UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2008

OR

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

For the transition period from: __________ to __________

Commission File Number: 01-33901

Fifth Street Finance Corp.

(Exact name of registrant as specified in its charter)

Delaware	**26-1219283**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
445 Hamilton Ave, Suite 1206 **White Plains, NY**	**10601**
(Address of principal executive offices)	(Zip Code)

(914) 286-6800
(Registrant's telephone number including area code)
n/a
(Former name former address and former fiscal year if changed since last report)

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

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

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

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

The number of shares outstanding of the issuer's common stock as of January 28, 2009 was 22,641,615.

FIFTH STREET FINANCE CORP.

FORM 10-Q FOR THE THREE MONTHS ENDED DECEMBER 31, 2008

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Fifth Street Finance Corp.
Balance Sheets
(unaudited)

	December 31, 2008	September 30, 2008
Assets		
Investments at fair value:		
Affiliate investments (cost 12/31/2008: $87,436,639; 9/30/2008: $81,820,636)	$ 71,096,995	$ 71,350,417
Non-control/Non-affiliate investments (cost 12/31/2008: $219,082,778; 9/30/2008: $208,764,349)	200,114,155	202,408,737
Total investments at fair value	**271,211,150**	**273,759,154**
Cash and cash equivalents	7,194,139	22,906,376
Interest receivable	2,598,215	2,367,806
Due from portfolio company	66,084	80,763
Prepaid expenses	259,583	34,706
Total Assets	**$ 281,329,171**	**$ 299,148,805**
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 360,879	$ 567,691
Base management fee payable	1,370,675	1,381,212
Incentive fee payable	2,052,595	1,814,013
Dividends payable	8,603,814	—
Due to FSC, Inc.	302,258	574,102
Interest payable	417	38,750
Payments received in advance from portfolio companies	90,102	133,737
Offering costs payable	—	303,461
Total Liabilities	**12,780,740**	**4,812,966**
Commitments and Contingencies (Note 3)		
Stockholders' Equity :		
Common stock, $0.01 par value, 49,800,000 shares authorized, 22,641,615 and 22,614,289 shares issued and outstanding at December 31, 2008 and September 30, 2008	226,416	226,143
Additional paid-in-capital	300,823,954	300,524,155
Net unrealized depreciation on investments	(35,308,268)	(16,825,831)
Net realized gain on investments	62,487	62,487
Accumulated undistributed net investment income	2,743,842	10,348,885
Total Stockholders' Equity	**268,548,431**	**294,335,839**
Total Liabilities and Stockholders' Equity	**$ 281,329,171**	**$ 299,148,805**

See notes to Financial Statements.

Fifth Street Finance Corp.
Statements of Operations
(unaudited)

	For the three months ended December 31, 2008	2007
Investment income:		
Interest income:		
Affiliate investments	$ 3,071,523	$ 1,744,976
Non-control/Non- affiliate investments	8,335,053	3,195,565
Interest on cash and cash equivalents	79,190	212,569
Total interest income	**11,485,766**	**5,153,110**
Fee income:		
Affiliate investments	446,913	109,054
Non-control/Non- affiliate investments	616,610	164,670
Total fee income	**1,063,523**	**273,724**
Dividend and other income:		
Other income	35,396	—
Total dividend and other income	35,396	—
Total investment income	**12,584,685**	**5,426,834**
Expenses:		
Base management fees	1,370,675	844,522
Incentive fees	2,052,595	—
Professional fees	385,943	206,329
Board of Directors fees	39,250	—
Organizational costs	—	146,432
Interest expense	40,158	114,699
Administrator expense	180,430	109,340
Line of credit guarantee expense	—	83,333
Transaction fees	—	206,726
General and administrative expenses	305,252	41,452
Total expenses	**4,374,303**	**1,752,833**
Net investment income	**8,210,382**	**3,674,001**
Unrealized depreciation on investments:		
Affiliate investments	(5,869,425)	(408,031)
Non-control/Non- affiliate investments	(12,613,013)	(68,306)
Total unrealized depreciation on investments	**(18,482,438)**	**(476,337)**
Net increase (decrease) in net assets resulting from operations	**$ (10,272,056)**	**$ 3,197,664**
Earnings (loss) per common share-basic and diluted(1)	$ (0.46)	$ 0.26
Net investment income per common share-basic and diluted(1)	$ 0.36	$ 0.29
Weighted average common shares-basic and diluted	22,562,191	12,480,972

(1) The earnings and net investment income per share calculations for the three months ended December 31, 2007 are based on the assumption that, if the number of shares issued at the time of the merger of Fifth Street Mezzanine Partners III L.P. with and into Fifth Street Finance Corp. on January 2, 2008 (12,480,972 shares of common stock) had been issued at the beginning of the three-month period, on October 1, 2007, Fifth Street Finance Corp's earnings and net investment income per share would have been $0.26 and $0.29 per share, respectively.

See notes to Financial Statements.

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

	For the three months ended December 31, 2008	2007
Operations:		
Net investment income	$ 8,210,382	$ 3,674,001
Net unrealized depreciation on investments	(18,482,438)	(476,337)
Net increase (decrease) in net assets from operations	**(10,272,056)**	**3,197,664**
Stockholder transactions:		
Distributions to stockholders from net investment income	(15,815,427)	—
Net decrease in assets from stockholder transactions	**(15,815,427)**	**—**
Capital share transactions:		
Issuance of common stock under dividend reinvestment plan	762,557	—
Repurchases of common stock	(462,482)	—
Capital contributions from partners	—	66,497,000
Capital withdrawals by partners	—	(2,810,369)
Net increase in assets from capital share transactions	**300,075**	**63,686,631**
Total increase (decrease) in net assets	**(25,787,408)**	**66,884,295**
Net assets at beginning of period	294,335,839	106,815,695
Net assets at end of period	**$ 268,548,431**	**$ 173,699,990**
Net asset value per common share	**$ 11.86**	**$ 13.92**
Common shares outstanding at end of period	22,641,615	12,480,972

See notes to Financial Statements.

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

	Three months ended December 31, 2008	2007
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	$ (10,272,056)	$ 3,197,664
Change in unrealized depreciation on investments	18,482,438	476,337
Paid-in-kind income, net of cash received	(1,696,351)	(728,483)
Recognition of fee income	(1,063,524)	(273,724)
Accretion of original issue discount on investments	(195,922)	(187,212)
Other income	(35,396)	—
Change in operating assets and liabilities:		
Fee income received	982,763	1,048,500
Increase in interest receivable	(230,409)	(417,052)
Decrease in due from portfolio company	14,679	127,715
Decrease in prepaid management fees	—	252,586
Increase in prepaid expenses	(224,877)	—
Decrease in accounts payable, accrued expenses and other liabilities	(206,812)	(317,107)
Decrease in base management fee payable	(10,537)	—
Increase in incentive fee payable	238,582	—
Decrease in due to FSC, Inc.	(271,844)	—
Decrease in interest payable	(38,333)	(9,934)
Increase (decrease) in payments received in advance from portfolio companies	(43,635)	36,003
Purchases of investments	(23,650,000)	(45,200,117)
Principal payments received on investments	9,688,600	62,500
Net cash used by operating activities	**(8,532,634)**	**(41,932,324)**
Dividends paid in cash	(6,449,056)	—
Repurchases of common stock	(462,482)	—
Capital contributions	—	66,497,000
Capital withdrawals	—	(2,810,369)
Borrowings	—	28,250,000
Repayments of borrowings	—	(28,250,000)
Offering costs paid	(268,065)	(518,915)
Net cash provided (used) by financing activities	**(7,179,603)**	**63,167,716**
Net increase (decrease) in cash and cash equivalents	**(15,712,237)**	**21,235,392**
Cash and cash equivalents, beginning of period	22,906,376	17,654,056
Cash and cash equivalents, end of period	**$ 7,194,139**	**$ 38,889,448**
Supplemental Information:		
Cash paid for interest	$ 78,491	$ 124,633
Non-cash financing activities:		
Issuance of shares of common stock under dividend reinvestment plan	$ 762,557	$ —

See notes to Financial Statements.

Fifth Street Finance Corp.
Schedule of Investments
December 31, 2008
(unaudited)

Portfolio Company /Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Control Investments(3)				
Affiliate Investments(4)				
O'Currance, Inc	Data Processing & Outsourced Services			
First Lien Term Loan A, 16.875% due 3/21/2012		$10,212,525	$10,008,196	$10,008,196
First Lien Term Loan B, 16.875% due 3/21/2012		3,425,481	3,370,271	3,370,271
1.75% Preferred Membership Interest in O'Currance Holding Co., LLC			130,413	—
3.3% Membership Interest in O'Currance Holding Co., LLC			250,000	57,274
			13,758,880	**13,435,741**
CPAC, Inc.(9)	Household Products & Specialty Chemicals			
Second Lien Term Loan, 17.5% due 4/13/2012		10,734,808	9,519,244	1,043,762
Common Stock			2,297,000	—
			11,816,244	**1,043,762**
Elephant & Castle, Inc.	Restaurants			
Second Lien Term Loan, 15.5% due 4/20/2012		7,864,525	7,247,086	7,247,086
Series A Preferred Stock			750,000	84,762
			7,997,086	**7,331,848**
MK Network, LLC	Healthcare technology			
First Lien Term Loan A, 13.5% due 6/1/2012		9,500,000	9,141,391	9,121,974
First Lien Term Loan B, 17.5% due 6/1/2012		5,318,256	5,007,659	4,997,023
First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010 - undrawn revolver of $2,000,000		—	(9,447)	(9,447)
Membership Units(6)			771,575	196,662
			14,911,178	**14,306,212**

Fifth Street Finance Corp.
Schedule of Investments
December 31, 2008
(unaudited)

Portfolio Company /Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Rose Tarlow, Inc.(9)	Home Furnishing Retail			
First Lien Term Loan, 12% due 1/25/2014		10,000,000	9,803,776	8,257,802
First Lien Revolver, LIBOR+4% (9% floor) due 1/25/2014 - undrawn revolver of $2,300,000		700,000	674,583	568,207
6.9% membership interest in RTMH Acquisition Company			1,275,000	284,904
0.1% membership interest in RTMH Acquisition Company			25,000	4,129
			11,778,359	**9,115,042**
Martini Park, LLC(9)	Restaurants			
First Lien Term Loan, 14% due 2/20/2013		4,133,184	3,412,351	2,712,825
5% membership interest			650,000	—
			4,062,351	**2,712,825**
Caregiver Services, Inc.	Healthcare services			
Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013		9,642,649	9,064,549	9,064,549
Second Lien Term Loan B, 16.5% due 2/25/2013		13,917,461	12,967,594	12,967,594
Series A Preferred Stock			1,080,398	1,119,422
			23,112,541	**23,151,565**
Total Affiliate Investments			**$87,436,639**	**$71,096,995**
Non-Control/Non-Affiliate Investments(7)				
Best Vinyl Acquisition Corporation(9)	Building Products			
Second Lien Term Loan, 12% due 3/30/2013		7,000,000	6,732,521	6,732,521
Series A Preferred Stock			253,846	177,515
Common Stock			2,564	—
			6,988,931	**6,910,036**
Traffic Control & Safety Corporation	Construction and Engineering			
Second Lien Term Loan, 15% due 6/29/2014		18,882,532	18,656,651	18,377,406
Series B Preferred Stock			247,500	135,653
Common Stock			2,500	—

Fifth Street Finance Corp.
Schedule of Investments
December 31, 2008
(unaudited)

