UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from: __________ to __________

Commission File Number: 01-33901

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

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

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

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

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

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

None

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

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

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

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

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

The registrant had 66,667,933 shares of common stock outstanding as of April 28, 2011.

FIFTH STREET FINANCE CORP.

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

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PART I — FINANCIAL INFORMATION

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

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

	March 31, 2011	September 30, 2010
Assets		
Investments at fair value:		
Control investments (cost at March 31, 2011: $11,045,168; cost at September 30, 2010: $12,195,029)	$ 9,695,327	$ 3,700,000
Affiliate investments (cost at March 31, 2011: $48,829,558; cost at September 30, 2010: $50,133,521)	35,747,092	47,222,059
Non-control/Non-affiliate investments (cost at March 31, 2011: $893,318,481; cost at September 30, 2010: $530,168,045)	894,306,634	512,899,257
Total investments at fair value (cost at March 31, 2011: $953,193,207; cost at September 30, 2010: $592,496,595)	**939,749,053**	**563,821,316**
Cash and cash equivalents	38,556,212	76,765,254
Interest and fees receivable	6,622,820	3,813,757
Due from portfolio company	96,424	103,426
Deferred financing costs	8,849,335	5,465,964
Collateral posted to bank and other assets	1,874,666	1,956,013
Total Assets	**$995,748,510**	**$651,925,730**
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 452,770	$ 1,322,282
Base management fee payable	4,785,961	2,875,802
Incentive fee payable	4,139,032	2,859,139
Due to FSC, Inc.	808,525	1,083,038
Interest payable	652,827	282,640
Payments received in advance from portfolio companies	861,298	1,330,724
Loans payable	134,000,000	—
SBA debentures payable	138,300,000	73,000,000
Total Liabilities	**284,000,413**	**82,753,625**
Net Assets:		
Common stock, $0.01 par value, 150,000,000 shares authorized, 66,667,933 and 54,550,290 shares issued and outstanding at March 31, 2011 and September 30, 2010	666,679	545,503
Additional paid-in-capital	765,404,953	619,759,984
Net unrealized depreciation on investments and interest rate swap	(12,978,443)	(29,448,713)
Net realized loss on investments	(47,054,064)	(33,090,961)
Accumulated undistributed net investment income	5,708,972	11,406,292
Total Net Assets (equivalent to $10.68 and $10.43 per common share at March 31, 2011 and September 30, 2010) (Note 12)	**711,748,097**	**569,172,105**
Total Liabilities and Net Assets	**$995,748,510**	**$651,925,730**

See notes to Consolidated Financial Statements.

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

	Three months ended March 31, 2011	Three months ended March 31, 2010	Six months ended March 31, 2011	Six months ended March 31, 2010
Interest income:				
Control investments	$ 12,463	$ (41,919)	$ 13,432	$ 182,827
Affiliate investments	1,127,620	2,257,404	2,290,136	4,516,905
Non-control/Non-affiliate investments	21,202,939	11,874,938	37,692,123	19,548,264
Interest on cash and cash equivalents	4,393	5,521	13,530	201,183
Total interest income	**22,347,415**	**14,095,944**	**40,009,221**	**24,449,179**
PIK interest income:				
Control investments	101,339	—	134,672	—
Affiliate investments	275,633	323,533	557,433	655,149
Non-control/Non-affiliate investments	3,094,431	1,981,640	5,922,986	3,611,798
Total PIK interest income	**3,471,403**	**2,305,173**	**6,615,091**	**4,266,947**
Fee income:				
Control investments	28	—	126,514	—
Affiliate investments	133,407	425,261	266,961	679,038
Non-control/Non-affiliate investments	3,740,634	1,018,639	8,007,850	1,680,003
Total fee income	**3,874,069**	**1,443,900**	**8,401,325**	**2,359,041**
Dividend and other income:				
Control investments	—	—	—	—
Affiliate investments	—	—	—	—
Non-control/Non-affiliate investments	8,288	11,333	10,722	22,666
Total dividend and other income	**8,288**	**11,333**	**10,722**	**22,666**
Total Investment Income	**29,701,175**	**17,856,350**	**55,036,359**	**31,097,833**
Expenses:				
Base management fee	4,785,961	2,336,878	8,564,740	4,603,881
Incentive fee	4,139,032	2,801,562	7,652,933	4,888,826
Professional fees	507,483	329,014	1,197,972	630,619
Board of Directors fees	36,000	43,000	85,500	81,000
Interest expense	2,724,188	260,941	4,662,898	352,120
Administrator expense	391,175	318,806	745,344	570,624
General and administrative expenses	561,209	559,901	1,515,241	1,142,524
Total expenses	**13,145,048**	**6,650,102**	**24,424,628**	**12,269,594**
Base management fee waived	—	—	—	(727,067)
Net expenses	**13,145,048**	**6,650,102**	**24,424,628**	**11,542,527**
Net Investment Income	**16,556,127**	**11,206,248**	**30,611,731**	**19,555,306**
Unrealized appreciation on interest rate swap	**234,166**	—	**970,556**	—
Unrealized appreciation (depreciation) on investments:				
Control investments	(757,321)	486,853	7,313,275	2,480,075
Affiliate investments	(8,590,695)	3,327,908	(10,171,003)	3,727,842
Non-control/Non-affiliate investments	8,741,597	(2,638,050)	18,357,442	(4,031,912)
Net unrealized appreciation (depreciation) on investments	**(606,419)**	**1,176,711**	**15,499,714**	**2,176,005**
Realized gain (loss) on investments:				
Control investments	(40,586)	—	(7,805,705)	—
Affiliate investments	—	(2,908,084)	—	(2,908,084)
Non-control/Non-affiliate investments	(472,298)	—	(6,157,398)	106,000
Net realized loss on investments	**(512,884)**	**(2,908,084)**	**(13,963,103)**	**(2,802,084)**
Net increase in net assets resulting from operations	**$15,670,990**	**$ 9,474,875**	**$ 33,118,898**	**$18,929,227**
Net investment income per common share — basic and diluted	**$ 0.27**	**$ 0.26**	**$ 0.52**	**$ 0.48**
Earnings per common share — basic and diluted	**$ 0.25**	**$ 0.22**	**$ 0.57**	**$ 0.47**
Weighted average common shares outstanding — basic and diluted	62,120,473	43,019,350	58,339,723	40,421,657

See notes to Consolidated Financial Statements.

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

	Six months ended March 31, 2011	Six months ended March 31, 2010
Operations:		
Net investment income	$ 30,611,731	$ 19,555,306
Net unrealized appreciation on investments and interest rate swap	16,470,270	2,176,005
Net realized loss on investments	(13,963,103)	(2,802,084)
Net increase in net assets from operations	**33,118,898**	**18,929,227**
Stockholder transactions:		
Distributions to stockholders	(36,309,051)	(23,794,498)
Net decrease in net assets from stockholder transactions	**(36,309,051)**	**(23,794,498)**
Capital share transactions:		
Issuance of common stock, net	143,429,688	77,537,266
Issuance of common stock under dividend reinvestment plan	2,336,457	1,168,939
Net increase in net assets from capital share transactions	**145,766,145**	**78,706,205**
Total increase in net assets	**142,575,992**	**73,840,934**
Net assets at beginning of period	569,172,105	410,556,071
Net assets at end of period	**$711,748,097**	**$484,397,005**
Net asset value per common share	**$ 10.68**	**$ 10.70**
Common shares outstanding at end of period	66,667,933	45,282,596

See notes to Consolidated Financial Statements.

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

	Six months ended March 31, 2011	Six months ended March 31, 2010
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 33,118,898	$ 18,929,227
Adjustments to reconcile net increase in net assets resulting from operations to net cash used by operating activities:		
Net unrealized appreciation on investments and interest rate swap	(16,470,270)	(2,176,005)
Net realized losses on investments	13,963,103	2,802,084
PIK interest income	(6,615,091)	(4,266,947)
Recognition of fee income	(8,401,325)	(2,359,041)
Accretion of original issue discount on investments	(808,927)	(448,427)
Amortization of deferred financing costs	955,154	—
Change in operating assets and liabilities:		
Fee income received	14,010,650	6,466,569
Increase in interest and fees receivable	(1,826,027)	(1,781,438)
Decrease in due from portfolio company	7,002	78,521
(Increase) decrease in collateral posted to bank and other assets	81,347	(1,736,387)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	101,045	(85,056)
Increase in base management fee payable	1,910,159	784,718
Increase in incentive fee payable	1,279,893	857,299
Decrease in due to FSC, Inc.	(274,513)	(152,845)
Increase in interest payable	370,187	24,537
Decrease in payments received in advance from portfolio companies	(469,426)	(95,997)
Purchases of investments and net revolver activity, net of syndications	(452,660,960)	(176,666,609)
Principal payments received on investments (scheduled payments)	10,186,307	4,182,202
Principal payments received on investments (payoffs)	62,204,072	6,385,000
PIK interest income received in cash	6,711,111	635,194
Proceeds from the sale of investments	—	4,191,721
Net cash used by operating activities	**(342,627,611)**	**(144,431,680)**
Cash flows from financing activities:		
Dividends paid in cash	(33,972,594)	(22,625,559)
Borrowings under SBA debentures payable	65,300,000	—
Borrowings under credit facilities	378,000,000	38,000,000
Repayments of borrowings under credit facilities	(244,000,000)	(38,000,000)
Deferred financing costs paid	(4,338,525)	—
Proceeds from the issuance of common stock	143,921,427	78,086,148
Offering costs paid	(491,739)	(765,602)
Net cash provided by financing activities	**304,418,569**	**54,694,987**
Net decrease in cash and cash equivalents	**(38,209,042)**	**(89,736,693)**
Cash and cash equivalents, beginning of period	76,765,254	113,205,287
Cash and cash equivalents, end of period	**$ 38,556,212**	**$ 23,468,594**
Supplemental Information:		
Cash paid for interest	$ 3,337,557	$ 213,855
Non-cash financing activities:		
Issuance of shares of common stock under dividend reinvestment plan	$ 2,336,457	$ 1,168,939

