on projections of the future free cash flows of the business and industry derived capital costs. External events are reviewed, including private mergers and acquisitions, and these events are included in the enterprise valuation process. An independent third party valuation firm may assist in the valuation process.

Due to the inherent uncertainty in the valuation process, the estimate of fair value may differ materially from the values that would have been used had a ready market for the securities existed. In addition, changes in the market environment and other events that may occur over the life of the Investments may cause the gains or losses ultimately realized on these Investments to be different than the valuations currently assigned. The fair value of each individual Investment is determined and changes in fair value are recorded as unrealized appreciation and depreciation.

An investment ranking system is used in connection with investment oversight, portfolio management/analysis, and investment valuation procedures. This system takes into account both quantitative and qualitative factors of the portfolio company and the securities held.

If there is adequate enterprise value to support the repayment of the debt, the fair value of a loan or debt security normally corresponds to cost plus accumulated unearned income unless the borrower's condition or other factors lead to a determination of fair value at a different amount. The fair value of equity interests in portfolio companies are determined based on various factors, including revenues, EBITDA and cash flow from operations of the portfolio company and other pertinent factors such as recent offers to purchase a portfolio company's securities, financing events or other liquidation events.

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

The value of the equity interests in public companies for which market quotations are readily available is based upon the closing public market price. Securities that contain certain restrictions on sale are typically valued at a discount from the public market price of the security.

Consolidation:

As an investment company, the Company only consolidates subsidiaries that are also investment companies. At September 30, 2008 and 2007, the Company did not have any consolidated subsidiaries.

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.

Deferred offering costs:

Deferred offering costs consist of legal, accounting, regulatory and printing fees incurred through the balance sheet date that are related to the Company's Initial Public Offering ("IPO") which closed on June 17, 2008. Accordingly, approximately \$1.9 million of deferred offering costs have been charged to capital since June 17, 2008.

Income Taxes

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

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

As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed to its stockholders as a dividend. The Company anticipates distributing substantially all of its taxable income and gains, and thus the Company anticipates that it will not incur any federal or state income tax. Further, since the Company anticipates timely distribution of its taxable income within the tax rules, the Company anticipates that it will not incur any U.S. federal excise tax.

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Listed below is a reconciliation of “net increase in net assets resulting from operations” to taxable income for the year ended September 30, 2008.

	Three Months Ended December 31, 2007(1)	Nine Months Ended September 30, 2008(2)	Year Ended September 30, 2008
Net increase (decrease) in net assets resulting from operations	\$ 3,198,000	\$ 60,000	\$ 3,258,000
Net change in unrealized (appreciation) depreciation from investments	476,000	16,472,000	16,948,000
Deferred loan origination fees and Interest- and dividend-related items	79,000	3,591,000	3,670,000
Organizational and deferred offering costs	152,000	(271,000)	(119,000)
Taxable/Tax distributable income	\$ 3,905,000	\$ 19,852,000	\$ 23,757,000

- (1) As noted, the period prior to December 31, 2007 the Company filed its income tax return as a partnership, and therefore was not subject to tax treatment as a RIC under Subchapter M of the Code.
- (2) The Company’s taxable income for 2008 is an estimate and will not be finally determined until the Company files its 2008 tax return. Therefore, the final taxable income may be different than the estimate.

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) certain investments that generate PIK interest; (3) 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; (4) certain employee-related costs which are accrued for book purposes, are not included in taxable income until paid; and (5) organizational and deferred offering costs.

As of September 30, 2008, the Company realized a taxable short-term capital gain of approximately \$62,000, which will be treated as ordinary income on the Company’s tax return.