Portfolio Company /Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
			18,906,651	**18,513,059**
Nicos Polymers & Grinding Inc.(9)	Commodity Chemicals			
First Lien Term Loan A, LIBOR+5% (10% floor), due 7/17/2012		3,170,158	3,148,363	3,147,521
First Lien Term Loan B, 13.5% due 7/17/2012		5,834,741	5,653,360	5,651,849
Interest in Crownbrook Acquisition I LLC			168,086	20,455
			8,969,809	**8,819,825**
TBA Global, LLC(9)	Media: Advertising			
Second Lien Term Loan A, LIBOR+5% (10% floor), due 8/3/2010		2,544,946	2,534,199	2,421,156
Second Lien Term Loan B, 14.5% due 8/3/2012		10,475,852	9,993,889	9,548,093
Senior Preferred Shares			215,975	—
Shares A Shares			191,977	—
			12,936,040	**11,969,249**
Fitness Edge, LLC	Leisure Facilities			
First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012		2,125,000	2,110,379	1,973,991
First Lien Term Loan B, 15% due 8/8/2012		5,387,736	5,248,324	4,909,140
Common Units			42,908	41,796
			7,401,611	**6,924,927**
Filet of Chicken(9)	Food Distributors			
Second Lien Term Loan, 14.5% due 7/31/2012		12,572,234	12,061,775	12,061,775
			12,061,775	**12,061,775**
Boot Barn(9)	Footwear and Apparel			
Second Lien Term Loan, 14.5% due 10/3/2013		21,595,933	21,373,170	21,373,170
Series A Preferred Stock			247,060	72,455
Common Stock			131	—
			21,620,361	**21,445,625**

Fifth Street Finance Corp.
Schedule of Investments
December 31, 2008
(unaudited)

Portfolio Company /Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
American Hardwoods Industries	Lumber Products			
Holdings, LLC(9)				
Second Lien Term Loan, 15% due 10/15/2012		10,073,644	10,099,746	1,683,448
Membership Units			250,000	—
			10,349,746	**1,683,448**
Premier Trailer Leasing, Inc.	Trailer Leasing Services			
Second Lien Term Loan, 16.5% due 10/23/2012		17,421,517	17,147,648	14,367,105
Common Stock			1,140	—
			17,148,788	**14,367,105**
Pacific Press Technologies, Inc.				
Second Lien Term Loan, 14.75% due 1/10/2013	Capital Goods	9,611,682	9,376,031	9,376,031
Common Stock			344,513	390,768
			9,720,544	**9,766,799**
Goldco, LLC				
Second Lien Term Loan, 17.5% due 1/31/2013	Restaurants	7,784,800	7,664,800	7,664,800
			7,664,800	**7,664,800**
Lighting by Gregory, LLC	Housewares & Specialties			
First Lien Term Loan A, 9.75% due 2/28/2013		4,250,003	4,178,589	2,708,158
First Lien Term Loan B, 14.5% due 2/28/2013		7,020,772	6,906,440	4,476,088
1.1% membership interest			110,000	—
			11,195,029	**7,184,246**
Rail Acquisition Corp.	Manufacturing - Mechanical Products			
First Lien Term Loan, 17% due 4/1/2013		15,831,952	15,538,599	15,538,599
			15,538,599	**15,538,599**
Western Emulsions, Inc.	Emulsions Manufacturing			
Second Lien Term Loan, 15% due 6/30/2014		9,723,322	9,591,322	9,591,322
			9,591,322	**9,591,322**

Fifth Street Finance Corp.
Schedule of Investments
December 31, 2008
(unaudited)

Portfolio Company /Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Storytellers Theaters Corporation	Entertainment - Theaters			
First Lien Term Loan, 15% due 7/16/2014		7,219,029	7,093,323	7,093,323
First Lien Revolver, LIBOR+3.5% (10% floor), due 7/16/2014 - undrawn revolver of $2,000,000		—	(18,333)	(18,333)
Common Stock			169	—
Preferred Stock			200,000	107,919
			7,275,159	**7,182,909**
HealthDrive Corporation	Healthcare facilities			
First Lien Term Loan A, 10% due 7/17/2013		7,950,000	7,877,478	7,226,347
First Lien Term Loan A, 13% due 7/17/2013		10,008,611	9,828,611	9,016,204
First Lien Revolver, 12% due 7/17/2013 - undrawn revolver of $1,750,000		250,000	232,000	212,824
			17,938,089	**16,455,375**
idX Corporation	Merchandise Display			
Second Lien Term Loan, 14.5% due 7/1/2014		13,115,975	12,877,641	12,877,641
			12,877,641	**12,877,641**
Cenegenics, LLC	Healthcare services			
First Lien Term Loan, 17% due 10/27/2013		11,098,014	10,746,775	10,746,775
Common Units			151,108	410,640
			10,897,883	**11,157,415**
Total Non-Control/Non-Affiliate Investments			**$219,082,778**	**$200,114,155**
Total Portfolio Investments			**$306,519,417**	**$271,211,150**

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

(2) See Note 3 for summary geographic location.

(3) Control Investments are defined by the Investment Company Act of 1940 ("1940 Act") as investments in companies in which the Company owns more than 25% of the voting securities or maintains greater than 50% of the board representation. As of December 31, 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) Principal includes accumulated PIK interest and is net of repayments.

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

Portfolio Company	**Effective date**	**Cash interest**	**PIK interest**	**Reason**
CPAC, Inc.	November 21, 2008	-	+ 1.0% on Term Loan	Per waiver agreement
Rose Tarlow, Inc.	October 10, 2008	+ 3.0% on Revolver + 0.5% on Term Loan	-	Per waiver agreement
Martini Park, LLC	October 1, 2008	- 6.0% on Term Loan	+ 6.0% on Term Loan	Per waiver agreement
Best Vinyl Acquisition Corporation	April 1, 2008	+ 0.5% on Term Loan	-	Per loan amendment
Nicos Polymers & Grinding, Inc.	February 10, 2008	-	+ 2.0% on Term Loan A and B	Per waiver agreement
TBA Global, LLC	February 15, 2008	-	+ 2.0% on Term Loan A & B	Per waiver agreement
Filet of Chicken	August 1, 2008	+ 1.0% on Term Loan	+ 1.0% on Term Loan	Per loan amendment
Boot Barn	October 23, 2008	+ 0.5% on Term Loan	+ 2.0% on Term Loan	Per waiver agreement
American Hardwoods Industries Holdings, LLC	April 1, 2008	+ 6.75% on Term Loan	- 3.0% on Term Loan	Default interest retroactively imposed per credit agreement

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(8)	Cost	Fair Value
Control Investments(3)				
Affiliate Investments(4)				
O'Currance, Inc	Data Processing & Outsourced Services			
First Lien Term Loan A, 16.875% due 3/21/2012		$10,108,838	$ 9,888,488	$ 9,888,488
First Lien Term Loan B, 16.875% due 3/21/2012		3,640,702	3,581,245	3,581,245
3.3% Membership Interest in O'Currance Holding Co., LLC			250,000	97,156
1.75% Preferred Membership Interest in O'Currance Holding Co., LLC			130,413	130,413
			13,850,146	**13,697,302**
CPAC, Inc.	Household Products & Specialty Chemicals			
Second Lien Term Loan, 17.5% due 4/13/2012		10,613,769	9,556,805	3,626,497
Common Stock			2,297,000	—
			11,853,805	**3,626,497**
Elephant & Castle, Inc.	Restaurants			
Second Lien Term Loan, 15.5% due 4/20/2012		7,809,513	7,145,198	7,145,198
Series A Preferred Stock			750,000	196,386
			7,895,198	**7,341,584**
MK Network, LLC	Healthcare technology			
First Lien Term Loan A, 13.5% due 6/1/2012		9,500,000	9,115,152	9,115,152
First Lien Term Loan B, 17.5% due 6/1/2012		—	—	—
First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010 - undrawn revolver of $2,000,000		—	(11,113)	(11,113)
Membership Units(6)			584,795	760,441
			9,688,834	**9,864,480**
Rose Tarlow, Inc.	Home Furnishing Retail			
First Lien Term Loan, 12% due 1/25/2014		10,000,000	9,796,648	9,796,648
First Lien Revolver, LIBOR+4% (9% floor) due 1/25/2014 - undrawn revolver of $2,650,000		350,000	323,333	323,333
6.9% membership interest in RTMH Acquisition Company			1,275,000	591,939
0.1% membership interest in RTMH Acquisition Company			25,000	11,607
			11,419,981	**10,723,527**

Fifth Street Finance Corp.
Schedule of Investments
September 30, 2008

Portfolio Company /Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Martini Park, LLC	Restaurants			
First Lien Term Loan, 14% due 2/20/2013		4,049,822	3,188,351	2,719,236
5% membership interest			650,000	—
			3,838,351	**2,719,236**
Caregiver Services, Inc.	Healthcare services			
Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013		10,000,000	9,381,973	9,381,973
Second Lien Term Loan B, 16.5% due 2/25/2013		13,809,891	12,811,950	12,811,951
Series A Preferred Stock			1,080,398	1,183,867
			23,274,321	**23,377,791**
Total Affiliate Investments			**$81,820,636**	**$71,350,417**
Non-Control/Non-Affiliate Investments(7)				
Best Vinyl Acquisition Corporation(9)	Building Products			
Second Lien Term Loan, 12% due 3/30/2013		7,000,000	6,716,712	6,716,712
Series A Preferred Stock			253,846	253,846
Common Stock			2,564	4,753
			6,973,122	**6,975,311**
Traffic Control & Safety Corporation	Construction and Engineering			
Second Lien Term Loan, 15% due 6/29/2014		18,741,969	18,503,268	18,503,268
Series B Preferred Stock			247,500	179,899
Common Stock			2,500	—
			18,753,268	**18,683,167**
Nicos Polymers & Grinding Inc.(9)	Commodity Chemicals			
First Lien Term Loan A, LIBOR+5% (10% floor), due 7/17/2012		3,216,511	3,192,408	3,192,408
First Lien Term Loan B, 13.5% due 7/17/2012		5,786,547	5,594,313	5,594,313
Interest in Crownbrook Acquisition I LLC			168,086	72,756
			8,954,807	**8,859,477**
TBA Global, LLC(9)	Media: Advertising			
Second Lien Term Loan A, LIBOR+5% (10% floor), due 8/3/2010		2,531,982	2,516,148	2,516,148
Second Lien Term Loan B, 14.5% due 8/3/2012		10,369,491	9,857,130	9,857,130
Senior Preferred Shares			215,975	143,418
Shares A Shares			191,977	—
			12,781,230	**12,516,696**

Fifth Street Finance Corp.
Schedule of Investments
September 30, 2008

Portfolio Company /Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Fitness Edge, LLC	Leisure Facilities			
First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012		2,250,000	2,233,636	2,233,636
First Lien Term Loan B, 15% due 8/8/2012		5,353,461	5,206,261	5,206,261
Common Units			42,908	55,033
			7,482,805	**7,494,930**
Filet of Chicken(9)	Food Distributors			
Second Lien Term Loan, 14.5% due 7/31/2012		12,516,185	11,994,788	11,994,788
			11,994,788	**11,994,788**
Boot Barn	Footwear and Apparel			
Second Lien Term Loan, 14.5% due 10/3/2013		18,095,935	17,788,078	17,788,078
Series A Preferred Stock			247,060	146,435
Common Stock			131	—
			18,035,269	**17,934,513**
American Hardwoods Industries Holdings, LLC(9)	Lumber Products			
Second Lien Term Loan, 15% due 10/15/2012		10,334,704	10,094,129	4,384,489
Membership Units			250,000	—
			10,344,129	**4,384,489**
Premier Trailer Leasing, Inc.	Trailer Leasing Services			
Second Lien Term Loan, 16.5% due 10/23/2012		17,277,619	16,985,473	16,985,473
Common Stock			1,140	—
			16,986,613	**16,985,473**
Pacific Press Technologies, Inc.				
Second Lien Term Loan, 14.75% due 1/10/2013	Capital Goods	9,544,447	9,294,486	9,294,486
Common Stock			344,513	481,210
			9,638,999	**9,775,696**
Goldco, LLC				
Second Lien Term Loan, 17.5% due 1/31/2013	Restaurants	7,705,762	7,578,261	7,578,261
			7,578,261	**7,578,261**
Lighting by Gregory, LLC	Housewares & Specialties			
First Lien Term Loan A, 9.75% due 2/28/2013		4,500,002	4,420,441	4,420,441
First Lien Term Loan B, 14.5% due 2/28/2013		7,010,207	6,888,876	6,888,876
1.1% membership interest			110,000	98,459
			11,419,317	**11,407,776**