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

Consolidated Schedule of Investments
March 31, 2011
(unaudited)

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Control Investments (3)				
Lighting By Gregory, LLC (9)(13)(14)	Housewares & Specialties			
First Lien Term Loan A, 9.75% due 2/28/2013		$ 4,155,306	$ 3,996,187	$ 4,055,655
First Lien Bridge Loan, 6% due 3/31/2012		150,000	150,000	—
97.38% membership interest			1,210,000	—
			5,356,187	**4,055,655**
Nicos Polymers & Grinding Inc.	Environmental & facilities services			
First Lien Term Loan, 8% due 12/4/2017		5,134,672	5,061,481	5,139,672
First Lien Revolver, 8% due 12/4/2017		500,000	500,000	500,000
50% Membership Interest in CD Holdco, LLC			127,500	—
			5,688,981	**5,639,672**
Total Control Investments			**$11,045,168**	**$ 9,695,327**
Affiliate Investments (4)				
O’Currance, Inc.	Data Processing & Outsourced Services			
First Lien Term Loan A, 16.875% due 3/21/2012		11,184,988	$11,124,844	$11,239,858
First Lien Term Loan B, 16.875%, due 3/21/2012		1,639,277	1,622,288	1,698,293
1.75% Preferred Membership interest in O’Currance Holding Co., LLC			130,413	31,490
3.3% Membership Interest in O’Currance Holding Co., LLC			250,000	—
			13,127,545	**12,969,641**
MK Network, LLC (13)(14)	Education services			
First Lien Term Loan A, 13.5% due 6/1/2012		8,784,277	8,484,972	—
First Lien Term Loan B, 17.5% due 6/1/2012		4,975,819	4,748,004	—
First Lien Revolver, Prime + 1.5% (10% floor), due 6/1/2010 (10)		—	—	—
11,030 Membership Units			771,575	—
			14,004,551	—
Caregiver Services, Inc.	Healthcare services			
Second Lien Term Loan A, LIBOR+6.85% (12% floor) due 2/25/2013		6,426,488	6,170,953	6,543,222
Second Lien Term Loan B, 16.5% due 2/25/2013		14,923,107	14,446,111	14,842,797
1,080,399 shares of Series A Preferred Stock			1,080,398	1,391,432
			21,697,462	**22,777,451**
Total Affiliate Investments			**$48,829,558**	**$35,747,092**
Non-Control/Non-Affiliate Investments (7)				
CPAC, Inc.	Household Products			
Subordinated Term Loan, 12.5% due 6/1/2012		1,133,269	$ 1,133,269	$ 1,133,269
			1,133,269	**1,133,269**

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Fifth Street Finance Corp.

Consolidated Schedule of Investments
March 31, 2011
(unaudited)

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Repechage Investments Limited	Restaurants			
First Lien Term Loan, 15.5% due 10/16/2011		3,508,523	3,352,646	3,274,691
7,500 shares of Series A Preferred Stock of Elephant & Castle, Inc.			750,000	63,687
			4,102,646	**3,338,378**
Traffic Control & Safety Corporation	Construction and Engineering			
Senior Term Loan A, 7.741% due 6/29/2012		2,361,779	2,263,371	2,263,371
Senior Term Loan B, 5.29% due 6/29/2012		2,846,473	2,727,870	2,727,870
Senior Term Loan C, 5.29% due 6/29/2012		4,027,956	3,860,124	3,860,124
Senior Revolver, 5.29% due 6/29/2012		5,250,000	5,031,251	5,031,251
Second Lien Term Loan, 15% due 5/28/2015 (9)		20,376,773	20,157,995	19,325,690
Subordinated Loan, 15% due 5/28/2015		4,936,102	4,936,102	3,213,442
24,750 shares of Series B Preferred Stock			247,500	—
43,494 shares of Series D Preferred Stock (6)			434,937	—
25,000 shares of Common Stock			2,500	—
			39,661,650	**36,421,748**
TBA Global, LLC	Advertising			
53,994 Senior Preferred Shares			215,975	215,975
191,977 Shares A Shares			191,977	179,240
			407,952	**395,215**
Fitness Edge, LLC	Leisure facilities			
First Lien Term Loan A, LIBOR+5.25% (10% floor), due 8/8/2012		1,000,000	997,107	1,006,811
First Lien Term Loan B, 15% due 8/8/2012		5,703,099	5,662,270	5,713,995
1,000 Common Units (6)			42,908	138,450
			6,702,285	**6,859,256**
Filet of Chicken (9)	Food Distributors			
Second Lien Term Loan, 14.5% due 7/31/2012		7,335,987	7,159,978	7,316,796
			7,159,978	**7,316,796**
Boot Barn	Apparel, accessories & luxury goods			
247.06 shares of Series A Preferred Stock			247,060	71,394
1,308 shares of Common Stock			8,855	8,725
			255,915	**80,119**
Premier Trailer Leasing, Inc. (9)(13)(14)	Trucking			
Second Lien Term Loan, 16.5% due 10/23/2012		18,758,227	17,063,645	3,897,412
285 shares of Common Stock			1,140	—
			17,064,785	**3,897,412**
Pacific Press Technologies, Inc.				
Second Lien Term Loan, 14.75% due 1/10/2013	Industrial machinery	10,174,134	9,954,793	10,191,421
33,463 shares of Common Stock			344,513	715,974
			10,299,306	**10,907,395**
Rail Acquisition Corp.	Electronic manufacturing services			

First Lien Term Loan, 17% due 9/1/2013	17,331,049	14,552,152	9,779,405
First Lien Revolver, 7.85% due 9/1/2013	5,120,565	5,120,565	5,120,565
		19,672,717	**14,899,970**

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Fifth Street Finance Corp.

Consolidated Schedule of Investments
March 31, 2011
(unaudited)

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Western Emulsions, Inc.	Construction materials			
Second Lien Term Loan, 15% due 6/30/2014		6,706,609	6,578,609	6,705,597
			6,578,609	**6,705,597**
Storyteller Theaters Corporation	Movies & entertainment			
1,692 shares of Common Stock			169	61,613
20,000 shares of Preferred Stock			200,000	200,000
			200,169	**261,613**
HealthDrive Corporation (9)	Healthcare services			
First Lien Term Loan A, 10% due 7/17/2013		6,462,970	6,186,332	6,498,125
First Lien Term Loan B, 13% due 7/17/2013		10,230,293	10,140,293	10,500,432
First Lien Revolver, 12% due 7/17/2013		1,000,000	991,000	1,016,374
			17,317,625	**18,014,931**
idX Corporation	Distributors			
Second Lien Term Loan, 14.5% due 7/1/2014		13,726,772	13,520,365	13,763,520
			13,520,365	**13,763,520**
Cenegenics, LLC	Healthcare services			
First Lien Term Loan, 17% due 10/27/2014		19,616,954	18,808,868	19,638,428
414,419 Common Units (6)			598,382	1,269,716
			19,407,250	**20,908,144**
IZI Medical Products, Inc.	Healthcare technology			
First Lien Term Loan A, 12% due 3/31/2014		4,049,775	4,004,026	4,055,414
First Lien Term Loan B, 16% due 3/31/2014		17,259,468	16,783,215	17,263,298
First Lien Revolver, 10% due 3/31/2014 (11)		—	(30,000)	—
453,755 Preferred units of IZI Holdings, LLC (6)			453,755	632,370
			21,210,996	**21,951,082**
Trans-Trade, Inc.	Air freight & logistics			
First Lien Term Loan, 15.5% due 9/10/2014		12,777,468	12,502,032	12,881,433
First Lien Revolver, 12% due 9/10/2014		5,000,000	4,892,667	5,015,544
			17,394,699	**17,896,977**
Riverlake Equity Partners II, LP	Multi-sector holdings			
1.89% limited partnership interest			122,105	122,105
			122,105	**122,105**
Riverside Fund IV, LP	Multi-sector holdings			
0.25% limited partnership interest			416,478	416,478
			416,478	**416,478**
ADAPCO, Inc.	Fertilizers & agricultural chemicals			

First Lien Term Loan A, 10% due 12/17/2014		8,000,000	7,831,887	8,008,672
First Lien Term Loan B, 14% due 12/17/2014		14,370,059	14,077,157	14,356,636
First Lien Term Revolver, 10% due 12/17/2014		4,750,000	4,540,784	4,782,888
			26,449,828	**27,148,196**
Ambath/Rebath Holdings, Inc.	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (10% floor) due 12/30/2014		4,000,000	4,000,000	4,023,879
First Lien Term Loan B, 15% due 12/30/2014		22,708,636	22,708,636	22,695,582
First Lien Term Revolver, LIBOR+6.5% (9.5% floor) due 12/30/2014 (10)		1,500,000	1,500,000	1,498,917
			28,208,636	**28,218,378**

Fifth Street Finance Corp.