As of September 30, 2008, there is no substantial difference between the book and tax bases of the Company’s assets. The components of accumulated undistributed income on a tax basis were as follows:

Undistributed ordinary income — net (RIC Status)	\$ 9,097,000
Unrealized losses — net	(16,826,000)
Accumulated partnership taxable income not subject to distribution	6,236,000
Other book-tax differences	(4,921,000)

The Company adopted Financial Accounting Standards Board Interpretation No. 48 (“FIN 48”), Accounting for Uncertainty in Income Taxes at inception on February 15, 2007. FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. Adoption of FIN 48 was applied to all open taxable years as of the effective date. The adoption of FIN 48 did not have an effect on the financial position or results of operations of the Company as there was no liability for unrecognized tax benefits and no change to the beginning capital of the Company. Management’s determinations regarding FIN 48 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Dividends Paid:

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

For the year ended September 30, 2008, the Company's Board of Directors declared the following distributions:

Date Declared	Total Amount	Total per Share	Record Date	Payment Date
May 1, 2008	\$ 3,744,291	\$ 0.30	May 19, 2008	June 3, 2008
August 6, 2008	7,010,430	0.31	September 10, 2008	September 26, 2008
	<u>\$ 10,754,721</u>	<u>\$ 0.61</u>		

For income tax purposes, the Company estimates that these distributions will be composed entirely of ordinary income, and will be reflected as such on the form 1099-DIV for the calendar year 2008. To date, the Company's operations have resulted in no long-term capital gains or losses. The Company anticipates declaring further distributions to its stockholders to meet the distribution requirements pursuant to Subchapter M of the Code (See Subsequent Events).

Guarantees and Indemnification Agreements:

The Company follows FASB Interpretation Number 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." ("FIN 45"). FIN 45 elaborates on the disclosure requirements of a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by FIN 45, the fair value of the obligation undertaken in issuing certain guarantees. The Interpretation has no impact on the Company's financial statements.

Reclassifications:

Certain prior period amounts have been reclassified to conform to the current presentation.

Note 3. Portfolio Investments

At September 30, 2008, 94.8% of stockholders' equity or \$279.0 million was invested in 24 long-term portfolio investments and 7.8% of stockholders' equity was invested in cash and cash equivalents. In comparison, at September 30, 2007, 84.2% of partners' capital was invested in 10 long-term portfolio investments and 16.5% of partners' capital was invested in cash and cash equivalents. As of September 30, 2008, all of the Company's debt investments were secured by first or second priority liens on the assets of the portfolio companies. Moreover, the Company held equity investments in its portfolio companies consisting of common stock, preferred stock or limited liability company interests.

The Company's off-balance sheet arrangements consisted of \$24.7 million and \$7.0 million of unfunded commitments to provide debt financing to its portfolio companies as of September 30, 2008 and September 30, 2007, respectively. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet and are not reflected on the Company's balance sheet.

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

A summary of the composition of the unfunded commitments (consisting of revolvers and term loans) as of September 30, 2008 and September 30, 2007 is shown in the table below:

	Unfunded Commitments as of September 30, 2008	Unfunded Commitments as of September 30, 2007
MK Network, LLC	\$ 2,000,000	\$ 2,000,000
Fitness Edge, LLC	1,500,000	2,500,000
Rose Tarlow, Inc.	2,650,000	—
Martini Park, LLC*	11,000,000	—
Western Emulsions, Inc	2,000,000	—
Storyteller Theaters Corporation	4,000,000	—
HealthDrive Corporation	1,500,000	—
TBA Global, LLC	—	2,500,000
Total	\$ 24,650,000	\$ 7,000,000

* The \$11.0 million unfunded capital commitment to Martini Park was terminated subsequent to September 30, 2008 (See Subsequent Events)

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

	September 30, 2008		September 30, 2007	
Cost				
First Lien Debt	\$ 110,838,716	37.47%	\$ 5,675,000	6.32%
Second Lien Debt	175,661,559	59.38%	78,599,653	87.49%
Purchased Equity	4,120,368	1.39%	1,788,008	1.99%
Equity Grants	5,200,607	1.76%	3,771,548	4.20%
	<u>\$ 295,821,250</u>	<u>100.00%</u>	<u>\$ 89,834,209</u>	<u>100.00%</u>
Fair Value				
First Lien Debt	\$ 110,369,601	39.56%	\$ 5,675,000	6.31%
Second Lien Debt	164,021,612	58.79%	78,599,653	87.37%
Purchased Equity	2,001,213	0.72%	1,921,316	2.14%
Equity Grants	2,602,993	0.93%	3,761,176	4.18%
	<u>\$ 278,995,419</u>	<u>100.00%</u>	<u>\$ 89,957,145</u>	<u>100.00%</u>

FIFTH STREET FINANCE CORP.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The Company invests in portfolio companies located in the United States. The following tables show the portfolio composition by geographic region at cost and fair value (excluding unearned income) 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.