Fifth Street Finance Corp.
Schedule of Investments
September 30, 2008

Portfolio Company /Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Rail Acquisition Corp.	Manufacturing - Mechanical Products			
First Lien Term Loan, 17% due 4/1/2013		15,800,700	15,494,737	15,494,737
			15,494,737	**15,494,737**
Western Emulsions, Inc.	Emulsions Manufacturing			
Second Lien Term Loan, 15% due 6/30/2014		9,661,464	9,523,464	9,523,464
			9,523,464	**9,523,464**
Storytellers Theaters Corporation	Entertainment - Theaters			
First Lien Term Loan, 15% due 7/16/2014		11,824,414	11,598,248	11,598,248
First Lien Revolver, LIBOR+3.5% (10% floor), due 7/16/2014 - undrawn revolver of $2,000,000		—	(17,566)	(17,566)
Common Stock			169	—
Preferred Stock			200,000	196,588
			11,780,851	**11,777,270**
HealthDrive Corporation	Healthcare facilities			
First Lien Term Loan A, 10% due 7/17/2013		8,000,000	7,923,357	7,923,357
First Lien Term Loan A, 13% due 7/17/2013		10,008,333	9,818,333	9,818,333
First Lien Revolver, 12% due 7/17/2013 - undrawn revolver of $1,500,000		500,000	481,000	481,000
			18,222,690	**18,222,690**
idX Corporation	Merchandise Display			
Second Lien Term Loan, 14.5% due 7/1/2014		13,049,166	12,799,999	12,799,999
			12,799,999	**12,799,999**
Total Non-Control/Non-Affiliate Investments			**$208,764,349**	**$202,408,737**
Total Portfolio Investments			**$290,584,985**	**$273,759,154**

(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, 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 partnership owns between 5% and 25% of the voting securities.

(5) Equity ownership maybe 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) Principal includes accumulated PIK interest and is net of repayments.

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

Portfolio Company	Effective date	Cash interest	PIK interest	Reason
Best Vinyl Acquisition Corporation	April 1, 2008	+ 0.5% on Term Loan	-	Per loan amendment
Nicos Polymers & Grinding, Inc.	February 10, 2008	-	+ 2.0% on Term Loan A and B	Per waiver agreement
TBA Global, LLC	February 15, 2008	-	+ 2.0% on Term Loan A & B	Per waiver agreement
Filet of Chicken	August 1, 2008	+ 1.0% on Term Loan	+ 1.0% on Term Loan	Per loan amendment

See notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
(unaudited)

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., 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 three months ended December 31, 2007 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:

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q 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 interim periods have been included. The results of operations for the current period are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending September 30, 2009. The interim unaudited financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended September 30, 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 (“Code”). Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings under our $50 million secured revolving credit facility, which matures on December 29, 2009. In addition, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value. As of December 31, 2008, we had $7.2 million in cash, portfolio investments (at fair value) of $271.2 million, $2.6 million of interest receivable, dividends payable of $8.6 million, no borrowings outstanding under our secured revolving credit facility and unfunded commitments of $13.6 million. At January 31, 2009, we had $0.7 million in cash, $2.2 million of interest receivable, no dividends payable, no borrowings outstanding under our secured revolving credit facility and unfunded commitments of $12.8 million.

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 Exchange Act of 1934 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 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 of $271.2 million and $273.8 million at December 31, 2008 and September 30, 2008, respectively. The portfolio investments represent 101.0% and 93.0% of stockholders' equity at December 31, 2008 and September 30, 2008, 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; and, "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. SFAS 161 has no impact on the Company's financial statements.

Investments:

a) Valuation:

As described below, effective October 1, 2008, the Company adopted *Statement of Financial Standards No. 157—Fair Value Measurements*, or SFAS 157. In accordance with that standard, the Company changed its presentation for all periods presented to net unearned fees against the associated debt investments. Prior to the adoption of SFAS 157 on October 1, 2008, the Company reported unearned fees as a single line item on the Balance Sheets and Schedule of Investments. This change in presentation had no impact on the overall net cost or fair value of the Company's investment portfolio and had no impact on the Company's financial position or results of operations.

At December 31, 2008 and September 30, 2008, $251.0 million and $251.5 million, respectively, of the Company's portfolio debt investments at fair value were at fixed rates, which represented approximately 93.6% and 93.5%, respectively, of the Company's total portfolio of investments at fair value. At December 31, 2008 and September 30, 2008, the Company had equity investments designed to provide the Company with an opportunity for an enhanced internal rate of return. These instruments generally do not produce a current return, but are held for potential investment appreciation and capital gains.

During the three months ended December 31, 2008 and September 30, 2008, the Company recorded no realized gains or losses on investments. During the three months ended December 31, 2008 and 2007, the Company recorded unrealized depreciation of $18.5 million and $0.5 million, respectively.

The composition of the Company's investments as of December 31, 2008 and September 30, 2008 at cost and fair value was as follows:

	December 31, 2008		September 30, 2008	
	Cost	**FV**	**Cost**	**FV**
Investments in debt securities	$296,860,554	$268,106,796	$281,264,010	$269,154,948
Investments in equity securities	9,658,863	3,104,354	9,320,975	4,604,206
Total	**$306,519,417**	**$271,211,150**	**$290,584,985**	**$273,759,154**

Fair Value Measurements:

In September 2006, the Financial Accounting Standards Board issued *Statement of Financial Standards No. 157—Fair Value Measurements*, or SFAS 157, which is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. SFAS 157 defines fair value as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the investments or market and the investments' complexity.

Assets and liabilities recorded at fair value in the balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

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

The following table presents the financial instruments carried at fair value as of December 31, 2008, by caption on the Balance Sheet for each of the three levels of hierarchy established by SFAS 157.

As of December 31, 2008	**Quoted market prices in active markets (Level 1)**	**Internal models with significant observable market parameters (Level 2)**	**Internal models with significant unobservable market parameters (Level 3)**	**Total fair value reported in Consolidated Balance Sheet**
Affiliate investments	$ —	$ —	$ 71,096,995	$ 71,096,995
Non-Control/Non-Affiliate investments	—	—	200,114,155	200,114,155
Control investments	—	—	—	—
Total investments at fair value	**$ —**	**$ —**	**$ 271,211,150**	**$ 271,211,150**

The following table provides a roll-forward in the changes in fair value from September 30, 2008 to December 31, 2008, for all investments for which the Company determines fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the fact that the unobservable factors are the most significant to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated by external sources). Accordingly, the appreciation (depreciation) in the table below includes changes in fair value due in part to observable factors that are part of the valuation methodology.

Level 3 measurements by type	**Affiliate investments**	**Non-Control/Non-Affiliate investments**	**Control investments**	**Total**
Fair value as of September 30, 2008	$ 71,350,417	$ 202,408,737	$ —	$ 273,759,154
Total realized gains (losses)	—	—	—	—
Change in unrealized depreciation	(5,869,425)	(12,613,013)	—	(18,482,438)
Purchases, issuances, settlements and other, net	5,616,003	10,318,431	—	15,934,434
Transfers in (out) of Level 3	—	—	—	—
Fair value as of December 31, 2008	**$ 71,096,995**	**$ 200,114,155**	**$ —**	**$ 271,211,150**

Concurrent with its adoption of SFAS 157, effective October 1, 2008, the Company augmented the valuation techniques it uses to estimate the fair value of its debt investments where there is not a readily available market value (Level 3). Prior to October 1, 2008, the Company estimated the fair value of its Level 3 debt investments by first estimating the enterprise value of the portfolio company which issued the debt investment. To estimate the enterprise value of a portfolio company, the Company analyzed various factors, including the portfolio companies historical and projected financial results. Typically, private companies are valued based on multiples of EBITDA (Earning Before Interest, Taxes, Depreciation and Amortization), cash flow, net income, revenues or, in limited instances, book value.

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

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

Beginning on October 1, 2008, the Company also introduced a bond-yield model to value these investments based on the present value of expected cash flows. The primary inputs into the model are market interest rates for debt with similar characteristics and an adjustment for the portfolio company’s credit risk. The credit risk component of the valuation considers several factors including financial performance, business outlook, debt priority and collateral position. During the three months ended December 31, 2008 and 2007, we recorded net unrealized depreciation of $18.5 million and $0.5 million, respectively, on our investments. For the three months ended December 31, 2008, a portion of our net unrealized depreciation, approximately $13.8 million, resulted from a decline in EBITDA or market multiples of our portfolio companies requiring closer monitoring or performing below expectations; and approximately $4.7 million, resulted from the adoption of SFAS No. 157.

The table below summarizes the transition from fair value at September 30, 2008 to December 31, 2008.

	Debt	Equity	Total
Fair value at September 30, 2008	$269,154,948	$ 4,604,206	$273,759,154
New investments	23,312,112	337,888	23,650,000
Redemptions/ repayments	(9,688,600)	—	(9,688,600)
Net accrual of PIK interest income	1,696,351	—	1,696,351
Accretion of original issue discount	195,922	—	195,922
Recognition of unearned income	80,761	—	80,761
Net unrealized appreciation (depreciation)	(16,644,698)	(1,837,740)	(18,482,438)
Net changes from unrealized to realized	—	—	—
Fair value at December 31, 2008	**$268,106,796**	**$ 3,104,354**	**$271,211,150**

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.

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

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

The Company has investments in debt securities which contain a payment in kind or "PIK" interest provision. PIK interest is computed at the contractual rate specified in each investment agreement and added to the principal balance of the investment and recorded as income. For the three months ended December 31, 2008 and December 31, 2007, the Company recorded PIK income of $1,816,785 and $728,483, respectively.

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

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 became effective for the Company's 2009 fiscal year, the Company did not elect the fair value measurement option for any of its financial assets or liabilities.

Consolidation:

As an investment company, the Company only consolidates subsidiaries that are also investment companies. At December 31, 2008 and September 30, 2008, 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.

Income Taxes:

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

As a partnership, Fifth Street Mezzanine Partners III, LP filed a calendar year tax return for a short year initial period from February 15, 2007 through December 31, 2007. Upon the merger, Fifth Street Finance Corp., the surviving C-Corporation, made an election to be treated as a Regulated Investment Company ("RIC") under the Code 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. The Company has filed for a tax extension and has until June 15, 2009 to file its tax return.

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 all of its taxable income and gains, within the Subchapter M rules, and thus the Company anticipates that it will not incur any federal or state income tax. As a RIC, the Company is also subject to a federal excise tax, based on distributive requirements of its taxable income on a calendar year basis (i.e., calendar year 2008). The Company estimates that its annual taxable income for 2008 currently exceeds its 2008 dividend distributions (see Dividends Paid note below), and such excess will be distributed in calendar year 2009. The Company will be required to pay a 4% excise tax on the excess of 98% of its calendar year 2008 taxable income over the amount of actual distribution from such taxable income. Accordingly, the Company accrued an estimated excise tax of $18,000 for calendar year 2008.

Listed below is a reconciliation of "net increase (decrease) in net assets resulting from operations" to taxable income for the three months ended December 31, 2008 and December 31, 2007.

	For the three months ended December 31, 2008(1)	For the three months ended December 31, 2007(2)
Net increase (decrease) in net assets resulting from operations	$ (10,272,000)	$ 3,198,000
Net change in unrealized depreciation from investments	18,482,000	476,000
Book/Tax difference due to deferred loan origination fees, net	(81,000)	79,000
Book/Tax difference due to organizational and deferred offering costs	(22,000)	152,000
Book/Tax difference due to interest income on certain loans	302,000	—
Other nondeductible expenses	18,000	—
Taxable/Tax Distributable Income	**$ 8,427,000**	**$ 3,905,000**

(1) The Company's taxable income for first quarter 2009 is an estimate and will not be finally determined until the Company files its tax return for the fiscal year ended September 30, 2009. Therefore, the final taxable income may be different than the estimate.