Consolidated Schedule of Investments
March 31, 2011
(unaudited)

Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
JTC Education, Inc.	Education services			
First Lien Term Loan, LIBOR+9.5% (12.5% floor) due 12/31/2014		28,664,063	27,943,969	28,697,559
First Lien Revolver, LIBOR+9.5% (12.75% floor) due 12/31/2014		1,250,000	896,667	1,324,494
			28,840,636	**30,022,053**
Tegra Medical, LLC	Healthcare equipment			
First Lien Term Loan A, LIBOR+7% (10% floor) due 12/31/2014		24,640,000	24,272,161	24,723,072
First Lien Term Loan B, 14% due 12/31/2014		22,323,354	21,997,682	22,333,892
First Lien Revolver, LIBOR+7% (10% floor) due 12/31/2014		1,500,000	1,441,333	1,507,608
			47,711,176	**48,564,572**
Flatout, Inc.	Food retail			
First Lien Term Loan A, 10% due 12/31/2014		6,800,000	6,654,706	6,807,073
First Lien Term Loan B, 15% due 12/31/2014		12,927,154	12,643,019	12,937,783
First Lien Revolver, 10% due 12/31/2014 (11)		—	(33,559)	—
			19,264,166	**19,744,856**
Psilos Group Partners IV, LP	Multi-sector holdings			
2.52% limited partnership interest (12)			—	—
Mansell Group, Inc.	Advertising			
First Lien Term Loan A, LIBOR+7% (10% floor) due 4/30/2015		9,875,000	9,705,286	9,868,451
First Lien Term Loan B, LIBOR+9% (12% floor) due 4/30/2015		8,076,228	7,936,932	8,084,702
First Lien Revolver, LIBOR+6% (9% floor) due 4/30/2015 (11)		1,000,000	967,333	1,005,963
			18,609,551	**18,959,116**
NDSSI Holdings, Inc.	Electronic equipment & instruments			
First Lien Term Loan, LIBOR+9.75% (12.75% floor) due 4/30/2015		30,017,061	29,519,554	30,061,843
First Lien Revolver, LIBOR+7% (10% floor) due 4/30/2015		3,500,000	3,421,154	3,502,086
			32,940,708	**33,563,929**
Eagle Hospital Physicians, Inc.	Healthcare services			
First Lien Term Loan, LIBOR+8.75% (11.75% floor) due 8/11/2015		7,850,000	7,669,829	7,868,400
First Lien Revolver, LIBOR+5.75% (8.75% floor) due 8/11/2015 (11)		—	(55,758)	—
			7,614,071	**7,868,400**
Enhanced Recovery Company, LLC	Diversified support services			
First Lien Term Loan A, LIBOR+7% (9% floor) due 8/13/2015		15,250,000	14,978,636	15,287,877
First Lien Term Loan B, LIBOR+10% (13% floor) due 8/13/2015		11,070,781	10,872,060	11,067,261
First Lien Revolver, LIBOR+7% (9% floor) due 8/13/2015		1,000,000	927,738	1,083,965
			26,778,434	**27,439,103**
Epic Acquisition, Inc.	Healthcare services			
First Lien Term Loan A, LIBOR+8% (11% floor) due 8/13/2015		9,297,500	9,094,984	9,275,558
First Lien Term Loan B, 15.25% due 8/13/2015		17,159,953	16,780,515	17,186,836

First Lien Revolver, LIBOR+6.5% (9.5% floor) due 8/13/2015		600,000	533,454	621,878
			26,408,953	**27,084,272**
Specialty Bakers LLC	Food distributors			
First Lien Term Loan A, LIBOR+8.5% due 9/15/2015		8,775,000	8,565,857	8,782,067
First Lien Term Loan B, LIBOR+11% (13.5% floor) due 9/15/2015		11,000,000	10,743,058	11,040,725
First Lien Revolver, LIBOR+8.5% due 9/15/2015 (11)		—	(93,433)	—
			19,215,482	**19,822,792**

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
CRGT, Inc.	IT consulting & other services			
First Lien Term Loan A, LIBOR+7.5% due 10/1/2015		29,000,000	28,500,168	29,068,105
First Lien Term Loan B, 12.5% due 10/1/2015		22,000,000	21,604,000	22,040,291
First Lien Revolver, LIBOR+7.5% due 10/1/2015 (11)		—	(225,000)	—
			49,879,168	**51,108,396**
Welocalize, Inc.	Internet software & services			
First Lien Term Loan A, LIBOR+8% (10% floor) due 11/19/2015		16,400,000	16,095,901	16,400,313
First Lien Term Loan, LIBOR+9% (12.25% floor) due 11/19/2015		21,096,423	20,711,423	21,075,236
First Lien Revolver, LIBOR+7% (9% floor) due 11/19/2015		2,250,000	2,140,000	2,274,860
2,086,163 Common Units in RPWL Holdings, LLC			2,086,163	2,112,041
			41,033,487	**41,862,450**
Miche Bag, LLC	Apparel, accessories & luxury goods			
First Lien Term Loan B, LIBOR+9% (12% floor) due 12/7/2013		15,000,000	14,659,710	15,042,504
First Lien Term Loan, LIBOR+10% (16% floor) due 12/7/2015		17,162,074	14,426,785	17,126,857
First Lien Revolver, LIBOR+7% (10% floor) due 12/7/2015 (11)		—	(118,222)	—
10,371 Preferred Equity units in Miche Holdings, LLC (6)			1,037,112	954,366
146,289 Series D Common Equity units in Miche Holdings, LLC (6)			1,462,888	1,346,170
			31,468,273	**34,469,897**
Bunker Hill Capital II (QP), L.P.	Multi-sector holdings			
0.50% limited partnership interest (12)			—	—
Dominion Diagnostics, LLC	Healthcare services			
First Lien Term Loan A, LIBOR+7% (9% floor) due 12/17/2015		30,350,000	29,769,524	30,394,983
First Lien Term Loan, LIBOR+9% (12.5% floor) due 12/17/2015		20,058,396	19,685,062	20,161,592
First Lien Revolver, LIBOR+6.5% (9% floor) due 12/17/2015 (11)		—	(93,333)	—
			49,361,253	**50,556,575**
Advanced Pain Management	Healthcare services			
First Lien Term Loan, LIBOR+5% (6.75% floor) due 12/22/2015		8,148,750	8,012,134	8,163,952
First Lien Revolver, LIBOR+5% (6.75% floor) due 12/22/2015 (11)		—	(5,600)	—
			8,006,534	**8,163,952**
DISA, Inc.	Human resources & employment services			
First Lien Term Loan A, LIBOR+7.5% (8.25% floor) due 12/30/2015		13,000,000	12,750,198	13,084,515
First Lien Term Loan B, LIBOR+11.5% (12.5% floor) due 12/30/2015		8,331,511	8,173,515	8,311,374
First Lien Revolver, LIBOR+6% (7% floor) due 12/30/2015 (11)		—	(76,142)	—
			20,847,571	**21,395,889**
Saddleback Fence and Vinyl Products, Inc.	Building products			

First Lien Term Loan, 8% due 11/30/2013	772,768	772,768	772,768
First Lien Revolver, 8% due 11/30/2011	—	—	—
		772,768	**772,768**

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Portfolio Company/Type of Investment (1)(2)(5)	Industry	Principal (8)	Cost	Fair Value
Best Vinyl Fence & Deck, LLC	Building Products			
First Lien Term Loan A, 8% due 11/30/2013		2,060,713	1,946,983	2,060,713
First Lien Term Loan B, 8% due 5/31/2011		3,863,838	3,863,838	3,863,838
First Lien Revolver, 8% due 11/30/2011		—	—	—
25,641 Shares of Series A Preferred Stock in Vanguard Vinyl, Inc.			—	—
25,641 Shares of Common Stock in Vanguard Vinyl, Inc.			—	—
			5,810,821	**5,924,551**
Physicians Pharmacy Alliance, Inc.	Healthcare services			
First Lien Term Loan, LIBOR+10.5% due 1/4/2016		17,060,989	16,697,763	17,060,989
First Lien Revolver, LIBOR+6% due 1/4/2016 (11)		—	(42,500)	—
			16,655,263	**17,060,989**
Cardon Healthcare Network, LLC	Diversified support services			
First Lien Term Loan, LIBOR+10% (11.75% floor) due 1/6/2016		11,850,000	11,605,493	11,850,000
First Lien Revolver, LIBOR+6.5% (8.25% floor) due 1/6/2016 (11)		—	(41,214)	—
			11,564,279	**11,850,000**
U.S. Retirement Partners, Inc.	Diversified financial services			
First Lien Term Loan, LIBOR+9.5% (11.5% floor) due 1/6/2016		11,700,000	11,361,007	11,700,000
			11,361,007	**11,700,000**
IOS Acquisitions, Inc.	Oil & gas equipment & services			
First Lien Term Loan A, LIBOR+8% (10% floor) due 1/14/2016		5,300,000	5,178,937	5,300,000
First Lien Term Loan B, LIBOR+12% (14% floor) due 1/14/2016		6,025,702	5,885,311	6,025,702
First Lien Revolver, LIBOR+8% (10% floor) due 1/14/2016 (11)		—	(46,797)	—
			11,017,451	**11,325,702**
Actient Pharmaceuticals LLC	Healthcare services			
First Lien Term Loan, LIBOR+6.25% (8.25% floor) due 7/29/2015		9,754,098	9,564,490	9,754,098
			9,564,490	**9,754,098**
Phoenix Brands Merger Sub LLC	Household products			
Senior Term Loan, LIBOR+5% (6.5% floor) due 1/13/2016		8,571,429	8,386,251	8,571,429
Subordinated Term Loan, LIBOR+13.875% due 2/1/2017		20,000,000	19,611,111	20,000,000
First Lien Revolver, LIBOR+5% (6.5% floor) due 1/31/2016		4,285,714	4,145,893	4,285,714
			32,143,255	**32,857,143**
U.S. Collections, Inc.	Diversified support services			
First Lien Term Loan, LIBOR+5.25% (7% floor) due 3/31/2016		11,358,793	11,136,614	11,358,793
			11,136,614	**11,358,793**

CCCG, LLC	Oil & gas equipment & services			
First Lien Term Loan, LIBOR+9% (10.75% floor) due 7/29/2015		34,938,750	34,248,422	34,938,750
			34,248,422	**34,938,750**
Maverick Healthcare Group, LLC	Healthcare equipment			
First Lien Term Loan, LIBOR+9% (10.75% floor) due 12/31/2016		24,937,500	24,379,539	24,937,500
			24,379,539	**24,937,500**
Refac Optical Group	Specialty stores			
First Lien Term Loan A, LIBOR+7.5% due 3/23/2016		19,510,000	19,040,081	19,510,000
First Lien Term Loan B, LIBOR+10.25% due 3/23/2016		20,033,509	19,546,656	20,033,509
First Lien Revolver, LIBOR+7.5% due 3/23/2016 (11)		—	(188,891)	—
1,000 Shares of Common Stock in Refac Holdings, Inc.			1,000	1,000
1,000 Shares of Preferred Stock in Refac Holdings, Inc.			999,000	999,000
			39,397,846	**40,543,509**
Total Non-Control/Non-Affiliate Investments			**$893,318,481**	**$894,306,634**
Total Portfolio Investments			**$953,193,207**	**$939,749,053**

(1) All debt investments are income producing unless otherwise noted in (13) or (14) below. Interest rates and floors may contain fixed rate PIK provisions. Equity is non-income producing unless otherwise noted.