	September 30, 2008		September 30, 2007	
Cost				
Northeast	\$ 91,319,980	30.87%	\$ 44,346,118	49.37%
West	83,062,709	28.08%	33,484,486	37.27%
Southwest	54,764,580	18.51%	—	—
Southeast	43,819,739	14.81%	12,003,605	13.36%
Midwest	22,854,242	7.73%	—	—
	\$ 295,821,250	100.00%	\$ 89,834,209	100.00%
Fair Value				
Northeast	\$ 75,541,204	27.08%	\$ 44,653,829	49.64%
West	81,780,209	29.31%	33,299,711	37.02%
Southwest	54,759,859	19.63%	—	—
Southeast	43,923,208	15.74%	12,003,605	13.34%
Midwest	22,990,939	8.24%	—	—
	\$ 278,995,419	100.00%	\$ 89,957,145	100.00%

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Set forth below are tables showing the composition of the Company's portfolio by industry at cost and fair value as of September 30, 2008 and September 30, 2007 (excluding unearned income):

	September 30, 2008		September 30, 2007		
Cost					
Trailer Leasing Services	\$	17,277,834	5.84%	\$	—
Data Processing and Outsourced Services		14,039,436	4.75%	9,970,473	11.10%
Footwear and Apparel		18,343,124	6.20%	—	—
Media-Advertising		12,996,004	4.39%	12,545,745	13.96%
Food Distributors		12,193,531	4.12%	12,003,604	13.36%
Household Products/Specialty Chemicals		11,993,804	4.05%	11,312,137	12.59%
Lumber Products		10,517,204	3.56%	—	—
Healthcare Technology		9,839,279	3.33%	9,772,320	10.88%
Commodity Chemicals		9,072,396	3.07%	8,858,179	9.86%
Restaurants		19,861,228	6.71%	7,661,378	8.53%
Leisure Facilities		7,613,288	2.57%	6,742,104	7.51%
Construction & Engineering		18,991,967	6.42%	5,946,671	6.62%
Building Products		7,064,333	2.39%	5,021,598	5.59%
Capital Goods		9,805,077	3.31%	—	—
Home Furnishing Retail		11,627,845	3.93%	—	—
Healthcare Service		23,920,446	8.09%	—	—
Manufacturing — Mechanical Products		15,800,700	5.34%	—	—
Housewares & Specialties		11,620,210	3.93%	—	—
Emulsions Manufacturing		9,661,464	3.27%	—	—
Entertainment — Theaters		12,024,583	4.06%	—	—
Healthcare Facilities		18,508,333	6.26%	—	—
Merchandise Display		13,049,166	4.41%	—	—
Total	\$	295,821,250	100.00%	\$	89,834,209
					100.00%

	September 30, 2008		September 30, 2007		
Fair Value					
Trailer Leasing Services	\$	17,276,694	6.19%	\$	—
Data Processing and Outsourced Services		13,886,592	4.98%	9,810,060	10.91%
Footwear and Apparel		18,242,368	6.54%	—	—
Media-Advertising		12,731,470	4.56%	12,537,793	13.93%
Food Distributors		12,193,531	4.37%	12,003,604	13.34%
Household Products/Specialty Chemicals		3,766,496	1.35%	11,312,137	12.58%
Lumber Products		4,557,565	1.63%	—	—
Healthcare Technology		10,014,925	3.59%	10,282,525	11.43%
Commodity Chemicals		8,977,066	3.22%	8,905,093	9.90%
Restaurants		18,188,499	6.52%	7,411,378	8.24%
Leisure Facilities		7,625,413	2.73%	6,742,696	7.50%
Construction & Engineering		18,921,866	6.78%	6,011,671	6.68%
Building Products		7,066,522	2.53%	4,940,188	5.49%
Capital Goods		9,941,774	3.57%	—	—
Home Furnishing Retail		10,931,391	3.92%	—	—
Healthcare Services		24,023,915	8.61%	—	—
Manufacturing — Mechanical Products		15,800,700	5.66%	—	—
Housewares & Specialties		11,608,669	4.16%	—	—