(2) As noted, for the period ended 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.

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

As of December 31, 2008, there is no substantial difference between the book and tax basis of the Company's assets.

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.

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.

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

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

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.

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 December 31, 2008, 101.0% of stockholders' equity or $271.2 million was invested in 25 long-term portfolio investments and 2.7% of stockholders' equity or $7.2 million was invested in cash and cash equivalents. In comparison, at September 30, 2008, 93.0% of stockholders' equity or $273.8 million was invested in 24 long-term portfolio investments and 7.8% of stockholders' equity or $22.9 million was invested in cash and cash equivalents. As of December 31, 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 consist of $13.6 million and $24.7 million of unfunded commitments to provide debt financing to its portfolio companies as of December 31, 2008 and September 30, 2008, 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.

A summary of the composition of the unfunded commitments (consisting of revolvers and term loans) as of December 31, 2008 and September 30, 2008 is shown in the table below:

	December 31, 2008	September 30, 2008
MK Network, LLC	$ 2,000,000	$ 2,000,000
Fitness Edge, LLC	1,500,000	1,500,000
Rose Tarlow, Inc.	2,300,000	2,650,000
Western Emulsions, Inc.	2,000,000	2,000,000
Storyteller Theaters Corporation	4,000,000	4,000,000
HealthDrive Corporation	1,750,000	1,500,000
Martini Park, LLC*	—	11,000,000
Total	**$ 13,550,000**	**$ 24,650,000**

* The $11.0 million unfunded commitment to Martini Park was terminated effective November 4, 2008.

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

Cost	December 31, 2008		September 30, 2008	
First Lien Debt	$112,877,698	36.83%	$ 97,135,466	33.43%
Second Lien Debt	183,982,856	60.02%	184,128,544	63.36%
Purchased Equity	4,120,368	1.34%	4,120,368	1.42%
Equity Grants	5,538,495	1.81%	5,200,607	1.79%
	$306,519,417	**100.00%**	**$290,584,985**	**100.00%**

Fair Value	December 31, 2008		September 30, 2008	
First Lien Debt	$104,634,347	38.58%	$ 96,666,351	35.31%
Second Lien Debt	163,472,449	60.27%	172,488,597	63.01%
Purchased Equity	1,001,373	0.37%	2,001,213	0.73%
Equity Grants	2,102,981	0.78%	2,602,993	0.95%
	$271,211,150	**100.00%**	**$273,759,154**	**100.00%**

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

Cost	December 31, 2008		September 30, 2008	
Northeast	$ 94,641,143	30.88%	$ 89,699,936	30.87%
West	96,887,105	31.61%	81,813,016	28.15%
Southwest	42,839,116	13.98%	42,847,370	14.75%
Southeast	22,598,185	7.37%	22,438,998	7.72%
Midwest	49,553,868	16.16%	53,785,665	18.51%
	$306,519,417	**100.00%**	**$290,584,985**	**100.00%**

Fair Value	December 31, 2008		September 30, 2008	
Northeast	$ 66,462,468	24.51%	$ 73,921,159	27.00%
West	92,546,167	34.12%	80,530,516	29.42%
Southwest	42,878,140	15.81%	42,950,840	15.69%
Southeast	22,644,440	8.35%	22,575,695	8.25%
Midwest	46,679,935	17.21%	53,780,944	19.64%
	$271,211,150	**100.00%**	**$273,759,154**	**100.00%**

Set forth below are tables showing the composition of the Company's portfolio by industry at cost and fair value as of December 31, 2008 and September 30, 2008:

Cost	December 31, 2008		September 30, 2008	
Healthcare services	$ 34,010,424	11.10%	$ 23,274,321	8.01%
Footwear and apparel	21,620,361	7.05%	18,035,269	6.21%
Restaurants	19,724,237	6.43%	19,311,810	6.65%
Construction and engineering	18,906,651	6.17%	18,753,268	6.45%
Healthcare facilities	17,938,089	5.85%	18,222,690	6.27%
Trailer leasing services	17,148,788	5.59%	16,986,613	5.85%
Manufacturing — mechanical products	15,538,599	5.07%	15,494,737	5.33%
Healthcare technology	14,911,178	4.86%	9,688,834	3.33%
Data processing and outsourced services	13,758,880	4.49%	13,850,146	4.77%
Media — Advertising	12,936,040	4.22%	12,781,230	4.40%
Merchandise display	12,877,641	4.20%	12,799,999	4.40%
Food distributors	12,061,775	3.94%	11,994,788	4.13%
Household products/ specialty chemicals	11,816,244	3.85%	11,853,805	4.08%
Home furnishing retail	11,778,359	3.84%	11,419,981	3.93%
Housewares & specialties	11,195,029	3.65%	11,419,317	3.93%
Lumber products	10,349,746	3.38%	10,344,129	3.56%
Capital goods	9,720,544	3.17%	9,638,999	3.32%
Emulsions manufacturing	9,591,322	3.13%	9,523,464	3.28%
Commodity chemicals	8,969,809	2.93%	8,954,807	3.08%
Leisure facilities	7,401,611	2.41%	7,482,805	2.58%
Entertainment — theaters	7,275,159	2.37%	11,780,851	4.05%
Building products	6,988,931	2.30%	6,973,122	2.39%
Total	**$306,519,417**	**100.00%**	**$290,584,985**	**100.00%**

Fair Value	December 31, 2008		September 30, 2008	
Healthcare services	$ 34,308,980	12.65%	$ 23,377,791	8.54%
Footwear and apparel	21,445,625	7.91%	17,934,513	6.55%
Construction and engineering	18,513,059	6.83%	18,683,167	6.82%
Restaurants	17,709,473	6.53%	17,639,081	6.44%
Healthcare facilities	16,455,375	6.07%	18,222,690	6.66%
Manufacturing — mechanical products	15,538,599	5.73%	15,494,737	5.66%
Trailer leasing services	14,367,105	5.30%	16,985,473	6.20%
Healthcare technology	14,306,212	5.27%	9,864,480	3.60%
Data processing and outsourced services	13,435,741	4.95%	13,697,302	5.00%
Merchandise display	12,877,641	4.75%	12,799,999	4.68%
Food distributors	12,061,775	4.45%	11,994,788	4.38%
Media — Advertising	11,969,249	4.41%	12,516,696	4.57%
Capital goods	9,766,799	3.60%	9,775,696	3.57%
Emulsions manufacturing	9,591,322	3.54%	9,523,464	3.48%
Home furnishing retail	9,115,042	3.36%	10,723,527	3.92%
Commodity chemicals	8,819,825	3.25%	8,859,477	3.24%
Housewares & specialties	7,184,246	2.65%	11,407,776	4.17%
Entertainment — theaters	7,182,909	2.65%	11,777,270	4.30%
Leisure facilities	6,924,927	2.55%	7,494,930	2.74%
Building products	6,910,036	2.55%	6,975,311	2.55%
Lumber products	1,683,448	0.62%	4,384,489	1.60%
Household products/ specialty chemicals	1,043,762	0.38%	3,626,497	1.33%
Total	**$271,211,150**	**100.00%**	**$273,759,154**	**100.00%**

The Company's investments are generally in small and mid-sized companies in a variety of industries. At December 31, 2008 and September 30, 2008, the Company had no investments that were greater than 10% of the total investment portfolio. Income, consisting of interest, dividends, fees, other investment income, and realization of gains or losses on equity interests, can fluctuate upon repayment of an investment or sale of an equity interest and in any given year can be highly concentrated among several investments. For the three months ended December 31, 2008, no individual investment produced income that exceeded 10% of investment income. For the three months ended December 31, 2007, the income from two investments exceeded 10% of investment income. The two investments in aggregate represented approximately 22.0% of the investment income for the three month period ended December 31, 2007.

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 Statement of Financial Accounting Standards 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." In accordance with SFAS 157, the net balance is reflected as unearned income in the cost and fair value of the respective investments.

Accumulated unearned fee income activity for the three months ended December 30, 2008 and December 30, 2007 was as follows:

	For the three months ended December 31, 2008	For the three months ended December 31, 2007
Beginning accumulated unearned fee income balance	$ 5,236,265	$1,566,293
Net fees received	982,763	1,048,500
Unearned fee income recognized	(1,063,524)	(273,724)
Ending accumulated unearned fee income balance	$ 5,155,504	$2,341,069

Note 5. Share Data and Stockholders' Equity

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

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

The following table sets forth the weighted average shares outstanding for computing basic and diluted earnings per common share for the three months ended December 31, 2008 and December 31, 2007.

	For the three months ended December 31, 2008	For the three months ended December 31, 2007
Weighted average common shares outstanding, basic and diluted	22,562,191	12,480,972

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 issued 133,317 common shares totaling approximately $1.9 million under the dividend reinvestment plan. On August 6, 2008, the Company declared a dividend of $0.31 per share to stockholders of record on September 10, 2008. On September 26, 2008, the Company paid a cash dividend of $5.1 million, and purchased and distributed a total of 196,786 shares ($1.9 million) of our common stock under our dividend reinvestment plan. In October 2008, the Company repurchased 78,000 shares of our common stock on the open market as part of our share repurchase program following its announcement on October 15, 2008. On December 9, 2008, the Company declared a dividend of $0.32 per share to stockholders of record on December 19, 2008. On December 29, 2008, the Company paid a cash dividend of approximately $6.4 million and issued 105,326 common shares totaling approximately $0.8 million under the dividend reinvestment plan.

In October 2008, the Company's Board of Directors authorized a stock repurchase program to acquire up to $8 million of the Company's outstanding common stock. Stock repurchases under this program may be made through open market at times and in such amounts as Company management deems appropriate. The stock repurchase program expires December 2009 and may be limited or terminated by the Board of Directors.

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. The credit facility is secured by the Company's existing investments.

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 December 31, 2008, the Company was in compliance with these covenants.

On December 30, 2008, Bank of Montreal renewed the Company's $50 million credit facility. 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.

Interest expense for the three months ended December 31, 2008 and December 31, 2007, was $40,158 and $114,669, respectively.

Note 7. Interest and Dividend Income

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

The Company holds debt in its portfolio that contains a payment-in-kind ("PIK") interest provision. The PIK interest, 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 debt principal repayment. The Company's policy is to stop accruing PIK interest when it is determined that PIK interest is no longer collectible.

Accumulated PIK interest activity for the three months ended December 30, 2008 and December 30, 2007 was as follows:

	For the three months ended December 31, 2008	For the three months ended December 31, 2007
PIK balance at beginning of period	$ 5,367,032	$ 588,795
PIK interest earned	1,816,785	728,483
PIK interest received in cash	(120,434)	—
PIK balance at end of period	**$ 7,063,383**	**$ 1,317,278**

As of December 31, 2008, the Company has stopped accruing PIK interest and OID on three investments, including one investment that was delinquent on monthly cash interest payments or which was otherwise on non-accrual status. The aggregate amount of this income non-accrual was approximately $0.6 million for the three months ended December 31, 2008.

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 three months ended December 31, 2008 and December 31, 2007, the Company had no realized gains.

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, 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% of the aggregate capital commitments of all limited partners (other than affiliated limited partners) for each fiscal year (or portion thereof) provided, however, that commencing on the earlier of (1) the first day of the fiscal quarter immediately following the expiration of the commitment period, or (2) if a temporary suspension period became permanent in accordance with the Partnership Agreement, on the first day of the fiscal quarter immediately following the date of such permanent suspension, the Management Fee for each subsequent twelve month period was equal to 1.75% of the NAV of the Partnership (exclusive of the portion thereof attributable to the General Partner and the affiliated limited partners, based upon respective capital percentages).

For the three months ended December 31, 2008 and December 31, 2007, base management fees were approximately $1.4 million and $0.8 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 Investment Adviser with an incentive fee of 20% on all of the Company's Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when the Company's Pre-Incentive Fee Net Investment Income exceeds 2.5% in any fiscal quarter.

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

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

For the three months ended December 31, 2008, incentive fees were approximately $2.1 million.