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

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

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

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

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

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

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

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

Portfolio Company	Effective date	Cash interest	PIK interest	Reason
Lighting by Gregory, LLC	March 11, 2011	- 2.0% on Bridge Loan		Per loan amendment
Traffic Control & Safety Corp.	May 28, 2010	- 4.0% on Second Lien Term Loan	+ 1.0% on Second Lien Term Loan	Per restructuring agreement
Filet of Chicken	October 1, 2010	+ 1.0% on Term Loan	+ 1.0% on Term Loan	Tier pricing per waiver agreement
Premier Trailer Leasing, Inc.	August 4, 2009	+ 4.0% on Term Loan		Default interest per credit agreement
HealthDrive Corporation	April 30, 2009	+ 2.0% on Term Loan A		Per waiver agreement

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

(11) Cost amounts represent unearned income related to undrawn commitments.

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

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

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

See notes to Consolidated Financial Statements.

Fifth Street Finance Corp.

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

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

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

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Portfolio Company/Type of Investment(1)(2)(5)	Industry	Principal(8)	Cost	Fair Value
Ambath/Rebath Holdings, Inc.	Home improvement retail			
First Lien Term Loan A, LIBOR+7% (10% floor) due 12/30/2014		9,500,000	9,277,900	9,127,886
First Lien Term Loan B, 15% due 12/30/2014		22,423,729	21,920,479	21,913,276
First Lien Term Revolver, LIBOR+6.5% (9.5% floor) due 12/30/2014		1,500,000	1,432,500	1,442,696
			32,630,879	**32,483,858**
JTC Education, Inc.	Education services			
First Lien Term Loan, LIBOR+9.5% (12.5% floor) due 12/31/2014		31,054,688	30,243,946	30,660,049
First Lien Revolver, LIBOR+9.5% (12.75% floor) due 12/31/2014(11)		—	(401,111)	(401,111)
			29,842,835	**30,258,938**
Tegra Medical, LLC	Healthcare equipment			
First Lien Term Loan A, LIBOR+7% (10% floor) due 12/31/2014		26,320,000	25,877,206	26,250,475
First Lien Term Loan B, 14% due 12/31/2014		22,098,966	21,729,057	22,114,113
First Lien Revolver, LIBOR+7% (10% floor) due 12/31/2014(11)		—	(66,667)	(66,667)
			47,539,596	**48,297,921**
Flatout, Inc.	Food retail			
First Lien Term Loan A, 10% due 12/31/2014		7,300,000	7,120,671	7,144,136
First Lien Term Loan B, 15% due 12/31/2014		12,862,760	12,539,879	12,644,316
First Lien Revolver, 10% due 12/31/2014(11)		—	(38,136)	(38,136)
			19,622,414	**19,750,316**
Psilos Group Partners IV, LP	Multi-sector holdings			
2.53% limited partnership interest(12)			—	—
			—	—
Mansell Group, Inc.	Advertising			
First Lien Term Loan A, LIBOR+7% (10% floor) due 4/30/2015		5,000,000	4,909,720	4,915,885
First Lien Term Loan B, LIBOR+9% (13.5% floor) due 4/30/2015		4,025,733	3,952,399	3,946,765
First Lien Revolver, LIBOR+6% (9% floor) due 4/30/2015(11)		—	(36,667)	(36,667)
			8,825,452	**8,825,983**
NDSSI Holdings, Inc.	Electronic equipment & instruments			
First Lien Term Loan, LIBOR+9.75% (13.75% floor) due 9/10/2014		30,245,558	29,684,880	29,409,043
First Lien Revolver, LIBOR+7% (10% floor) due 9/10/2014		3,500,000	3,409,615	3,478,724
			33,094,495	**32,887,767**
Eagle Hospital Physicians, Inc.	Healthcare services			
First Lien Term Loan, LIBOR+8.75% (11.75% floor) due 8/11/2015		8,000,000	7,783,892	7,783,892
First Lien Revolver, LIBOR+5.75% (8.75% floor) due 8/11/2015		—	(64,394)	(64,394)
			7,719,498	**7,719,498**
Enhanced Recovery Company, LLC	Diversified support services			
First Lien Term Loan A, LIBOR+7% (9% floor) due 8/13/2015		15,500,000	15,171,867	15,171,867
First Lien Term Loan B, LIBOR+10% (13% floor) due 8/13/2015		11,014,977	10,782,174	10,782,174
First Lien Revolver, LIBOR+7% (9% floor) due 8/13/2015		376,852	292,196	292,196
			26,246,237	**26,246,237**

Fifth Street Finance Corp.

Consolidated Schedule of Investments
September 30, 2010

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

(1) All debt investments are income producing unless otherwise noted in (13) or (14) below. Interest rates and floors may contain fixed rate PIK provisions. Equity is non-income producing unless otherwise noted.

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

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

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

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

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

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

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

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Fifth Street Finance Corp.

Consolidated Schedule of Investments
September 30, 2010

(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
Nicos Polymers & Grinding, Inc.	February 10, 2008		+ 2.0% on Term Loan A & B	Per waiver agreement
TBA Global, LLC	February 15, 2008		+ 2.0% on Term Loan B	Per waiver agreement
Vanguard Vinyl, Inc.	April 1, 2008	+ 0.5% on Term Loan		Per loan amendment
Filet of Chicken	January 1, 2009	+ 1.0% on Term Loan		Tier pricing per waiver agreement
Boot Barn	January 1, 2009	+ 1.0% on Term Loan	+ 2.5% on Term Loan	Tier pricing per waiver agreement
HealthDrive Corporation	April 30, 2009	+ 2.0% on Term Loan A		Per waiver agreement
Premier Trailer Leasing, Inc.	August 4, 2009	+ 4.0% on Term Loan		Default interest per credit agreement
Rail Acquisition Corp.	May 1, 2010	- 4.5% on Term Loan	- 0.5% on Term Loan	Per restructuring agreement
Traffic Control & Safety Corp.	May 28, 2010	- 4.0% on Term Loan	+ 1.0% on Term Loan	Per restructuring agreement
Pacific Press Technologies, Inc.	July 1, 2010	- 2.0% on Term Loan	- 0.75% on Term Loan	Per waiver agreement
Western Emulsions, Inc.	September 30, 2010		+ 3.0% on Term Loan	Per loan agreement

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

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

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

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

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

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

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

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

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

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

Date	Transaction	Shares	Offering price	Gross proceeds
June 17, 2008	Initial public offering	10,000,000	$ 14.12	$141.2 million
July 21, 2009	Follow-on public offering (including underwriters' exercise of over-allotment option)	9,487,500	$ 9.25	$87.8 million
September 25, 2009	Follow-on public offering (including underwriters' exercise of over-allotment option)	5,520,000	$ 10.50	$58.0 million
January 27, 2010	Follow-on public offering	7,000,000	$ 11.20	$78.4 million
February 25, 2010	Underwriters' exercise of over-allotment option	300,500	$ 11.20	$3.4 million
June 21, 2010	Follow-on public offering (including underwriters'exercise of over-allotment option)	9,200,000	$ 11.50	$105.8 million
December 2010	At-the-Market offering	429,110	$ 11.87(1)	$5.1 million
February 4, 2011	Follow-on public offering (including underwriters' exercise of over-allotment option)	11,500,000	$ 12.65	$145.5 million

(1) Average offering price

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

The SBIC license allows the Company's SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without

penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with 10-year maturities.

SBA regulations currently limit the amount that the Company's SBIC subsidiary may borrow to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of March 31, 2011, the Company's SBIC subsidiary had $75 million in regulatory capital. The SBA has issued a capital commitment to the Company's SBIC subsidiary in the amount of $150 million, and $138.3 million of SBA debentures were outstanding as of March 31, 2011. $73.0 million of these debentures bear interest at a rate of 3.50% per annum, including the SBA annual charge of 0.285%, and $65.3 million of these debentures bear interest at a rate of 4.369% per annum, including the SBA annual charge of 0.285%.

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

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

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

The Company has received exemptive relief from the Securities and Exchange Commission ("SEC") to permit it to exclude the debt of the SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the Company's 200% asset coverage test under the 1940 Act. This allows the Company increased flexibility under the 200% asset coverage test by permitting it to borrow up to $150 million more than it would otherwise be able to under the 1940 Act absent the receipt of this exemptive relief.

Note 2. Significant Accounting Policies

Basis of Presentation and Liquidity:

The Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and Regulation S-X. In the opinion of management, all adjustments of a normal recurring nature considered necessary for the fair presentation of the Consolidated Financial Statements have been made. The financial results of the Company’s portfolio investments are not consolidated in the Company’s Consolidated Financial Statements.

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

Use of Estimates:

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

The Consolidated Financial Statements include portfolio investments at fair value of $939.7 million and $563.8 million at March 31, 2011 and September 30, 2010, respectively. The portfolio investments represent 132.0% and 99.1% of net assets at March 31, 2011 and September 30, 2010, respectively, and their fair values have been determined by the Company’s Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

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

Fair Value Measurements:

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

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

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

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

Under ASC 820, the Company performs detailed valuations of its debt and equity investments on an individual basis, using market, income and bond yield approaches as appropriate. In general, the Company utilizes the bond yield method in determining the fair value of its investments, as long as it is appropriate. If, in the Company's judgment, the bond yield approach is not appropriate, it may use the enterprise value approach in determining the fair value of the Company's investment in the portfolio company. If there is deterioration in the credit quality of the portfolio company or an investment is in workout status, the Company may use alternative methodologies, including an asset liquidation or expected recovery model.