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

	<u>September 30, 2008</u>		<u>September 30, 2007</u>	
Emulsions Manufacturing	9,661,464	3.46%	—	—
Entertainment — Theatres	12,021,000	4.31%	—	—
Healthcare Facilities	18,508,333	6.64%	—	—
Merchandise Display	13,049,166	4.68%	—	—
Total	\$ 278,995,419	100.00%	\$ 89,957,145	100.00%

The Company's investments are generally in small and mid-sized companies in a variety of industries. At September 30, 2008, the Company had no investment that was greater than 10% of the total investment portfolio. At September 30, 2007, the Partnership had five investments that were greater than 10% of the total investment portfolio. Such investments represented approximately 62.2% of the fair value of the portfolio and approximately 61.9% of cost at September 30, 2007. Income, consisting of interest, dividends, fees, other investment income, and realization of gains or losses on equity interests, can fluctuate upon repayment of an investment or sale of an equity interest and in any given year can be highly concentrated among several investments. For the year ended September 30, 2008, no investment generated income exceeding 10% of investment income.

Note 4. Unearned Fee Income — Debt Origination Fees

The Company capitalizes upfront debt origination fees received in connection with financings and the unearned income from such fees is accreted into fee income over the life of the financing in accordance with the Statement of Financial Accounting Standards 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." The net balance is reflected as unearned income on the balance sheet.

Accumulated unearned fee income activity for the years ended September 30, 2008 and 2007 was as follows:

	<u>For the Year Ended September 30, 2008</u>		<u>For the Year Ended September 30, 2007</u>	
Beginning accumulated unearned fee income balance	\$	1,566,293	\$	—
Net fees received		5,478,011		1,795,125
Unearned fee income recognized		(1,808,039)		(228,832)
Ending Unearned Fee Income Balance	\$	5,236,265	\$	1,566,293

Note 5. Share Data and Stockholders' Equity

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

On June 3, 2008, the Company issued 133,217 shares of its common stock in conjunction with the dividend distribution.

On June 17, 2008, the Company completed an initial public offering of 10,000,000 shares of its common stock at the offering price of \$14.12 per share. The net proceeds totaled approximately \$129.4 million net of investment banking commissions of approximately \$9.9 million and offering costs of approximately \$1.9 million.

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

The following table sets forth the weighted average shares outstanding for computing basic and diluted income (loss) per common share for the year ended September 30, 2008.

	For the Year Ended September 30, 2008
Weighted average common shares outstanding, basic and diluted	15,557,469

On December 13, 2007, the Company adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our Board of Directors authorizes, and we declare, a cash distribution, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash distributions. On May 1, 2008, the Company declared a dividend of \$0.30 per share to stockholders of record on May 19, 2008. On June 3, 2008 the Company paid a cash dividend of approximately \$1.9 million and a stock dividend of 133,317 common shares totaling approximately \$1.9 million under the dividend reinvestment plan. On August 6, 2008, the Company declared a dividend of \$0.31 per share to stockholders of record on September 10, 2008. On September 26, 2008 the Company paid a cash dividend of \$5.1 million, and redistributed a total of 196,786 shares (\$1.9 million) of our common stock under our dividend reinvestment plan.

Note 6. Line of Credit

On January 15, 2008, the Company entered into a \$50 million secured revolving credit facility with the Bank of Montreal, at a rate of LIBOR plus 1.5%, with a one year maturity date. Additionally, the Company incurs a 30 basis points unused line fee on unused amounts under the line of credit. The credit facility is secured by the Company's existing investments. As of March 31, 2008, the Company had drawn approximately \$14.4 million on the credit facility to fund additional investments. The Company borrowed an additional \$35.6 million in the quarter ended June 30, 2008, and repaid the entire \$50 million loan by June 17, 2008. The weighted average rate for the loans was approximately 4.3%.

Under the credit facility, the Company must satisfy several financial covenants, including maintaining a minimum level of stockholders' equity, a maximum level of leverage and a minimum asset coverage ratio and interest coverage ratio. In addition, the Company must comply with other general covenants, including with respect to indebtedness, liens, restricted payments and mergers and consolidations. At September 30, 2008, the Company was in compliance with these covenants.