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 three months ended December 31, 2007, payments for the transaction fees paid to the Investment Adviser amounted to approximately $0.2 million and were expensed as incurred.

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 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 three months ended December 31, 2008, the Company incurred administrative expenses of approximately $277,000. At December 31, 2008, approximately $302,000 was included in Due to FSC, Inc. in the balance sheet.

Note 12. Financial Highlights

		For the three months ended December 31, 2008 (1)		For the three months ended December 31, 2007 (2)
Per Share Data (3)				
Net asset value at beginning of period	$	13.02	$	—
Adjustment to net asset value for issuance of common stock		(0.02)		8.56
Capital contributions from partners		—		5.33
Capital withdrawals by partners		—		(0.23)
Cash dividends paid		(0.28)		—
Dividends declared, not yet paid		(0.38)		—
Repurchases of common stock		(0.02)		—
Net investment income		0.36		0.29
Unrealized depreciation on investments		(0.82)		(0.03)
Net asset value at end of period	**$**	**11.86**	**$**	**13.92**
Stockholders’ equity at beginning of period	$	294,335,839	$	106,815,695
Stockholders’ equity at end of period	$	268,548,431	$	173,699,990
Average stockholders’ equity (4)	$	285,101,506	$	150,232,837
Ratio of total expenses, excluding interest and line of credit guarantee expenses, to average stockholders’ equity (5)		1.52%		1.03%
Ratio of total expenses to average stockholders’ equity (5)		1.53%		1.17%
Ratio of net increase (decrease) in net assets resulting from operations to ending stockholders’ equity (5)		-3.83%		1.84%
Ratio of unrealized depreciation on investments to ending stockholders’ equity (5)		-6.88%		-0.27%
Total return to stockholders based on average stockholders’ equity (5)		-3.60%		2.13%
Weighted average outstanding debt (6)	$	—	$	7,636,413

(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 three months ended December 31, 2007 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 at that time. For the three months ended June 30, 2008, the Company paid dividends of approximately $234,000 on the 30,000 shares of Series A Preferred Stock. The dividend payment is considered and included in interest expense for accounting purposes since the preferred stock has a mandatory redemption feature. On June 30, 2008, the Company redeemed 30,000 shares of Series A Preferred Stock at the mandatory redemption price of 101% of the liquidation preference or $15,150,000. The $150,000 is considered and included in interest expense for accounting purposes due to the stock’s mandatory redemption feature. No preferred stock is currently outstanding.

Note 14. Subsequent Events

On January 5, 2009 and January 29, 2009, Rose Tarlow, one of the Company's portfolio companies, made draws on its revolver of $350,000 and $500,000, respectively. Prior to the draws, the Company's unfunded commitment was $2.3 million. In addition, the PIK rate on the Rose Tarlow term loan increased to 2.5%.

On January 28, 2009, the Company executed a non-binding term sheet for a $27.5 million investment in a medical device company. The proposed terms of this investment include an $8.0 million first lien term loan at 12.0% per annum, a $17.0 million first lien term loan at 16.0% per annum, and a $2.5 million first lien revolver at 10.0% per annum. These loan facilities are expected to have a maturity of five years. This proposed investment is subject to the completion of the Company's due diligence, approval process and documentation, and, as a result, may not result in a completed investment.

On January 29, 2009, the Company paid a $0.33 quarterly dividend and a $0.05 special dividend to stockholders of record as of December 30, 2008. In conjunction with these dividends the Company paid a cash dividend of $7,636,580 and issued 161,206 shares of common stock to stockholders under the Company's dividend reinvestment plan.

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

The information contained in this section should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this quarterly report on Form 10-Q.

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

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

In addition, words such as "anticipate," "believe," "expect" and "intend" indicate a forward-looking statement, although not all forward-looking statements include these words. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this Form 10-Q. Other factors that could cause actual results to differ materially include:

- changes in the economy;
- continued instability in the financial markets;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- future changes in laws or regulations and conditions in our operating areas.

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

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

Overview

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

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

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

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

Critical Accounting Policies

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

Investment Valuation

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

Under SFAS 157, which we adopted effective October 1, 2008, we perform detailed valuations of our debt and equity investments on an individual basis, using market based, income based, and bond yield approaches as appropriate.

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

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

Due to the inherent uncertainty in the valuation process, our 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 lives of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. We determine the fair value of each individual investment and record changes in fair value as unrealized appreciation or depreciation.

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

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the deal team within our investment adviser responsible for the portfolio investment;
- Preliminary valuations are then reviewed and discussed with the principals of our investment adviser;
- An independent valuation firm engaged by the Board of Directors also prepares valuations on a selected basis and submits a report to us;
- Preliminary valuations are compared to the independent third party valuations and any differences are resolved;
- The independent third party provides negative assurance with regard to the reasonableness of the valuation;
- The Valuation Committee of our Board of Directors reviews the preliminary valuations, and the deal team responds and supplements the preliminary valuations to reflect any comments provided by the Valuation Committee;
- The Valuation Committee makes a recommendation to the Board of Directors; and
- The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith.

The fair value of our investments at December 31, 2008, and September 30, 2008, was determined by our Board of Directors.

Our Board of Directors has engaged an independent valuation firm to provide us with valuation assistance with respect to at least 90% of the cost basis of our investment portfolio in any given quarter. Upon completion of its process each quarter, the independent valuation firm provides us with a written report regarding the preliminary valuations of selected portfolio securities as of the close of such quarter. We will continue to engage an independent valuation firm to provide us with assistance regarding our determination of the fair value of selected portfolio securities each quarter; however, our Board of Directors is ultimately and solely responsible for determining the fair value of our investments in good faith.

An independent valuation firm, Murray, Devine & Co., Inc., provided us with assistance in our determination of the fair value of 91.9% of our portfolio for the quarter ended December 31, 2007, 92.1% of our portfolio for the quarter ended March 31, 2008, 91.7% of our portfolio for the quarter ended June 30, 2008, 92.8% of our portfolio for the quarter ended September 30, 2008, and 100% of our portfolio for the quarter ended December 31, 2008.

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 became effective for the Company’s 2009 fiscal year, the Company did not elect the fair value measurement option for any of its financial assets or liabilities.

Revenue Recognition

Interest and Dividend Income

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

Fee Income

We will receive a variety of fees in the ordinary course of our business, including origination fees. We will account for our fee income in accordance with Emerging Issues Task Force Issue 00-21 “Accounting for Revenue Arrangements with Multiple Deliverables” (“EITF 00-21”). EITF 00-21 addresses certain aspects of a company’s accounting for arrangements containing multiple revenue-generating activities. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable and there exists sufficient evidence of their fair values to separately account for some or all of the deliverables (i.e., there are separate units of accounting). EITF 00-21 states that the total consideration received for the arrangement be allocated to each unit based upon each unit’s relative fair value. In other arrangements, some or all of the deliverables are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. The timing of revenue recognition for a given unit of accounting depends on the nature of the deliverable(s) in that accounting unit (and the corresponding revenue recognition model) and whether the general conditions for revenue recognition have been met. Fee income for which fair value cannot be reasonably ascertained is recognized using the interest method in accordance with Statement of Financial Accounting Standards No. 91, “Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases,” (“SFAS No. 91”). We will recognize fee income in accordance with SFAS No. 91. In addition, we will capitalize and offset direct loan origination costs against the origination fees received and only defer the net fee.

Payment-in-Kind (PIK) Interest

Our loans typically contain a PIK interest provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To avoid the imposition of corporate-level tax on us, this non-cash source of income needs to be paid out to stockholders in the form of distributions, even though we have not yet collected the cash. We will stop accruing PIK interest when it is determined that PIK interest is no longer collectable. Accumulated PIK interest represented approximately $7.1 million or 2.6% of our portfolio of investments as of December 31, 2008 and approximately $5.4 million or 2.0% as of September 30, 2008. The net increase in loan balances as a result of contracted PIK arrangements are separately identified on our statements of cash flows.

Portfolio Composition

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

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

Cost	December 31, 2008	September 30, 2008
First lien debt	36.83%	33.43%
Second lien debt	60.02%	63.36%
Equity	1.34%	1.42%
Equity grants	1.81%	1.79%
	100.00%	**100.00%**

Fair Value	December 31, 2008	September 30, 2008
First lien debt	38.58%	35.31%
Second lien debt	60.27%	63.01%
Equity	0.37%	0.73%
Equity grants	0.78%	0.95%
	100.00%	**100.00%**

Set forth below are tables showing the industry composition of our portfolio at cost and fair value as of December 31, 2008 and September 30, 2008:

Cost:	December 31, 2008	September 30, 2008
Healthcare services	11.10%	8.01%
Footwear and apparel	7.05%	6.21%
Restaurants	6.43%	6.65%
Construction and engineering	6.17%	6.45%
Healthcare facilities	5.85%	6.27%
Trailer leasing services	5.59%	5.85%
Manufacturing — mechanical products	5.07%	5.33%
Healthcare technology	4.86%	3.33%
Data processing and outsourced services	4.49%	4.77%
Media — Advertising	4.22%	4.40%
Merchandise display	4.20%	4.40%
Food distributors	3.94%	4.13%
Household products/ specialty chemicals	3.85%	4.08%
Home furnishing retail	3.84%	3.93%
Housewares & specialties	3.65%	3.93%
Lumber products	3.38%	3.56%
Capital goods	3.17%	3.32%
Emulsions manufacturing	3.13%	3.28%
Commodity chemicals	2.93%	3.08%
Leisure facilities	2.41%	2.58%
Entertainment — theaters	2.37%	4.05%
Building products	2.30%	2.39%
Total	**100.00%**	**100.00%**

Fair Value:	December 31, 2008	September 30, 2008
Healthcare services	12.65%	8.54%
Footwear and apparel	7.91%	6.55%
Construction and engineering	6.83%	6.82%
Restaurants	6.53%	6.44%
Healthcare facilities	6.07%	6.66%
Manufacturing — mechanical products	5.73%	5.66%
Trailer leasing services	5.30%	6.20%
Healthcare technology	5.27%	3.60%
Data processing and outsourced services	4.95%	5.00%
Merchandise display	4.75%	4.68%
Food distributors	4.45%	4.38%
Media — Advertising	4.41%	4.57%
Capital goods	3.60%	3.57%
Emulsions manufacturing	3.54%	3.48%
Home furnishing retail	3.36%	3.92%
Commodity chemicals	3.25%	3.24%
Housewares & specialties	2.65%	4.17%
Entertainment — theaters	2.65%	4.30%
Leisure facilities	2.55%	2.74%
Building products	2.55%	2.55%
Lumber products	0.62%	1.60%
Household products/ specialty chemicals	0.38%	1.33%
Total	**100.00%**	**100.00%**

Portfolio Asset Quality

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

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

The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value, as of December 31, 2008 and September 30, 2008:

	December 31, 2008			September 30, 2008		
Investment Rating	**Investment at Fair Value**	**Percentage of Total Portfolio**	**Leverage Ratio**	**Investment at Fair Value**	**Percentage of Total Portfolio**	**Leverage Ratio**
1.	$ 7,664,800	2.83%	4.13	$ 7,578,261	2.77%	4.05
2.	227,439,922	83.86%	4.32	244,727,144	89.39%	4.23
3.	33,379,218	12.31%	6.50	17,069,260	6.24%	5.86
4.	1,043,762	0.38%	30.34	4,384,489	1.60%	9.80
5.	1,683,448	0.62%	11.48	—	0.00%	—
Total	**$ 271,211,150**	**100.00%**	**4.73**	**$273,759,154**	**100.00%**	**4.42**

As a result of current economic conditions and their impact on certain of our portfolio companies, we have agreed to modify the terms of our investments in nine of our portfolio companies. Such modified terms include increased payment-in-kind interest provisions and reduced interest rates. These modifications, and any future modifications to our loan agreements as a result of the current economic conditions or otherwise, may limit the amount of interest income that we recognize from the modified investments, which may, in turn, limit our ability to make distributions to our stockholders. See footnote 9 to the Schedule of Investments as of December 31, 2008 in our financial statements included herein.