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

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

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

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

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

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

The fair value of all of the Company's investments at March 31, 2011 and September 30, 2010 was determined by the Board of Directors. The Board of Directors is solely responsible for the valuation of the portfolio investments at fair value as determined in good faith pursuant to the Company's valuation policy and a consistently applied valuation process.

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

Realized gain or loss on the sale of investments is the difference between the proceeds received from dispositions of portfolio investments and their stated costs. Realized losses may also be recorded in connection with the Company's determination that certain investments are considered worthless securities and/or meet the conditions for loss recognition per the applicable tax rules.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Investment Income:

Interest income, adjusted for amortization of premium and accretion of original issue discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on investments when it is determined that interest is no longer collectible. In connection with its investment, the Company sometimes receives nominal cost equity that is valued as part of the negotiation process with the particular portfolio company. When the Company receives nominal cost equity, the Company allocates its cost basis in its investment between its debt securities and its nominal cost equity at the time of origination. Any resulting discount from recording the loan is accreted into interest income over the life of the loan.

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

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

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

The Company has also structured exit fees across certain of its portfolio investments to be received upon the future exit of those investments. These fees are to be paid to the Company upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees are fees which are payable upon the exit of a debt security, and a percentage of these fees are included in net investment income over the life of the loan. The receipt of such fees is contingent upon a successful exit event for each of the investments.

Cash and Cash Equivalents:

Cash and cash equivalents consist of demand deposits and highly liquid investments with maturities of three months or less, when acquired. The Company places its cash and cash equivalents with financial institutions and, at times, cash held in bank accounts may exceed the Federal Deposit Insurance Corporation insured limit. Included in cash and cash equivalents is $0.6 million that is held at Wells Fargo Bank, National Association ("Wells Fargo") in connection with the Company's three-year credit facility. The Company is restricted in terms of access to this cash until such time as the Company submits its required monthly reporting schedules and Wells Fargo verifies the Company's compliance per the terms of the credit agreement.

Deferred Financing Costs:

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

Collateral Posted to Bank:

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

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Interest Rate Swap:

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

Offering Costs:

Offering costs consist of fees and expenses incurred in connection with the public offer and sale of the Company's common stock, including legal, accounting, and printing fees. $0.5 million of offering costs have been charged to capital during the six months ended March 31, 2011.

Income Taxes:

As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed currently to its stockholders as a dividend. The Company intends to distribute between 90% and 100% of its taxable income and gains, within the Subchapter M rules, and thus the Company anticipates that it will not incur any federal or state income tax at the RIC level. As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis (e.g., calendar year 2011). The Company anticipates timely distribution of its taxable income within the tax rules; however, the Company incurred a de minimis federal excise tax for calendar years 2008 2009 and 2010. In addition, the Company may incur a federal excise tax in future years.

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

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

Recent Accounting Pronouncements

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

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Note 3. Portfolio Investments

At March 31, 2011, 132.0% of net assets or $939.7 million was invested in 55 long-term portfolio investments and 5.4% of net assets or $38.6 million was invested in cash and cash equivalents. In comparison, at September 30, 2010, 99.1% of net assets or $563.8 million was invested in 38 long-term portfolio investments and 13.5% of net assets or $76.8 million was invested in cash and cash equivalents. As of March 31, 2011, primarily all of the Company's debt investments were secured by first or second priority liens on the assets of the portfolio companies. Moreover, the Company held equity investments in certain of its portfolio companies consisting of common stock, preferred stock or limited liability company interests designed to provide the Company with an opportunity for an enhanced rate of return. These instruments generally do not produce a current return, but are held for potential investment appreciation and capital gain.

During the three and six months ended March 31, 2011, the Company recorded net realized losses on investments of $0.5 million and $14.0 million, respectively. During the three and six months ended March 31, 2010, the Company recorded net realized losses on investments of $2.9 million and $2.8 million, respectively. During the three and six months ended March 31, 2011, the Company recorded net unrealized depreciation of $0.4 million and net unrealized appreciation of $16.5 million, respectively. During the three and six months ended March 31, 2010, the Company recorded net unrealized appreciation of $1.2 million and $2.2 million, respectively.

The composition of the Company's investments as of March 31, 2011 and September 30, 2010 at cost and fair value was as follows:

	March 31, 2011		September 30, 2010	
	Cost	Fair Value	Cost	Fair Value
Investments in debt securities	$939,758,904	$928,817,827	$585,529,301	$558,579,951
Investments in equity securities	13,434,303	10,931,226	6,967,294	5,241,365
Total	**$953,193,207**	**$939,749,053**	**$592,496,595**	**$563,821,316**

The composition of the Company's debt investments as of March 31, 2011 and September 30, 2010 at fixed rates and floating rates was as follows:

	March 31, 2011		September 30, 2010	
	Fair Value	% of Portfolio	Fair Value	% of Portfolio
Fixed rate debt securities	$375,510,714	40.43%	$375,584,242	67.24%
Floating rate debt securities	553,307,113	59.57%	182,995,709	32.76%
Total	**$928,817,827**	**100.00%**	**$558,579,951**	**100.00%**

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

	Level 1	Level 2	Level 3	Total
Investments in debt securities (first lien)	$—	$ —	$821,884,661	$821,884,661
Investments in debt securities (second lien)	—	—	82,586,455	82,586,455
Investments in debt securities (subordinated)	—	—	24,346,711	24,346,711
Investments in equity securities (preferred)	—	—	4,559,714	4,559,714
Investments in equity securities (common)	—	—	6,371,512	6,371,512
Total investments at fair value	**$—**	**$ —**	**$939,749,053**	**$939,749,053**
Interest rate swap	—	197,121	—	197,121
Total assets at fair value	**$—**	**$197,121**	**$ —**	**$939,946,174**

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

The following table provides a roll-forward in the changes in fair value from December 31, 2010 to March 31, 2011 for all investments for which the Company determines fair value using unobservable (Level 3) factors.

	First Lien Debt	Second Lien Debt	Subordinated Debt	Preferred Equity	Common Equity	Total
Fair value as of December 31, 2010	$ 642,402,398	$ 85,394,636	$ 4,221,399	$ 3,963,240	$ 6,413,662	$ 742,395,335
New investments & net revolver activity	196,101,572	—	21,098,928	999,000	904,786	219,104,286
Redemptions/repayments	(17,074,472)	(2,679,662)	—	—	—	(19,754,134)
Net accrual of PIK interest income	1,895,461	(241,057)	214,910	—	—	1,869,314
Accretion of original issue discount	337,962	82,328	—	—	—	420,290
Net change in unearned income	(2,844,253)	119,105	(388,889)	—	—	(3,114,037)
Net unrealized appreciation (depreciation)	1,334,579	(88,895)	(799,637)	(148,680)	(903,786)	(606,419)
Net change from unrealized to realized	(268,586)	—	—	(253,846)	(43,150)	(565,582)
Transfer into (out of) Level 3	—	—	—	—	—	—
Fair value as of March 31, 2011	**$ 821,884,661**	**$ 82,586,455**	**$ 24,346,711**	**$ 4,559,714**	**$ 6,371,512**	**$ 939,749,053**
Net unrealized appreciation (depreciation) relating to Level 3 assets still held at March 31, 2011 and reported within net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations for the three months ended March 31, 2011	$ 1,065,992	$ (88,895)	$ (799,637)	$ (402,526)	$ (946,936)	$ (1,172,002)

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table provides a roll-forward in the changes in fair value from December 31, 2009 to March 31, 2010, for all investments for which the Company determines fair value using unobservable (Level 3) factors.

	First Lien Debt	Second Lien Debt	Subordinated Debt	Preferred Equity	Common Equity	Total
Fair value as of December 31, 2009	$280,768,502	$152,254,769	$ —	$2,661,823	$ 1,008,446	$436,693,540
New investments & net revolver activity	38,267,938	—	—	—	480,914	38,748,852
Redemptions/repayments	(1,757,500)	(13,252,034)	—	—	(71,003)	(15,080,537)
Net accrual of PIK interest income	1,274,728	920,445	—	—	—	2,195,173
Accretion of original issue discount	124,757	102,727	—	—	—	227,484
Net change in unearned income	(548,719)	360,976	—	—	—	(187,743)
Net unrealized appreciation (depreciation)	(408,039)	(1,828,808)	—	—	3,413,558	1,176,711
Net change from unrealized to realized	—	(611,084)	—	—	(2,297,000)	(2,908,084)
Transfer into (out of) Level 3	—	—	—	—	—	—
Fair value as of March 31, 2010	**$317,721,667**	**$137,946,991**	**$ —**	**$2,661,823**	**$ 2,534,915**	**$460,865,396**
Net unrealized appreciation (depreciation) relating to Level 3 assets still held at March 31, 2010 and reported within net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations for the three months ended March 31, 2010	$ (408,039)	$ (2,801,978)	$ —	$ —	$ 1,116,558	$ (2,093,459)

The following table provides a roll-forward in the changes in fair value from September 30, 2010 to March 31, 2011 for all investments for which the Company determines fair value using unobservable (Level 3) factors.

	First Lien Debt	Second Lien Debt	Subordinated Debt	Preferred Equity	Common Equity	Total
Fair value as of September 30, 2010	$416,323,957	$137,851,248	$ 4,404,746	$2,892,135	$2,349,230	$563,821,316
New investments & net revolver activity	425,949,652	—	21,064,910	2,036,112	4,727,894	453,778,568
Redemptions/repayments	(20,887,909)	(52,567,380)	—	—	—	(73,455,289)
Net accrual of PIK interest income	3,690,849	(4,213,530)	426,661	—	—	(96,020)
Accretion of original issue discount	494,029	314,898	—	—	—	808,927
Net change in unearned income	(7,121,126)	917,653	(388,889)	—	—	(6,592,362)
Net unrealized appreciation (depreciation)	17,154,014	283,566	(1,160,717)	(114,687)	(662,462)	15,499,714
Net change from unrealized to realized	(13,718,805)	—	—	(253,846)	(43,150)	(14,015,801)
Transfer into (out of) Level 3	—	—	—	—	—	—
Fair value as of March 31, 2011	**$821,884,661**	**$ 82,586,455**	**$24,346,711**	**$4,559,714**	**$6,371,512**	**$939,749,053**
Net unrealized appreciation (depreciation) relating to Level 3 assets still held at March 31, 2011 and reported within net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations for the six months ended March 31, 2011	$ 6,625,331	$ 503,467	$ (1,160,717)	$ (368,533)	$ (705,612)	$ 4,893,936

The following table provides a roll-forward in the changes in fair value from September 30, 2009 to March 31, 2010, for all investments for which the Company determines fair value using unobservable (Level 3) factors.