On November 28, 2008, Bank of Montreal approved a renewal of the Company's \$50 million credit facility, subject only to satisfactory documentation. The terms include a 50 basis points commitment fee, an interest rate of Libor +3.25% and a term of 364 days.

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

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Interest expense for the year ended September 30, 2008 was \$0.5 million, excluding interest on redeemable preferred stock of \$0.2 million and a redemption fee of \$0.2 million on the redemption of preferred stock. Interest expense for the period from February 15, 2007 through September 30, 2007 was \$0.5 million.

Note 7. Interest and Dividend Income

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. In accordance with the Company's valuation policy, accrued interest is evaluated periodically for collectability. Distributions from portfolio companies are recorded as dividend income when the distribution is received.

The Company holds debt in its portfolio that contains a payment-in-kind ("PIK") interest provision. The PIK interest, computed at the contractual rate specified in each debt agreement, is added to the principal balance of the debt and is recorded as interest income. Thus, the actual collection of this interest generally occurs at the time of repayment of the debt. The Company's policy is to stop accruing PIK interest, and write off any accrued and uncollected interest, when it is determined that PIK interest is no longer collectible.

As of September 30, 2008, the Company had no investments that were delinquent on interest payments or which were otherwise on non-accrual status.

Note 8. Fee 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.

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

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

For the year ended September 30, 2008, the Company had a realized gain of approximately \$62,000 from the sale of equity interest in Filet of Chicken.

Note 10. Concentration of Credit Risks

The Company places its cash in financial institutions, and at times, such balances may be in excess of the FDIC insured limit.

Note 11. Related Party Transactions

The Company has entered into an investment advisory agreement with the Investment Adviser. Under the investment advisory agreement the Company pays the Investment Adviser a fee for its services under the investment advisory agreement consisting of 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,

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

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 pro rated. In accordance with the Investment Advisory Agreement, the Investment Adviser has agreed to waive, through December 31, 2008, that portion of the base management fee attributable to the Company's assets held in the form of cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment.

Prior to the merger of the Partnership with and into the Company, which occurred on January 2, 2008, the Partnership paid the Investment Adviser a management fee (the "Management Fee"), subject to the adjustments as described in the Partnership Agreement, for investment advice equal to an annual rate of 2.00% of the aggregate capital commitments of all limited partners (other than affiliated limited partners) for each fiscal year (or portion thereof) provided, however, that commencing on the earlier of (1) the first day of the fiscal quarter immediately following the expiration of the commitment period, or (2) if a temporary suspension period became permanent in accordance with the Partnership Agreement, on the first day of the fiscal quarter immediately following the date of such permanent suspension, the Management Fee for each subsequent twelve month period was equal to 1.75% of the NAV of the Partnership (exclusive of the portion thereof attributable to the General Partner and the affiliated limited partners, based upon respective capital percentages).

For the year ended September 30, 2008 and the period February 15, 2007 through September 30, 2007, base management fees were approximately \$4.3 million and \$1.6 million, respectively.

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 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

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Investment Adviser with an incentive fee of 20% on all of the Company's Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when the Company's Pre-Incentive Fee Net Investment Income exceeds 2.5% in any fiscal quarter.

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

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

From the time the investment advisory agreement became effective, on January 2, 2008, through September 30, 2008, incentive fees were approximately \$4.1 million. There were no incentive fees for prior periods.

Transaction fees

Prior to the merger of the Partnership with and into the Company, which occurred on January 2, 2008, the Investment Adviser received 20% of transaction origination fees. For the year ended September 30, 2008, payments for the transaction fees paid to the Investment Adviser amounted to \$0.2 million and were expensed as incurred, compared to \$0.4 million for the period February 15, 2007 through September 30, 2007.

Indemnification

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

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 Securities and Exchange Commission. 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

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

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 his staff. 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 year ended September 30, 2008, the Company incurred administrative expenses of approximately \$1.6 million. At September 30, 2008, approximately \$0.6 million was included in Due to FSC, Inc. in the balance sheet.

Preferred Stock

On April 25, 2008, the Company sold 30,000 shares of Series A Preferred Stock to a company controlled by Bruce E. Toll, one of the Company's directors. On June 30, 2008, the Company redeemed 30,000 shares of Series A Preferred Stock at the mandatory redemption price of 101% of the liquidation preference or \$15,150,000. (see Note 13 — Preferred Stock).