In addition, as the United States economy continues to remain in a prolonged period of weakness, the financial results of small- to mid-sized companies, like those in which we invest, have begun to experience deterioration, which could ultimately lead to difficulty in meeting debt service requirements and an increase in defaults. Additionally, the end markets for certain of our portfolio companies' products and services have experienced, and continue to experience, negative economic trends. The performance of certain of our portfolio companies has been, and may continue to be, negatively impacted by these economic or other conditions, which may ultimately result in our receipt of a reduced level of interest income from our portfolio companies and/or losses or charge offs related to our investments, and, in turn, may affect distributable income.

Loans and Debt Securities on Non-Accrual Status

As of December 31, 2008, the Company has stopped accruing PIK interest and OID on three investments, including one investment that was delinquent on monthly cash interest payments or which was otherwise on non-accrual status. The aggregate amount of this income non-accrual was approximately $0.6 million for the three months ended December 31, 2008.

Results of Operations

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

Comparison for the three months ended December 31, 2008 and 2007

Total Investment Income

Total investment income includes interest and dividend income on our investments, fee income and other investment income. Fee income consists principally of loan and arrangement fees, annual administrative fees, unused fees, prepayment fees, amendment fees, equity structuring fees and waiver fees. Other investment income consists primarily of the accelerated recognition of deferred financing fees received from our portfolio companies on the repayment of the outstanding investment, the sale of the investment or reduction of available credit, and interest on cash and cash equivalents on deposit with financial institutions.

Total investment income for the three months ended December 31, 2008 and December 31, 2007 was approximately $12.6 million and $5.4 million, respectively. For the three months ended December 31, 2008, this amount primarily consisted of interest income of approximately $79,000 from cash and cash equivalents, $11.4 million of interest and dividend income from portfolio investments (which included approximately $1.8 million in payment-in-kind or PIK interest), and $1.1 million in fee income. For the three months ended December 31, 2007, this amount primarily consisted of approximately $5.2 million of interest income from portfolio investments (which included approximately $730,000 in payment-in-kind or PIK interest), and $270,000 in fee income.

The increase in our total investment income for the three months ended December 31, 2008 as compared to the three months ended December 31, 2007 was primarily attributable to higher average levels of outstanding debt investments, which was principally due to an increase of 12 debt investments in our portfolio in the year-over-year period, partially offset by debt repayments received during the same periods.

Expenses

Expenses for the three months ended December 31, 2008 and 2007 were approximately $4.4 million and $1.8 million, respectively. Expenses increased for the three months ended December 31, 2008 as compared to the three months ended December 31, 2007 by approximately $2.6 million, primarily as a result of increases in management and incentive fees.

The increase in management fees resulted from an increase in the Company's total assets as reflected in the growth of the investment portfolio. Incentive fees were implemented effective January 2, 2008 when Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp., and reflect the growth of our net investment income before such fees.

Net Investment Income

As a result of the $7.2 million increase in total investment income as compared to the $2.6 million increase in total expenses, net investment income for the three months ended December 31, 2008 reflected a $4.6 million, or 123%, increase compared to the three months ended December 31, 2007.

Realized Gain (Loss) on Sale of Investments

Net realized gain (loss) on the sale of investments is the difference between the proceeds received from dispositions of portfolio investments and their stated cost. During the three months ended December 31, 2008 and December 31, 2007, we sold no investments and reported no realized gains or losses.

Net Change in Unrealized Appreciation or Depreciation on Investments

We determine the value of each investment in our portfolio on a quarterly basis, and changes in value result in unrealized appreciation or depreciation being recognized in our statement of operations. Value, as defined in Section 2 (a)(41) of the Investment Company Act of 1940, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the board of directors. Since there is typically no readily available market value for the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by the board of directors pursuant to our valuation policy and a consistently applied valuation process. At December 31, 2008, and September 30, 2008, portfolio investments recorded at fair value represented 96.4% and 91.5%, respectively, of our total assets. Because of the inherent uncertainty of estimating the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by the board of directors 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.

There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make. We specifically value each individual investment on a quarterly basis. We record unrealized depreciation on investments when we believe that an investment has depreciated in value including where collection of a loan or realization of an equity security is doubtful, or when the enterprise value of the portfolio company does not currently support the cost of our debt or equity investment, or when the bond yield models concludes that the debt investment has depreciated. Enterprise value means the entire value of the company to a potential buyer, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. We record unrealized appreciation if we believe that the underlying portfolio company has appreciated in value and/or our equity security has also appreciated in value or the bond yield models concludes that the debt investment has appreciated in value. Changes in fair value are recorded in the statement of operations as net change in unrealized appreciation or depreciation.

Net unrealized appreciation or depreciation on investments is the net change in the fair value of our investment portfolio during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. During the three months ended December 31, 2008, we recorded net unrealized depreciation of $18.5 million. This consists of $16.7 million of unrealized depreciation on debt investments and $1.8 million of unrealized depreciation on equity investments. During the three months ended December 31, 2007, we recorded net unrealized depreciation of $0.5 million. This consisted entirely of unrealized depreciation on equity investments.

For the three months ended December 31, 2008, a portion of our net unrealized depreciation, approximately $13.8 million, resulted from a decline in EBITDA or market multiples of our portfolio companies requiring closer monitoring or performing below expectations; and approximately $4.7 million, resulted from the adoption of SFAS No. 157.

Financial Condition, Liquidity and Capital Resources

For the three months ended December 31, 2008, we experienced a net decrease in cash and equivalents of $15.7 million. During that period, we used $8.5 million of cash in operating activities, primarily for the funding of $23.7 million of investments, partially offset by $9.7 million of principal payments received and $8.2 million of net investment income. In addition, in October 2008 we repurchased 78,000 shares of our common stock totaling approximately $462,000 pursuant to our open market share repurchase program, and on December 29, 2008 we paid a cash dividend of $6.4 million to our common stockholders and issued 105,326 common shares totaling approximately $763,000 to those common stockholders that opted to reinvest the dividend under our dividend reinvestment plan. We intend to fund our future distribution obligations through operating cash flow or with funds obtained through our credit line, as we deem appropriate.

As of December 31, 2008, we had $7.2 million in cash, portfolio investments (at fair value) of $271.2 million, $2.6 million of interest receivable, dividends payable of $8.6 million, no borrowings outstanding under our secured revolving credit facility and unfunded commitments of $13.6 million. At January 31, 2009, we had $0.7 million in cash, $2.2 million of interest receivable, no dividends payable, no borrowings outstanding under our secured revolving credit facility and unfunded commitments of $12.8 million.

For the three months ended December 31, 2007, we experienced a net increase in cash and equivalents of $21.2 million. During that period, we used $41.9 million of cash in operating activities, primarily for the funding of $45.2 million of investments partially offset by $3.7 million of net investment income. $63.2 million of cash was provided by financing activities, due primarily to net capital contributions from partners of $63.7 million.

Below are the significant capital transactions that occurred from Inception through December 31, 2008:

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

On January 2, 2008, Fifth Street Mezzanine Partners III, L.P. merged with and into Fifth Street Finance Corp. At the time of the merger, all outstanding partnership interests in Fifth Street Mezzanine Partners III, L.P. were exchanged for 12,480,972 shares of common stock of Fifth Street Finance Corp.

On January 15, 2008, we entered into a $50 million secured revolving credit facility with the Bank of Montreal, at a rate of LIBOR plus 1.5%, with a one year maturity date. The credit facility is secured by our existing investments.

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

On May 1, 2008, our Board of Directors declared a dividend of $0.30 per share of common stock, paid on June 3, 2008 to shareholders of record as of May 19, 2008.

On June 17, 2008, we completed an initial public offering of 10,000,000 shares of our common stock at the offering price of $14.12 per share and received net proceeds of approximately $129.5 million. Our shares are currently listed on the New York Stock Exchange under the symbol "FSC."

On August 6, 2008, our Board of Directors declared a dividend of $0.31 per share of common stock, paid on September 26, 2008 to shareholders of record as of September 10, 2008.

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

On December 9, 2008, our Board of Directors declared a dividend of $0.32 per share of common stock, paid on December 29, 2008 to shareholders of record as of December 19, 2008, and a dividend of $0.33 per share of common stock, payable on January 29, 2009 to shareholders of record as of December 30, 2008.

On December 18, 2008, our Board of Directors declared a special dividend of $0.05 per share of common stock, payable on January 29, 2009 to shareholders of record as of December 30, 2008.

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

Although we expect to fund the growth of our investment portfolio through the net proceeds from future equity offerings, including our dividend reinvestment plan, and issuances of senior securities or future borrowings, to the extent permitted by the 1940 Act, we cannot assure you that our plans to raise capital will be successful. In this regard, because our common stock has traded at a price below our current net asset value per share over the last several months and we are limited in our ability to sell our common stock at a price below net asset value per share, we have been and may continue to be limited in our ability to raise equity capital. See "Risk Factors - Risks Relating to Our Business and Structure — Regulations governing our operation as a business development company will affect our ability to, and the way in which we, raise additional capital" and "- Because we intend to distribute substantially all of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired" in our Form 10-K for the year ended September 30, 2008 for a discussion of the provisions of the 1940 Act that limit our ability to sell our common stock at a price below net asset value per share.

In addition, we intend to distribute to our stockholders substantially all of our taxable income in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. See "Regulated Investment Company Status and Dividends" below. Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings under our $50 million secured revolving credit facility, which matures on December 29, 2009. In addition, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value. As of December 31, 2008, we had $7.2 million in cash, portfolio investments (at fair value) of $271.2 million, $2.6 million of interest receivable, dividends payable of $8.6 million, no borrowings outstanding under our secured revolving credit facility and unfunded commitments of $13.6 million. At January 31, 2009, we had $0.7 million in cash, $2.2 million of interest receivable, no dividends payable, no borrowings outstanding under our secured revolving credit facility and unfunded commitments of $12.8 million.

In addition, as a business development company, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200%. This requirement limits the amount that we may borrow. As of December 31, 2008, we were in compliance with this requirement. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

Borrowings

On January 15, 2008, we entered into a $50 million secured revolving credit facility with the Bank of Montreal, at a rate of LIBOR plus 1.5%, with a one year maturity date. The secured revolving credit facility is secured by our existing investments.

On December 30, 2008, Bank of Montreal renewed the Company's $50 million credit facility. The terms include a 50 basis points commitment fee, an interest rate of Libor +3.25% and a term of 364 days.

Under the secured revolving credit facility we 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, we must comply with other general covenants, including with respect to indebtedness, liens, restricted payments and mergers and consolidations. At December 31, 2008, we were in compliance with these covenants.

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

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

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

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of December 31, 2008, our only off-balance sheet arrangements consisted of $13.6 million of unfunded commitments to provide debt financing to certain of our portfolio companies. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet and are not reflected on our balance sheet.

Contractual Obligations

A summary of the composition of unfunded commitments (consisting of revolvers and term loans) as of December 31, 2008 and September 30, 2008 is shown in the table below:

	December 31, 2008	September 30, 2008
MK Network, LLC	$ 2,000,000	$ 2,000,000
Fitness Edge, LLC	1,500,000	1,500,000
Rose Tarlow, Inc.	2,300,000	2,650,000
Western Emulsions, Inc.	2,000,000	2,000,000
Storyteller Theaters Corporation	4,000,000	4,000,000
HealthDrive Corporation	1,750,000	1,500,000
Martini Park, LLC*	—	11,000,000
Total	**$ 13,550,000**	**$ 24,650,000**

* The $11.0 million unfunded commitment to Martini Park was terminated effective November 4, 2008.

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

As discussed above, we have also entered into a $50 million secured revolving credit facility with Bank of Montreal, at a rate of LIBOR plus 3.25%, with a one year maturity date. This credit facility is secured by our existing investments. As of December 31, 2008, we had no borrowings outstanding under this credit facility.