	First Lien Debt	Second Lien Debt	Subordinated Debt	Preferred Equity	Common Equity	Total
Fair value as of September 30, 2009	$142,016,942	$153,904,458	$ —	$2,889,471	$ 800,266	$299,611,137
New investments & net revolver activity	170,031,723	6,000,000	—	—	634,886	176,666,609
Redemptions/repayments	6,708,213	(21,290,133)	—	—	(71,003)	(14,652,923)

Net accrual of PIK interest income	2,061,244	1,570,509	—	—	—	3,631,753
Accretion of original issue discount	232,289	216,138	—	—	—	448,427
Net change in unearned income	(4,564,359)	456,831	—	—	—	(4,107,528)
Net unrealized appreciation (depreciation)	1,235,615	(2,299,728)	—	(227,648)	3,467,766	2,176,005
Net change from unrealized to realized	—	(611,084)	—	—	(2,297,000)	(2,908,084)
Transfer into (out of) Level 3	—	—	—	—	—	—
Fair value as of March 31, 2010	**$ 317,721,667**	**$ 137,946,991**	**$ —**	**$ 2,661,823**	**$ 2,534,915**	**$ 460,865,396**
Net unrealized appreciation (depreciation) relating to Level 3 assets still held at March 31, 2010 and reported within net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations for the six months ended March 31, 2010	$ 1,235,615	$ (3,514,541)	$ —	$ (227,648)	$ 1,170,766	$ (1,335,808)

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

Beginning on October 1, 2008, the Company also introduced a bond yield model to value these investments based on the present value of expected cash flows. The significant inputs into the model are market interest rates for debt with similar characteristics and an adjustment for the portfolio company’s credit risk. The credit risk component of the valuation considers several factors including financial performance, business outlook, debt priority and collateral position.

The Company’s off-balance sheet arrangements consisted of $85.6 million and $49.5 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of March 31, 2011 and September 30, 2010, respectively. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Statement of Assets and Liabilities and are not reflected on the Company’s Consolidated Statements of Assets and Liabilities.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the composition of the unfunded commitments (consisting of revolvers, term loans and limited partnership interests) as of March 31, 2011 and September 30, 2010 is shown in the table below:

	March 31, 2011	September 30, 2010
Traffic Control & Safety Corporation	$ 2,250,000	$ —
HealthDrive Corporation	1,000,000	1,500,000
IZI Medical Products, Inc.	2,500,000	2,500,000
Trans-Trade, Inc.	1,000,000	500,000
Riverlake Equity Partners II, LP (limited partnership interest)	877,895	966,360
Riverside Fund IV, LP (limited partnership interest)	583,522	864,175
ADAPCO, Inc.	5,250,000	5,750,000
AmBath/ReBath Holdings, Inc.	1,500,000	1,500,000
JTC Education, Inc.	5,159,479	9,062,453
Tegra Medical, LLC	2,500,000	4,000,000
Vanguard Vinyl, Inc.	—	1,250,000
Flatout, Inc.	1,500,000	1,500,000
Psilos Group Partners IV, LP (limited partnership interest)	1,000,000	1,000,000
Mansell Group, Inc.	1,000,000	2,000,000
NDSSI Holdings, Inc.	1,500,000	1,500,000
Eagle Hospital Physicians, Inc.	2,500,000	2,500,000
Enhanced Recovery Company, LLC	3,000,000	3,623,148
Epic Acquisition, Inc.	2,400,000	2,700,000
Specialty Bakers, LLC	4,000,000	2,000,000
Rail Acquisition Corp.	4,879,435	4,798,897
Bunker Hill Capital II (QP), L.P. (limited partnership interest)	1,000,000	—
CRGT, Inc.	12,500,000	—
Welocalize, Inc.	3,750,000	—
Miche Bag, LLC	5,000,000	—
Dominion Diagnostics, LLC	5,000,000	—
Advanced Pain Management	400,000	—
DISA, Inc.	4,000,000	—
Saddleback Fence and Vinyl Products, Inc.	400,000	—
Best Vinyl Fence & Deck, LLC	1,000,000	—
Physicians Pharmacy Alliance, Inc.	2,000,000	—
Cardon Healthcare Network, LLC	2,000,000	—
IOS Acquisitions, Inc.	2,000,000	—
Phoenix Brands Merger Sub LLC	2,142,857	—
Total	**$85,593,188**	**$49,515,033**

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

	March 31, 2011		September 30, 2010	
Cost:				
First lien debt	$819,025,973	85.92%	$430,200,694	72.61%
Second lien debt	95,052,449	9.97%	150,600,807	25.42%
Subordinated debt	25,680,482	2.69%	4,727,800	0.80%
Purchased equity	6,216,015	0.65%	2,330,305	0.39%
Equity grants	6,679,705	0.70%	4,467,524	0.75%
Limited partnership interests	538,583	0.07%	169,465	0.03%
Total	**$953,193,207**	**100.00%**	**$592,496,595**	**100.00%**

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	March 31, 2011		September 30, 2010	
Fair value:				
First lien debt	$821,884,661	87.46%	$416,323,957	73.84%
Second lien debt	82,586,455	8.79%	137,851,248	24.45%
Subordinated debt	24,346,711	2.59%	4,404,746	0.78%
Purchased equity	3,973,327	0.42%	625,371	0.11%
Equity grants	6,419,316	0.68%	4,446,529	0.79%
Limited partnership interests	538,583	0.06%	169,465	0.03%
Total	**$939,749,053**	**100.00%**	**$563,821,316**	**100.00%**

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

	March 31, 2011		September 30, 2010	
Cost:				
Northeast	$294,387,203	30.88%	$175,370,861	29.60%
Southwest	236,037,587	24.77%	121,104,464	20.44%
Southeast	185,861,206	19.50%	108,804,931	18.36%
West	155,539,266	16.32%	133,879,457	22.60%
Midwest	81,367,945	8.53%	53,336,882	9.00%
Total	**$953,193,207**	**100.00%**	**$592,496,595**	**100.00%**

	March 31, 2011		September 30, 2010	
Fair value:				
Northeast	$285,198,168	30.35%	$161,264,153	28.60%
Southwest	222,098,808	23.63%	107,468,588	19.07%
Southeast	191,004,149	20.33%	109,457,070	19.41%
West	157,478,117	16.76%	131,881,487	23.39%
Midwest	83,969,811	8.93%	53,750,018	9.53%
Total	**$939,749,053**	**100.00%**	**$563,821,316**	**100.00%**

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The composition of the Company's portfolio by industry at cost and fair value as of March 31, 2011 and September 30, 2010 were as follows:

	March 31, 2011		September 30, 2010	
Cost:				
Healthcare services	$176,032,901	18.47%	$ 87,443,639	14.76%
Healthcare equipment	72,090,715	7.56%	47,539,596	8.02%
IT consulting & other services	49,879,168	5.23%	—	0.00%
Diversified support services	49,479,327	5.19%	26,246,237	4.43%
Oil & gas equipment & services	45,265,873	4.75%	—	0.00%
Education services	42,845,187	4.49%	44,901,602	7.58%
Internet software & services	41,033,487	4.30%	—	0.00%
Construction and engineering	39,661,650	4.16%	24,987,230	4.22%
Specialty stores	39,397,846	4.13%	—	0.00%
Household products	33,276,524	3.49%	1,064,910	0.18%
Electronic equipment & instruments	32,940,708	3.46%	33,094,495	5.59%
Apparel, accessories & luxury goods	31,724,188	3.33%	23,535,757	3.97%
Home improvement retail	28,208,636	2.96%	32,630,879	5.51%
Fertilizers & agricultural chemicals	26,449,828	2.77%	26,694,525	4.51%
Food distributors	26,375,460	2.77%	30,415,200	5.13%
Healthcare technology	21,210,996	2.23%	21,509,107	3.63%
Human resources & employment services	20,847,571	2.19%	—	0.00%
Electronic manufacturing services	19,672,717	2.06%	18,738,072	3.16%
Food retail	19,264,166	2.02%	19,622,414	3.31%
Advertising	19,017,503	2.00%	19,828,343	3.35%
Air freight and logistics	17,394,699	1.82%	14,004,766	2.36%
Trucking	17,064,785	1.79%	17,064,785	2.88%
Distributors	13,520,365	1.42%	13,350,633	2.25%
Data processing and outsourced services	13,127,545	1.38%	13,078,169	2.21%
Other diversified financial services	11,361,007	1.19%	—	0.00%
Industrial machinery	10,299,306	1.08%	10,143,414	1.71%
Leisure facilities	6,702,285	0.70%	6,863,521	1.16%
Building products	6,583,589	0.69%	8,291,678	1.40%
Construction materials	6,578,609	0.69%	17,475,899	2.95%
Environmental & facilities services	5,688,981	0.60%	8,921,676	1.51%
Housewares & specialties	5,356,187	0.56%	12,195,029	2.06%
Restaurants	4,102,646	0.43%	12,485,385	2.11%
Multi-sector holdings	538,583	0.07%	169,465	0.02%
Movies & entertainment	200,169	0.02%	200,169	0.03%
Total	**$953,193,207**	**100.00%**	**$592,496,595**	**100.00%**