Note 12. Financial Highlights

	For the Year Ended September 30, 2008(1)(2)	For the Period February 15 through September 30, 2007
<i>Per Share Data(3)</i>		
Net Asset value at beginning of period	\$ 8.56	NA
Adjustment to net asset value for new issuances of common stock	(3.84)	NA
Capital contributions	2.94	NA
Capital withdrawals	(0.12)	NA
Net proceeds from the issuance of common stock	5.73	NA
Net Investment Income	0.89	NA
Net change in unrealized appreciation (depreciation) of investments	(0.75)	NA
Cash dividends paid	(0.39)	NA
Net Asset value at end of period	\$ 13.02	\$ NA
Stockholders' Equity at beginning of period	\$ 106,815,695	\$ —
Stockholders' Equity at end of period	\$ 294,335,839	\$ 106,815,695
Average Stockholders' Equity(4)	\$ 205,932,850	\$ 30,065,414
Ratio of total expenses, excluding interest and line of credit guarantee expenses, to average stockholders' equity(5)	5.86%	8.53%
Ratio of total expenses to average stockholders' equity(5)	6.35%	11.10%
Ratio of net increase in net assets resulting from operations to ending stockholders' equity(5)	1.11%	1.01%
Ratio of unrealized appreciation (depreciation) in investments to ending stockholders' equity(5)	(5.76)%	0.12%
Total return to stockholders based on average stockholders' equity(5)	1.58%	3.60%
Weighted Average outstanding debt(6)	\$ 11,887,427	\$ 12,155,296

FIFTH STREET FINANCE CORP.
NOTES TO FINANCIAL STATEMENTS — (Continued)

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- (1) The amounts reflected in the financial highlights above represent net assets, income and expense ratios for all stockholders.
 - (2) Per share data for the year ended September 30, 2008 presumes the issuance of the 12,480,972 common shares at October 1, 2007 which were actually issued on January 2, 2008 due to the merger. There was no established public trading market for the stock for the period prior to October 1, 2007.
 - (3) Based on actual shares outstanding at the end of the corresponding period.
 - (4) Calculated based upon the daily weighted average stockholders' equity for the period.
 - (5) Interim periods are not annualized.
 - (6) Calculated based upon the daily weighted average of loans payable for the period.

Note 13. Preferred Stock

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

Note 14. Subsequent Events

On October 10, 2008, Rose Tarlow made a \$350,000 draw on its previously undrawn revolver. Prior to the draw, the Company's unfunded commitment was \$2.65 million. In addition, the revolver interest rate increased to 12% and the term loan increased to 12.5%.

On October 15, 2008, the Company announced an \$8.0 million Open Market Share Repurchase Plan. Under this plan, the Company may repurchase up to \$8.0 million of common stock at prices below its net asset value as reported in the most recently published financial statements. The program expires December 31, 2009, unless otherwise extended by the Company's Board of Directors.

On October 29, 2008, the Company made an \$11.0 million investment in Cenegenics LLC, an age management medical institution headquartered in Las Vegas, Nevada. The Company's investment consists of an \$11.0 million term loan with a 17.0% annual interest rate.

On November 4, 2008, the Company terminated its unfunded commitment of \$11.0 million to Martini Park.

On November 26, 2008, the Company invested an additional \$7.0 million in Boot Barn, an existing portfolio company, to support an acquisition and additional equity investment. The new investment consists of a \$7.0 million term loan with a 17% annual interest rate.

FIFTH STREET FINANCE CORP.

NOTES TO FINANCIAL STATEMENTS — (Continued)

On November 28, 2008, Bank of Montreal approved a renewal of the Company's \$50 million credit facility, subject only to satisfactory documentation. The terms include a 50 basis points commitment fee, an interest rate of Libor +3.25% and a term of 364 days.

On December 1, 2008, the Company invested an additional \$5.3 million in MK Network, LLC to support an acquisition. The new investment consists of a \$5.3 million term loan with a 17.5% annual interest rate.