Regulated Investment Company Status and Dividends

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

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

To maintain RIC tax treatment, we must, among other things, distribute, with respect to each taxable year, at least 90% of our investment company taxable income (i.e., our net ordinary income and our realized net short-term capital gains in excess of realized net long-term capital losses, if any). In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute, with respect to each calendar year, an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. We intend to make distributions to our stockholders on a quarterly basis of substantially all of our annual taxable income (which includes our taxable interest and fee income). We may retain for investment some or all of our net taxable capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) and treat such amounts as deemed distributions to our stockholders. If we do this, our stockholders will be treated as if they received actual distributions of the capital gains we retained and then reinvested the net after-tax proceeds in our common stock. Our stockholders also may be eligible to claim tax credits (or, in certain circumstances, tax refunds) equal to their allocable share of the tax we paid on the capital gains deemed distributed to them. To the extent our taxable earnings for a fiscal taxable year fall below the total amount of our dividends for that fiscal year, a portion of those dividend distributions may be deemed a return of capital to our stockholders.

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

Pursuant to a recent revenue procedure issued by the Internal Revenue Service (“IRS”) (Revenue Procedure 2009-15) (the “Revenue Procedure”), the IRS has indicated that it will treat distributions from certain publicly traded RICs (including BDCs) that are paid part in cash and part in stock as dividends that would satisfy the RIC’s annual distribution requirements and qualify for the dividends paid deduction for income tax purposes. In order to qualify for such treatment, the Revenue Procedure requires that at least 10% of the total distribution be paid in cash and that each shareholder have a right to elect to receive its entire distribution in cash. If too many shareholders elect to receive cash, each shareholder electing to receive cash must receive a proportionate share of the cash to be distributed (although no shareholder electing to receive cash may receive less than 10% of such shareholder’s distribution in cash). This revenue procedure applies to distributions made with respect to taxable years ending prior to January 1, 2010.

Related Party Transactions

We have entered into an investment advisory agreement with Fifth Street Management LLC, our investment adviser. Fifth Street Management is controlled by Leonard M. Tannenbaum, its managing member and our president and chief executive officer. Pursuant to the investment advisory agreement, payments will be equal to (a) a base management fee of 2.0% of the value of our gross assets, which includes any borrowings for investment purposes, and (b) an incentive fee based on our performance.

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

Mr. Toll, a member of our Board of Directors at that time and the father-in-law of Mr. Tannenbaum, our president and chief executive officer and the managing partner of our investment adviser, was one of the three guarantors under a $50 million loan agreement between Fifth Street Mezzanine Partners III, L.P., our predecessor fund, from Wachovia Bank, N.A. Fifth Street Mezzanine Partners III, L.P. paid Mr. Toll a fee of 1% per annum of the $50 million loan for such guarantee, which was paid quarterly or monthly at our election. Mr. Tannenbaum, our president and chief executive officer, and FSMPIII GP, LLC, the general partner of our predecessor fund, were each also guarantors under the loan, although they received no compensation for their respective guarantees. As of November 27, 2007, we terminated this loan with Wachovia Bank, N.A.

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

As mentioned previously, on April 4, 2008 our Board of Directors approved a certificate of amendment to our restated certificate of incorporation reclassifying 200,000 shares of our 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. Our certificate of amendment was also approved by the holders of a majority of the shares of our outstanding common stock through a written consent first solicited on April 7, 2008. On April 24, 2008 we filed our certificate of amendment and on April 25, 2008, we sold 30,000 shares of Series A Preferred Stock to a company controlled by Bruce E. Toll, one of our directors at that time . For the three months ended June 30, 2008, we paid dividends of approximately $234,000 on the 30,000 shares of Series A Preferred Stock. On June 30, 2008, we redeemed 30,000 shares of Series A Preferred Stock at the mandatory redemption price of 101% of the liquidation preference or $15,150,000.

Recent Developments

On January 5, 2009 and January 29, 2009, Rose Tarlow, one of our portfolio companies, made draws on its revolver of $350,000 and $500,000, respectively. Prior to the draws, our unfunded commitment was $2.3 million. In addition, the PIK rate on the Rose Tarlow term loan increased to 2.5%.

On January 28, 2009, we executed a non-binding term sheet for a $27.5 million investment in a medical device company. The proposed terms of this investment include an $8.0 million first lien term loan at 12.0% per annum, a $17.0 million first lien term loan at 16.0% per annum, and a $2.5 million first lien revolver at 10.0% per annum. These loan facilities are expected to have a maturity of five years. This proposed investment is subject to the completion of our due diligence, approval process and documentation, and, as a result, may not result in a completed investment.

On January 29, 2009, we paid a $0.33 quarterly dividend and a $0.05 special dividend to stockholders of record as of December 30, 2008. In conjunction with these dividends we paid a cash dividend of $7,636,580 and issued 161,206 shares of common stock to stockholders under our dividend reinvestment plan.

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

We are subject to financial market risks, including changes in interest rates. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments, cash and cash equivalents and idle funds investments. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs. Our investment income will be affected by changes in various interest rates, including LIBOR and prime rates, to the extent of any of our debt investments that include floating interest rates. The significant majority of our debt investments are made with fixed interest rates for the term of the investment. However, as of December 31, 2008, approximately 6.5% of our debt investment portfolio (at fair value) and 5.8% of our debt investment portfolio (at cost) bore interest at floating rates. As of December 31, 2008, we had not entered into any interest rate hedging arrangements. At December 31, 2008, based on our applicable levels of floating-rate debt investments, a 1.0% change in interest rates would not have a material effect on our level of interest income from debt investments.

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective in timely alerting them of material information relating to us that is required to be disclosed in the reports we file or submit under the Securities and Exchange Act of 1934. There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

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

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

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

There were no material changes from the risk factors as previously disclosed in our Form 10-K for the year ended September 30, 2008.

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

While we did not engage in unregistered sales of equity securities during the three months ended December 31, 2008, we issued a total of 105,326 shares of common stock under our dividend reinvestment plan. This issuance was not subject to the registration requirements of the Securities Act of 1933. The aggregate valuation price for the shares of common stock issued under the dividend reinvestment plan was approximately $0.8 million.

Use of Proceeds from Initial Public Offering

On June 11, 2008, our registration statement on Form N-2 (SEC File No. 333-146743), for the initial public offering of 10,000,000 shares of our common stock, became effective. On June 17, 2008, we completed an initial public offering of 10,000,000 shares of our common stock at the offering price of $14.12 per share. 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.

At December 31, 2008, the net proceeds of $129.4 million have been used as follows: (1) approximately $15.2 million to redeem all 30,000 shares outstanding of our preferred stock, (2) $26.9 million to pay down in June 2008 our outstanding borrowings under our secured revolving credit facility with Bank of Montreal, and (3) $87.3 to invest in portfolio companies.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)
October 1, 2008 through October 31, 2008(2)	78,000	5.93	78,000	$7,537,518
November 1, 2008 through November 30, 2008	—			
December 1, 2008 through December 31, 2008	—			
Total	78,000	5.93	78,000	$7,537,518

(1) On October 15, 2008, we announced an $8.0 million Open Market Share Repurchase Plan (the "Plan"). Pursuant to the Plan, we may repurchase up to $8.0 million of our common stock at prices below our net asset value as reported in our most recently published financial statements. The Plan expires December 31, 2009, unless otherwise extended by our Board of Directors.

(2) In October 2008 we repurchased 78,000 shares of our common stock on the open market. All such purchases were made pursuant to our publicly announced Plan as described above in footnote 1.

Item 5. ***Other Information***

On December 30, 2008, we entered into a second amendment to our revolving credit facility with Bank of Montreal (the "Second Amendment"). The Second Amendment amended the revolving credit facility to increase the commitment fee payable by us on the unused amount of the revolving credit facility from 0.30% per annum to 0.50% per annum, increase the interest rate payable on outstanding borrowings under the revolving credit facility from LIBOR plus 1.5% to LIBOR plus 3.25% and to extend the termination date of the revolving credit facility from January 13, 2009 to December 29, 2009. The Second Amendment also amended covenants relating to minimum equity requirements and interest coverage ratios.

Item 6. ***Exhibits.***

Exhibit Number	Description of Exhibit
10.1*	Second Amendment to Secured Revolving Credit Agreement between Registrant and Bank of Montreal.
31.1*	Certification of Chairman, President, and Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer and Chief Compliance Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1*	Certification of Chairman, President, and 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 and Chief Compliance Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U. S. C. 1350).

* Submitted herewith.

SIGNATURES

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

	Fifth Street Finance Corp.
Date: February 5, 2009	/s/ Leonard M. Tannenbaum
	Leonard M. Tannenbaum Chairman, President and Chief Executive Officer
Date: February 5, 2009	/s/ William H. Craig
	William H. Craig Chief Financial Officer and Chief Compliance Officer

EXHIBIT INDEX

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

* Submitted herewith.

Second Amendment to Credit Agreement

This Second Amendment to Credit Agreement (herein, the *"Amendment"*) is entered into as of December 30, 2008, by and among Fifth Street Finance Corp., a Delaware corporation (the *"Borrower"*), the several financial institutions party to this Amendment, as Lenders, and Bank of Montreal, as Administrative Agent.

Preliminary Statements

A. The Borrower, the Lenders, the Administrative Agent are parties to a certain Credit Agreement, dated as of January 15, 2008, as amended (the *"Credit Agreement"*). All capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Credit Agreement.

B. The Borrower and the Lenders have agreed to amend the Credit Agreement under the terms and conditions set forth in this Amendment.

Now, Therefore, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Amendment.

Subject to the satisfaction of the conditions precedent set forth in Section 2 below, the Credit Agreement shall be and hereby is amended as follows:

1.1. Section 1.2(a) of the Credit Agreement shall be amended by adding the following at the end thereof:

> The Letters of Credit may be used to finance general corporate purposes of the Borrower (including, without limitation, issuance of Letters of Credit to support the operations of portfolio companies of the Borrower).

1.2. The definitions of the terms "Base Rate" and "Eurodollar Reserve Percentage" set forth in Section 1.3 of the Credit Agreement (*Applicable Interest Rates*) shall each be amended and restated in its entirety to read as follows:

"Base Rate" means, for any day, the rate per annum equal to the greatest of: (a) the rate of interest announced or otherwise established by the Administrative Agent from time to time as its prime commercial rate, or its equivalent, for U.S. Dollar loans to borrowers located in the United States as in effect on such day, with any change in the Base Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said prime commercial rate (it being acknowledged and agreed that such rate may not be the Administrative Agent's best or lowest rate), (b) the sum of (i) the rate determined by the Administrative Agent to be the average (rounded upward, if necessary, to the next higher 1/100 of 1%) of the rates per annum quoted to the Administrative Agent at approximately 10:00 a.m. (Chicago time) (or as soon thereafter as is practicable) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) by two or more Federal funds brokers selected by the Administrative Agent for sale to the Administrative Agent at face value of Federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, *plus* (ii) 1/2 of 1%, and (c) the LIBOR Quoted Rate for such day *plus* 1.00%. As used herein, the term *"LIBOR Quoted Rate"* means, for any day, the rate per annum equal to the quotient of (i) the rate per annum (rounded upwards, if necessary, to the next higher one hundred-thousandth of a percentage point) for deposits in U.S. Dollars for a one-month interest period which appears on the LIBOR01 Page as of 11:00 a.m. (London, England time) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) divided by (ii) one (1) minus the Eurodollar Reserve Percentage.

"Eurodollar Reserve Percentage" means the maximum reserve percentage, expressed as a decimal, at which reserves (including, without limitation, any emergency, marginal, special, and supplemental reserves) are imposed by the Board of Governors of the Federal Reserve System (or any successor) on *"eurocurrency liabilities"*, as defined in such Board's Regulation D (or any successor thereto), subject to any amendments of such reserve requirement by such Board or its successor, taking into account any transitional adjustments thereto. For purposes of this definition, the relevant Loans shall be deemed to be *"eurocurrency liabilities"* as defined in Regulation D without benefit or credit for any prorations, exemptions or offsets under Regulation D. The Eurodollar Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in any such reserve percentage.