	March 31, 2011		September 30, 2010	
Fair Value:				
Healthcare services	$182,188,812	19.39%	$ 89,261,760	15.83%
Healthcare equipment	73,502,072	7.82%	48,297,921	8.57%
IT consulting & other services	51,108,396	5.44%	—	0.00%
Diversified support services	50,647,896	5.39%	26,246,237	4.66%
Oil & gas equipment & services	46,264,452	4.92%	—	0.00%
Internet software & services	41,862,450	4.45%	—	0.00%
Specialty stores	40,543,509	4.31%	—	0.00%
Construction and engineering	36,421,748	3.88%	23,844,836	4.23%
Apparel, accessories & luxury goods	34,550,016	3.68%	23,548,933	4.18%
Household products	33,990,412	3.62%	1,064,910	0.19%
Electronic equipment & instruments	33,563,929	3.57%	32,887,767	5.83%
Education services	30,022,053	3.19%	42,110,738	7.47%
Home improvement retail	28,218,378	3.00%	32,483,858	5.76%
Fertilizers & agricultural chemicals	27,148,196	2.89%	26,811,860	4.76%
Food distributors	27,139,588	2.89%	30,316,811	5.38%
Healthcare technology	21,951,082	2.34%	22,140,613	3.93%
Human resources & employment services	21,395,889	2.28%	—	0.00%
Food retail	19,744,856	2.10%	19,750,316	3.50%
Advertising	19,354,331	2.06%	19,847,065	3.52%
Air freight and logistics	17,896,977	1.90%	14,040,532	2.49%
Electronic manufacturing services	14,899,970	1.59%	18,055,528	3.20%
Distributors	13,763,520	1.46%	13,258,317	2.35%
Data processing and outsourced services	12,969,641	1.38%	12,741,012	2.26%
Other diversified financial services	11,700,000	1.25%	—	0.00%
Industrial machinery	10,907,395	1.16%	10,232,763	1.81%
Leisure facilities	6,859,256	0.73%	7,040,043	1.25%

Construction materials	6,705,597	0.71%	17,039,751	3.02%
Building products	6,697,319	0.71%	6,841,467	1.21%
Environmental & facilities services	5,639,672	0.60%	5,129,853	0.91%
Housewares & specialties	4,055,655	0.43%	3,700,000	0.66%
Trucking	3,897,412	0.41%	4,597,412	0.82%
Restaurants	3,338,378	0.36%	12,099,935	2.15%
Multi-sector holdings	538,583	0.06%	169,465	0.01%
Movies & entertainment	261,613	0.03%	261,613	0.05%
Total	**$939,749,053**	**100.00%**	**$563,821,316**	**100.00%**

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's investments are generally in small and mid-sized companies in a variety of industries. At March 31, 2011 and September 30, 2010, the Company had no single investment that represented greater than 10% of the total investment portfolio at fair value. Income, consisting of interest, dividends, fees, other investment income, and realization of gains or losses, can fluctuate upon repayment or sale of an investment and in any given year can be highly concentrated among several investments. For the three months ended March 31, 2011 and March 31, 2010, no individual investment produced income that exceeded 10% of investment income.

Note 4. Fee Income

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

Accumulated unearned fee income activity for the six months ended March 31, 2011 and March 31, 2010 was as follows:

	Six months ended March 31, 2011	Six months ended March 31, 2010
Beginning unearned fee income balance	$ 11,900,871	$ 5,589,630
Net fees received	10,589,519	6,469,801
Unearned fee income recognized	(3,997,160)	(2,312,436)
Ending unearned fee income balance	**$ 18,493,230**	**$ 9,746,995**

As of March 31, 2011, the Company had structured $7.6 million in aggregate exit fees across 10 portfolio investments upon the future exit of those investments. These fees are to be paid to the Company upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees are fees which are payable upon the exit of a debt investment and a portion of these fees is included in net investment income over the period of the loan. The receipt of such fees is contingent upon a successful exit event for each of the investments.

Note 5. Share Data

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

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

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

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

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

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

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

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

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

No dilutive instruments were outstanding and therefore none were reflected in the Company's Consolidated Statement of Assets and Liabilities at March 31, 2011. The following table sets forth the weighted average common shares outstanding for computing basic and diluted earnings per common share for the three and six months ended March 31, 2011 and March 31, 2010:

	Three months ended March 31, 2011	Three months ended March 31, 2010	Six months ended March 31, 2011	Six months ended March 31, 2010
Weighted average common shares outstanding, basic and diluted	62,120,473	43,019,350	58,339,723	40,421,657

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table reflects the dividend distributions per share that the Board of Directors of the Company has declared and the Company has paid, including shares issued under the dividend reinvestment plan ("DRIP"), on its common stock from inception to March 31, 2011:

Date Declared	Record Date	Payment Date	Amount per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
5/1/2008	5/19/2008	6/3/2008	$ 0.30	$1.9 million	133,317	$1.9 million
8/6/2008	9/10/2008	9/26/2008	0.31	5.1 million	196,786(1)	1.9 million
12/9/2008	12/19/2008	12/29/2008	0.32	6.4 million	105,326	0.8 million
12/9/2008	12/30/2008	1/29/2009	0.33	6.6 million	139,995	0.8 million
12/18/2008	12/30/2008	1/29/2009	0.05	1.0 million	21,211	0.1 million
4/14/2009	5/26/2009	6/25/2009	0.25	5.6 million	11,776	0.1 million
8/3/2009	9/8/2009	9/25/2009	0.25	7.5 million	56,890	0.6 million
11/12/2009	12/10/2009	12/29/2009	0.27	9.7 million	44,420	0.5 million
1/12/2010	3/3/2010	3/30/2010	0.30	12.9 million	58,689	0.7 million
5/3/2010	5/20/2010	6/30/2010	0.32	14.0 million	42,269	0.5 million
8/2/2010	9/1/2010	9/29/2010	0.10	5.2 million	25,425	0.3 million
8/2/2010	10/6/2010	10/27/2010	0.10	5.2 million	24,850	0.3 million
8/2/2010	11/3/2010	11/24/2010	0.11	5.7 million	26,569	0.3 million
8/2/2010	12/1/2010	12/29/2010	0.11	5.7 million	28,238	0.3 million
11/30/2010	1/4/2011	1/31/2011	0.1066	5.4 million	36,038	0.5 million
11/30/2010	2/1/2011	2/28/2011	0.1066	5.5 million	29,072	0.4 million
11/30/2010	3/1/2011	3/31/2011	0.1066	6.5 million	43,766	0.6 million

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

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

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

Note 6. Lines of Credit

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

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

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

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

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

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

The Wells Fargo facility is secured by all of the assets of Funding, and all of the Company's equity interest in Funding. The Company intends to use the net proceeds of the Wells Fargo facility to fund a portion of its loan origination activities and for general corporate purposes. Each loan origination under the facility is subject to the satisfaction of certain conditions. The Company cannot be assured that Funding will be able to borrow funds under the Wells Fargo facility at any particular time or at all. As of March 31, 2011, the Company had $60.0 million of borrowings outstanding under the Wells Fargo facility.

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

On February 22, 2011, the Company amended the ING facility to, among other things, expand the borrowing capacity to $215 million. In addition, the ING facility's accordion feature was increased to allow for potential future expansion up to a total of $300 million and the maturity date was extended to February 22, 2014.

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

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

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

As of March 31, 2011, the Company had $74.0 million of borrowings outstanding under the ING facility.

As of March 31, 2011, except for assets that were funded through the Company's SBIC subsidiary, substantially all of the Company's assets were pledged as collateral under the Wells Fargo facility or the ING facility.

Interest expense for the three and six months ended March 31, 2011 was $2.7 million and $4.7 million, respectively. Interest expense for the three and six months ended March 31, 2010 was $0.3 million and $0.4 million, respectively.

Note 7. Interest and Dividend Income

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Six months ended March 31, 2011	Six months ended March 31, 2010
PIK balance at beginning of period	$19,300,954	$12,059,478
Gross PIK interest accrued	7,001,665	5,187,143
PIK income reserves	(386,574)	(920,196)
PIK interest received in cash	(6,711,111)	(635,194)
Adjustments due to loan exits	(316,258)	(1,143,830)
PIK balance at end of period	**$18,888,676**	**$14,547,401**

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

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

	March 31, 2011	September 30, 2010	March 31, 2010
Lighting by Gregory, LLC	Cash non-accrual	Cash non-accrual	Cash non-accrual
Martini Park, LLC	—	—	PIK non-accrual
Nicos Polymers & Grinding, Inc.	—	Cash non-accrual	PIK non-accrual
MK Network, LLC	Cash non-accrual	Cash non-accrual	—
Premier Trailer Leasing, Inc.	Cash non-accrual	Cash non-accrual	Cash non-accrual
Vanguard Vinyl, Inc.	—	Cash non-accrual	—

Income non-accrual amounts for the three and six months ended March 31, 2011 and March 31, 2010 were as follows:

	Three months ended March 31, 2011	Three months ended March 31, 2010	Six months ended March 31, 2011	Six months ended March 31, 2010
Cash interest income	$1,460,163	$1,311,024	$3,566,595	$2,445,588
PIK interest income	146,184	451,313	386,574	920,196
OID income	30,138	103,911	60,276	207,822
Total	**$1,636,485**	**$1,866,248**	**$4,013,445**	**$3,573,606**

Note 8. Taxable/Distributable Income and Dividend Distributions

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

At September 30, 2010, the Company has a net loss carryforward of $1.5 million to offset net capital gains, to the extent provided by federal tax law. The capital loss carryforward will expire in the Company's tax year ending September 30, 2017. During the year ended September 30, 2010, the Company realized capital losses from the sale of investments after October 31 and prior to year end ("post-October capital losses") of $12.9 million, which for tax purposes are treated as arising on the first day of the following year.