On December 9, 2008, the Company's Board of Directors declared a cash dividend of \$0.32 per share payable on December 29, 2008 to stockholders of record as of December 19, 2008 for the first fiscal quarter of 2009, and a cash dividend of \$0.33 per share payable on January 29, 2009 to stockholders of record as of December 30, 2008 for the second fiscal quarter of 2009.

Fifth Street Finance Corp.

Schedule of Investments in and Advances to Affiliates

Portfolio Company/Type of Investment(1)	Amount of Interest, Fees or Dividends Credited to Income(2)	Fair Value at October 1, 2007	Gross Additions(3)	Gross Reductions(4)	Fair Value at September 30, 2008
Affiliate Investments					
O'Curran, Inc.					
First Lien Term Loan A, 16.875% due 3/21/2012	\$ 1,790,771	\$ 9,590,060	\$ 428,261	\$ —	\$ 10,018,321
First Lien Term Loan B, 16.875% due 3/21/2012	636,654	—	3,890,702	(250,000)	3,640,702
1.75% Preferred Membership Interest in O'Curran Holding Co., LLC	—	130,413	—	—	130,413
3.3% Membership Interest in O'Curran Holding Co., LLC	—	89,587	7,569	—	97,156
CPAC, Inc.					
Second Lien Term Loan, 17.5% due 4/13/2012	2,215,149	9,015,137	681,669	(5,930,310)	3,766,496
2,297 shares of Common Stock	—	2,297,000	—	(2,297,000)	—
Elephant & Castle, Inc.					
Second Lien Term Loan, 15.5% due 4/20/2012	1,444,184	6,911,378	365,070	—	7,276,448
7,500 shares of Series A Preferred Stock	—	500,000	—	(303,614)	196,386
MK Network, LLC					
First Lien Term Loan A, 13.5% due 6/1/2012	1,492,572	9,187,525	66,959	—	9,254,484
First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010	18,667	—	—	—	—
11,030 Membership Units	—	1,095,000	—	(334,559)	760,441
Rose Tarlow, Inc.					
First Lien Term Loan, 12% due 1/25/2014	871,242	—	9,977,845	—	9,977,845
First Lien Revolver, LIBOR+4% (9% floor) due 1/25/2014	4,733	—	350,000	—	350,000
6.9% membership interest in RTMH Acquisition Company	—	—	1,275,000	(683,061)	591,939
0.1% membership interest in RTMH Acquisition Company	—	—	25,000	(13,393)	11,607
Martini Park, LLC					
First Lien Term Loan, 14% due 2/20/2013	437,286	—	3,479,017	(469,113)	3,009,904
5% membership interest	—	—	650,000	(650,000)	—

Portfolio Company/Type of Investment(1)	Amount of Interest, Fees or Dividends Credited to Income(2)	Fair Value at October 1, 2007	Gross Additions(3)	Gross Reductions(4)	Fair Value at September 30, 2008
Caregiver Services, Inc.					
Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013	600,613	—	9,649,100	—	9,649,100
Second Lien Term Loan B, 16.5% due 2/25/2013	1,561,809	—	13,190,948	—	13,190,948
1,080,399 shares of Series A Preferred Stock	—	—	1,183,867	—	1,183,867
Total Affiliate Investments	\$ 11,073,680	\$ 38,816,100	\$ 45,221,007	\$ (10,931,050)	\$ 73,106,057

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

- (1) The principal amount and ownership detail is shown in the Schedule of Investments.
- (2) Represents the total amount of interest, fees and dividends credited to income for the portion of the year an investment was included in the Control or Non-Control/Non-Affiliate categories, respectively.
- (3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, follow-on Investments and accrued PIK interest, and the exchange of one or more existing securities for one or more new securities, Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation as well as the movement of an existing portfolio company into this category or out of a different category.
- (4) Gross reductions include decreases in the cost basis of investment resulting from principal payments or sales and exchanges of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation as well as the movement of an existing portfolio company out of this category and into a different category.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. Financial Statements

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	2
Balance Sheet as of September 30, 2008 and 2007	3
Statements of Operations for the Year Ended September 30, 2008 and the Period February 15 through September 30, 2007	4
Statements of Changes in Net Assets for the Year Ended September 30, 2008 and the Period February 15 through September 30, 2007	5
Statements of Cash Flows for the Year Ended September 30, 2008 and the Period February 15 through September 30, 2007	6
Schedule of Investments as of September 30, 2008 and 2007	7
Notes to Consolidated Financial Statements	12
Schedule of Investments in and Advances to Affiliates	30

2. Financial Statement Schedules

No financial statement schedules are filed herewith because (1) such schedules are not required or (2) the information has been presented in the aforementioned financial statements.