1.3. The phrase “Administrative Agent’s Quoted Rate” appearing in subsection (b) of Section 1.9 of the Credit Agreement (*Default Rate*) shall be deleted and the phrase “Swing Line Lender’s Quoted Rate” shall be inserted in lieu thereof.

1.4. The definitions of the terms “Applicable Margin” and “Revolving Credit Termination Date” set forth in Section 5.1 of the Credit Agreement (*Definitions*) shall each be amended and restated in its entirety to read as follows:

> “*Applicable Margin*” means: (a) 1.75% with respect to Base Rate Loans and Reimbursement Obligations, (b) 3.25% with respect to Eurodollar Loans and Letter of Credit fees, and (c) 0.50% with respect to commitment fees.
>
> *“Revolving Credit Termination Date*” means December 29, 2009 or such earlier date on which the Revolving Credit Commitments are terminated in whole pursuant to Section 1.12, 9.2 or 9.3 hereof.

1.5. Section 5.1 of the Credit Agreement (*Definitions*) shall be further amended by adding thereto in appropriate alphabetical order the definitions of “Monthly Investment Ratings” and “Quarterly Watch List Reports,” each of which shall read as follows:

> “*Monthly Investment Ratings*” means the Monthly Investment Ratings as determined by the Borrower in a manner consistent with prior practice and its Investment Policies and as reported in its internally prepared Monthly Investment Ratings Report.
>
> “*Quarterly Watch List Report*” means the Quarterly Watch List Report internally prepared by the Borrower in a manner consistent with prior practice and its Investment Policies

1.6. Subsection (c) of Section 7.1 of the Credit Agreement (*All Credit Events*) shall be amended and restated in its entirety to read as follows:

> (c) after giving effect to such extension of credit, (i) the aggregate principal amount of all Revolving Loans, Swing Loans, and L/C Obligations outstanding under this Agreement shall not exceed the Revolving Credit Commitments and (ii) no Borrowing Base Deficiency shall exist; and the Borrower shall have prepared and delivered to the Administrative Agent a current Borrowing Base Certificate evidencing the foregoing; and

1.7. Subsections (a) and (c) of Section 8.5 of the Credit Agreement (*Financial Reports*) shall each be amended and restated in its entirety to read as follows:

> (a) as soon as available, and in any event no later than twenty (20) days after the last day of each calendar month, a Borrowing Base Certificate showing the computation of the Borrowing Base in reasonable detail as of the close of business on the last day of such month, together with a Monthly Investment Ratings report for the month then ended, each prepared by the Borrower and certified to by its chief financial officer or another officer of the Borrower acceptable to the Administrative Agent;

(c) as soon as available, and in any event no later than forty-five (45) days after the last day of each fiscal quarter of each fiscal year of the Borrower (sixty (60) days in the case of the fiscal quarter ending December 31, 2007), copies of the valuation and appraisal reports and reviews required to be made or obtained pursuant to Section 8.22 hereof, together with a Quarterly Watch List Report for the fiscal quarter then ended, each certified to as true and correct copies of the same by its chief financial officer or another officer of the Borrower acceptable to the Administrative Agent;

1.8. Subsection (b)(ii)(C) of Section 8.22 of the Credit Agreement (*Portfolio Valuation and Diversification Etc.*) shall be amended and restated in its entirety to read as follows:

(C) *Internal Review.* The Borrower shall conduct internal reviews of (x) Portfolio Investments for which market quotations are readily available at least once each calendar week and (y) Portfolio Investments for which market quotations are not readily available at least once each calendar month, each such review shall take into account all events of which the Borrower has knowledge that adversely affect the value of the Portfolio Investments. If the value of any Portfolio Investment as most recently determined by the Borrower pursuant to this Section *8.22*(b)(ii)(C) is lower than the value of such Portfolio Investment as most recently determined pursuant to Section *8.22* (b)(ii)(A) and (B), such lower value shall be deemed to be the "Value" of such Portfolio Investment for purposes hereof; *provided* that the Value of any Portfolio Investment of the Borrower and its Subsidiaries shall be increased by the net unrealized gain as at the date such Value is determined of any Hedging Agreement entered into to hedge risks associated with such Portfolio Investment and reduced by the net unrealized loss as at such date of any such Hedging Agreement (such net unrealized gain or net unrealized loss, on any date, to be equal to the aggregate amount receivable or payable under the related Hedging Agreement if the same were terminated on such date).

1.9. Section 8.23 of the Credit Agreement (*Calculation of Borrowing Base*) shall be amended by deleting the word "and" at the end of subsection (d), deleting the period at the end subsection (e) and replacing therewith the phrase "; and" and the addition of new subsections (f) and (g) in the appropriate alphabetical sequence, which shall read as follows:

(f) The aggregate Value of Portfolio Investments included in the Borrowing Base at any time relating to issuers with a rating of “4” (or its equivalent) on the Borrower’s internal investment rating scale as reflected on the most recent Monthly Investment Ratings report provided to the Administrative Agent shall not exceed 7.5% of the Borrowing Base (and the Advance Rate applicable to any portion of Portfolio Investments in excess thereof shall be deemed to be 0.0%); and

(g) The Advance Rate applicable to that portion of the aggregate Value of the Portfolio Investments relating to issuers with a rating of “5” (or its equivalent) on the Borrower’s internal investment rating scale as reflected on the most recent Monthly Investment Ratings report provided to the Administrative Agent shall be 0%.

1.10. The definition of “Performing” set forth in Section 8.23 of the Credit Agreement (*Calculation of Borrowing Base*) shall be amended and restated in its entirety to read as follows:

“Performing” means (a) with respect to any Portfolio Investment that is debt, the issuer of such Portfolio Investment is not in default of any payment obligations in respect thereof after the expiration of any applicable grace period, and (b) with respect to any Portfolio Investment that is Preferred Stock, the issuer of such Portfolio Investment has not failed to meet any scheduled redemption obligations or to pay its latest declared cash dividend, after the expiration of any applicable grace period, and in each case referred to in clause (a) and (b) above such payment or redemption obligation is not more than sixty (60) days past its original due date (without regard to any applicable grace period).

1.11. Subsections (a) and (d) of Section 8.25 of the Credit Agreement (*Financial Covenants*) shall each be amended and restated in its entirety to read as follows:

(a) *Minimum Shareholders’ Equity*. The Borrower will not permit Shareholders’ Equity at any time to be less than 85% of Shareholders’ Equity as reported in the Borrower’s December 31, 2008, balance sheet delivered pursuant to Section 8.5(b) hereof.

(d) *Interest Coverage Ratio*. As of the last day of each fiscal quarter of the Borrower, the Borrower shall maintain a ratio of (i) EBIT for the four fiscal quarters of the Borrower then ended, to (ii) Interest Expense for the same four fiscal quarters then ended of not less than 1.50 to 1.0.

1.12. The following schedules and annexes attached to the Credit Agreement and the Security Agreement are hereby amended and restated by the schedules and annexes attached to this Amendment:

a. Credit Agreement: Schedule 6.10(A).

b. Security Agreement: Annex 2 and Annex 3.

Section 2. Conditions Precedent.

The effectiveness of this Amendment is subject to the satisfaction of all of the following conditions precedent:

2.1. The Borrower, the Administrative Agent, and the Lenders shall have executed and delivered this Amendment.

2.2. The Borrower shall have provided the Administrative Agent a current Borrowing Base Certificate computed after giving effect to this Amendment, and the sum of all Revolving Loans, Swing Loans, and L/C Obligations shall not exceed the current Borrowing Base as reflected therein.

2.3. The Borrower shall have provided the Administrative Agent copies of the certificates of good standing for the Borrower (dated no earlier than 30 days prior to the date hereof) from the office of the secretary of state of its incorporation or organization and of each state in which it is qualified to do business as a foreign corporation or organization.

2.4. The Administrative Agent and the Lenders shall have received copies of resolutions of the Borrower's Board of Directors authorizing the execution, delivery and performance of this Amendment.

2.5. The Administrative Agent and the Lenders shall have received the Borrower's audited financial statements and audit report for the fiscal year ended September 30, 2008.

2.6. The Borrower and the Administrative Agent shall have entered into a fee letter dated December 30, 2008, and the Borrower shall have paid all fees referred to therein then due.

2.7. Legal matters incident to the execution and delivery of this Amendment shall be satisfactory to the Administrative Agent and its counsel.

Section 3. Representations.

In order to induce the Lenders to execute and deliver this Amendment, the Borrower hereby represents to the Lenders that as of the date hereof, after giving effect to the amendments set forth in Section 1 above, (a) the representations and warranties set forth in Section 6 of the Credit Agreement and in the other Loan Documents (as amended hereby) are and shall be and remain true and correct in all materials respects (except that the representations contained in Section 6.5 shall be deemed to refer to the most recent financial statements of the Borrower delivered to the Lenders) and (b) the Borrower is in compliance with the terms and conditions of the Credit Agreement and the other Loan Documents and no Default or Event of Default exists or shall result after giving effect to this Amendment.

Section 4. Miscellaneous.

4.1. The Borrower heretofore executed and delivered to the Administrative Agent and the Lenders the Collateral Documents. The Borrower hereby acknowledges and agrees that the Liens created and provided for by the Collateral Documents continue to secure, among other things, the Obligations arising under the Credit Agreement as amended hereby; and the Collateral Documents and the rights and remedies of the Administrative Agent and the Lenders thereunder, the obligations of the Borrower thereunder, and the Liens created and provided for thereunder remain in full force and effect and shall not be affected, impaired or discharged hereby. Nothing herein contained shall in any manner affect or impair the priority of the Liens created and provided for by the Collateral Documents as to the indebtedness which would be secured thereby prior to giving effect to this Amendment.

4.2. Except as specifically amended herein, the Credit Agreement shall continue in full force and effect in accordance with its original terms. Reference to this specific Amendment need not be made in the Credit Agreement, the Notes, or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to or with respect to the Credit Agreement, any reference in any of such items to the Credit Agreement being sufficient to refer to the Credit Agreement as amended hereby.

4.3. The Borrower agrees to pay on demand all reasonable costs and expenses of or incurred by the Administrative Agent in connection with the negotiation, preparation, execution and delivery of this Amendment and the other instruments and documents to be executed and delivered in connection herewith, including the reasonable fees and expenses of counsel for the Administrative Agent.

4.4. This Amendment may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original. Delivery of a counterpart hereof by facsimile transmission or by e-mail transmission of an Adobe Portable Document Format File (also known as an “PDF” file) shall be effective as delivery of a manually executed counterpart hereof. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Illinois (without regard to principles of conflicts of laws).

[Signature Page to Follow]

This Second Amendment to Credit Agreement is entered into as of the date and year first above written.

FIFTH STREET FINANCE CORP.

By ____________________
Name ____________________
Title ____________________

Accepted and agreed to.

BANK OF MONTREAL, as Administrative Agent

By ____________________
Name ____________________
Title ____________________

BMO CAPITAL MARKETS FINANCING, INC.

By ____________________
Name ____________________
Title ____________________

Exhibit 31.1

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended December 31, 2008 of Fifth Street Finance Corp.;

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

3. Based on my knowledge, the 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.

Dated this 5th day of February, 2009.

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

Exhibit 31.2

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended December 31, 2008 of Fifth Street Finance Corp.;

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

3. Based on my knowledge, the 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.

Dated this 5th day of February, 2009.

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended **December 31, 2008** (the “Report”) of **Fifth Street Finance Corp.** (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, **Leonard M. Tannenbaum,** the President and Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

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

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

/s/Leonard M. Tannenbaum
Name: Leonard M. Tannenbaum

Date: February 5, 2009

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended **December 31, 2008** (the “Report”) of **Fifth Street Finance Corp.** (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, **William H. Craig,** the Chief Financial Officer and Chief Compliance Officer of the Registrant, hereby certify, to the best of my knowledge, that:

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

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

/s/ William H. Craig
Name: William H. Craig

Date: February 5, 2009