3. Exhibits

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

- 3.1 Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 filed with Fifth Street Finance Corp.'s Form 8-A (File No. 001-33901) filed on January 2, 2008).
- 3.2 Certificate of Amendment to the Registrant's Restated Certificate of Incorporation (Incorporated by reference to Exhibit (a)(2) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008).
- 3.3 Certificate of Correction to the Certificate of Amendment to the Registrant's Restated Certificate of Incorporation (Incorporated by reference to Exhibit (a)(3) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008).
- 3.4 Amended and Restated By-laws of the Registrant (Incorporated by reference to Exhibit 3.2 filed with Fifth Street Finance Corp.'s Form 8-A (File No. 001-33901) filed on January 2, 2008).
- 4.1 Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 filed with Fifth Street Finance Corp.'s Form 8-A (File No. 001-33901) filed on January 2, 2008).
- 10.1 Amended and Restated Dividend Reinvestment Plan (Incorporated by reference to Exhibit (e) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008).
- 10.2 Form of Amended and Restated Investment Advisory Agreement by and between Registrant and Fifth Street Management LLC (Incorporated by reference to Exhibit (g) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on May 8, 2008).
- 10.3 Custodial Agreement (Incorporated by reference to Exhibit (j) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008).
- 10.4 Form of Administration Agreement by and between Registrant and FSC, Inc. (Incorporated by reference to Exhibit (k)(1) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on May 8, 2008).
- 10.5 Form of License Agreement by and between Registrant and Fifth Street Capital LLC (Incorporated by reference to Exhibit (k)(2) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on May 8, 2008).

- 10.6 Secured Revolving Credit Agreement between Registrant and Bank of Montreal (Incorporated by reference to Exhibit (k)(3) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008).
- 10.7 Guarantee and Security Agreement between Registrant and Bank of Montreal (Incorporated by reference to Exhibit (k)(4) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008).
- 10.8 First Amendment to Secured Revolving Credit Agreement between Registrant and Bank of Montreal (Incorporated by reference to Exhibit (k)(5) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008).
- 10.9 First Amendment to Guarantee and Security Agreement between Registrant and Bank of Montreal (Incorporated by reference to Exhibit (k)(6) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-146743) filed on June 6, 2008).
- 31.1* Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2* Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32.1* Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U. S. C. 1350).
- 32.2* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U. S. C. 1350).

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIFTH STREET FINANCE CORP.

By: /s/ Leonard M. Tannenbaum
Leonard M. Tannenbaum
Chairman, President and Chief Executive Officer

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

Date: July 14, 2009

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
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).

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS AMENDED**

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

1. I have reviewed the annual report on Form 10-K for the year ended September 30, 2008 of Fifth Street Finance Corp. as amended by this annual report on Form 10-K/A for the year ended September 30, 2008 (collectively, "this report");
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 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)) 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) 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
 - (c) 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.

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

Dated this 14th day of July, 2009.

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS AMENDED**

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

1. I have reviewed the annual report on Form 10-K for the year ended September 30, 2008 of Fifth Street Finance Corp. as amended by this annual report on Form 10-K/A for the year ended September 30, 2008 (collectively, "this report");

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 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)) 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) 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

(c) 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.

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

Dated this 14th day of July, 2009.

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

In connection with the annual report on Form 10-K for the year ended September 30, 2008 as amended by this annual report on Form 10-K/A for the year ended September 30, 2008 (collectively, "this 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) This 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 this 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: July 14, 2009

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

In connection with the annual report on Form 10-K for the year ended September 30, 2008 as amended by this annual report on Form 10-K/A for the year ended September 30, 2008 (collectively, "this report") of Fifth Street Finance Corp. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, William H. Craig, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) This 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 this report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ William H. Craig

Name: William H. Craig

Date: July 14, 2009