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

	Three months ended March 31, 2011	Six months ended March 31, 2011
Net increase in net assets resulting from operations	$ 15,671,000	$ 33,119,000
Net change in unrealized (appreciation) depreciation	372,000	(16,470,000)
Book/tax difference due to deferred loan origination fees, net	3,114,000	6,592,000
Book/tax difference due to organizational and deferred offering costs	(22,000)	(43,000)
Book/tax difference due to interest income on certain loans	675,000	1,726,000
Book/tax difference due to capital losses not recognized	513,000	13,963,000
Other book-tax differences	(8,000)	121,000
Taxable/Distributable Income (1)	**$ 20,315,000**	**$ 39,008,000**

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

Distributions to stockholders are recorded on the record date. The Company is required to distribute annually to its stockholders at least 90% of its net ordinary income and net realized short-term capital gains in excess of net realized long-term capital losses for each taxable year in order to be eligible for the tax benefits allowed to a RIC under Subchapter M of the Code. The Company anticipates paying out as a dividend all or substantially all of those amounts.

The amount to be paid out as a dividend is determined by the Board of Directors and is based on management’s estimate of the Company’s annual taxable income. The Company maintains an “opt out” dividend reinvestment plan for its stockholders.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

Realized gains or losses are measured by the difference between the net proceeds from the sale or redemption and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and includes investments written-off during the period, net of recoveries. Realized losses may also be recorded in connection with the Company's determination that certain investments are considered worthless securities and/or meet the conditions for loss recognition per the applicable tax rules. Net change in unrealized appreciation or depreciation from investments reflects the net change in the valuation of the portfolio pursuant to the Company's valuation guidelines and the reclassification of any prior period unrealized appreciation or depreciation on exited investments.

During the six months ended March 31, 2011, the Company recorded investment realization events, including the following:

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

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

- In December 2010, the Company restructured its investment in Nicos Polymers & Grinding, Inc. The restructuring resulted in a material modification of the terms of the loan agreement. As such, the Company recorded a realized loss in the amount of $3.9 million in accordance with ASC 470-50;
- In December 2010, the Company received a cash payment of $25.3 million from Boot Barn in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In December 2010, the Company received a cash payment of $11.7 million from Western Emulsions, Inc. in partial satisfaction of the obligations under the loan agreement. No realized gain or loss was recorded on this transaction;
- In December 2010, the Company restructured its investment in Lighting by Gregory, LLC. The restructuring resulted in a material modification of the terms of the loan agreement. As such, the Company recorded a realized loss in the amount of $7.8 million in accordance with ASC 470-50; and
- In March 2011, the Company received a cash payment of $5.0 million from AmBath/ReBath Holdings, Inc. as part of a restructuring of the loan agreement. The restructuring resulted in a material modification of the terms of the loan agreement. As such, the Company recorded a realized loss in the amount of $0.3 million in accordance with ASC 470-50.

During the six months ended March 31, 2010, the Company recorded investment realization events, including the following:

- In October 2009, the Company received a cash payment in the amount of $0.1 million representing a payment in full of all amounts due in connection with the cancellation of its loan agreement with American Hardwoods Industries, LLC. The Company recorded a $0.1 million reduction to the previously recorded $10.4 million realized loss on the investment in American Hardwoods;
- In October 2009, the Company received a cash payment of $3.9 million from Elephant & Castle, Inc. in partial satisfaction of the obligations under the loan agreement. No realized gain or loss was recorded on this transaction; and
- In March 2010, the Company recorded a realized loss in the amount of $2.9 million in connection with the sale of a portion of its investment in CPAC, Inc.

Note 10. Concentration of Credit Risks

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

Note 11. Related Party Transactions

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

Base management Fee

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

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

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

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

For the three and six months ended March 31, 2011, the net base management fees were $4.8 million and $8.6 million, respectively. For the three and six months ended March 31, 2010, the net base management fees were $2.3 million and $3.9 million, respectively. At March 31, 2011, the Company had a liability on its Consolidated Statement of Assets and Liabilities in the amount of $4.8 million reflecting the unpaid portion of the base management fee payable to the Investment Adviser.

Incentive Fee

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

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

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

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

GAAP requires the Company to accrue for the theoretical capital gains incentive fee that would be payable after giving effect to the net realized and unrealized capital appreciation and depreciation. It should be noted that a fee so calculated and accrued would not necessarily be payable under the Investment Advisory Agreement, and may never be paid based upon the computation of capital gains incentive fees in subsequent periods. Amounts ultimately paid under the Investment Advisory Agreement will be consistent with the formula reflected in the Investment Advisory Agreement.

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

For the three and six months ended March 31, 2011, incentive fees were $4.1 million and $7.7 million, respectively. For the three and six months ended March 31, 2010, incentive fees were $2.8 million and $4.9 million, respectively, and were comprised solely of incentive fees related to the Company's Pre-Incentive Fee Net Investment Income. At March 31, 2011, the Company had a liability on its Consolidated Statement of Assets and Liabilities in the amount of $4.1 million reflecting the unpaid portion of the incentive fee payable to the Investment Adviser.

Indemnification

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

Administration Agreement

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

For the three and six months ended March 31, 2011, the Company accrued administrative expenses of $0.6 million, including $0.2 million of general and administration expenses, and $1.3 million, including $0.6 million of general and administration expenses, that are due to FSC, Inc., respectively. At March 31, 2011, $0.8 million was included in Due to FSC, Inc. in the Consolidated Statement of Assets and Liabilities.

FIFTH STREET FINANCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 12. Financial Highlights

Per share data:	Three months ended March 31, 2011	Three months ended March 31, 2010	Six months ended March 31, 2011	Six months ended March 31, 2010
Net asset value at beginning of period	$ 10.44	$ 10.82	$ 10.43	$ 10.84
Net investment income	0.27	0.26	0.52	0.48
Net unrealized appreciation (depreciation) on investments and interest rate swap	(0.01)	0.03	0.28	0.06
Net realized loss on investments	(0.01)	(0.07)	(0.24)	(0.07)
Dividends declared	(0.30)	(0.30)	(0.62)	(0.57)
Issuance of common stock	0.29	(0.04)	0.31	(0.04)
Net asset value at end of period	**$ 10.68**	**$ 10.70**	**$ 10.68**	**$ 10.70**
Per share market value at beginning of period	$ 12.14	$ 10.74	$ 11.14	$ 10.93
Per share market value at end of period	$ 13.35	$ 11.61	$ 13.35	$ 11.61
Total return (1)	12.61%	10.89%	26.04%	11.44%
Common shares outstanding at beginning of period	55,059,057	37,923,407	54,550,290	37,878,987
Common shares outstanding at end of period	66,667,933	45,282,596	66,667,933	45,282,596
Net assets at beginning of period	$ 574,919,813	$ 410,257,351	$ 569,172,105	$ 410,556,071
Net assets at end of period	$ 711,748,097	$ 484,397,005	$ 711,748,097	$ 484,397,005
Average net assets (2)	$ 662,783,066	$ 456,501,106	$ 616,969,193	$ 432,914,471
Ratio of net investment income to average net assets (3)	10.13%	9.96%	9.95%	9.06%
Ratio of total expenses to average net assets (3)	8.04%	5.91%	7.94%	5.35%
Ratio of portfolio turnover to average investments at fair value	0.00%	1.00%	1.88%	1.18%
Weighted average outstanding debt (4)	$ 224,511,111	$ 11,928,015	$ 162,925,275	$ 6,151,216
Average debt per share	$ 3.61	$ 0.28	$ 2.79	$ 0.15

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

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

(3) Interim periods are annualized.

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

Note 13. Preferred Stock

The Company's restated certificate of incorporation had not authorized any shares of preferred stock. However, on April 4, 2008, the Company's Board of Directors approved a certificate of amendment to its restated certificate of incorporation reclassifying 200,000 shares of its common stock as shares of non-convertible, non-participating preferred stock, with a par value of $0.01 and a liquidation preference of $500 per share ("Series A Preferred Stock") and authorizing the issuance of up to 200,000 shares of Series A Preferred Stock. A certificate of amendment was also approved by the holders of a majority of the shares of the Company's outstanding common stock through a written consent first solicited on April 7, 2008.

On April 20, 2010, at the Company's 2010 Annual Meeting, the Company's stockholders approved, among other things, an amendment to the Company's restated certificate of incorporation to remove the Company's authority to issue shares of Series A Preferred Stock.

Note 14. Interest Rate Swaps

In August 2010, the Company entered into a three-year interest rate swap agreement to mitigate its exposure to adverse fluctuations in interest rates for a total notional amount of $100.0 million. Under the interest rate swap agreement, the Company will pay a fixed interest rate of 0.99% and receive a floating rate based on the prevailing one-month LIBOR, which as of March 31, 2011 was 0.24%. For the three and six months ended March 31, 2011, the Company recorded $0.2 million and $1.0 million, respectively, of unrealized appreciation related to this swap agreement. As of March 31, 2011, this swap agreement had a fair value of $0.2 million which is included in "collateral posted to bank and other assets" in the Company's Consolidated Statements of Assets and Liabilities.

As of March 31, 2011, the Company posted $1.5 million of cash as collateral with respect to the interest rate swap. The Company is restricted in terms of access to this collateral until such swap is terminated or the swap agreement expires. Cash collateral posted is held in an account at Wells Fargo.

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

Note 15. Subsequent Events

On April 12, 2011, the Company closed a private offering of $150 million aggregate principal amount of its 5.375% convertible senior notes due 2016. These convertible senior notes were sold only to qualified institutional buyers (as defined in the Securities Act) pursuant to Rule 144A under the Securities Act. The Company has granted the initial purchasers for the offering the option, which expires May 7, 2011, to purchase up to an additional $22.5 million aggregate principal amount of the convertible senior notes. In addition, Leonard M. Tannenbaum, the Company's chief executive officer, purchased $2 million principal amount of the convertible senior notes directly from the Company in a private placement.

The convertible senior notes are unsecured and bear interest at a rate of 5.375% per year, payable semiannually. In certain circumstances, the convertible senior notes are convertible into shares of the Company's common stock at an initial conversion rate of 67.7415 shares of common stock per $1,000 principal amount of convertible senior notes, which is equivalent to an initial conversion price of approximately $14.76 per share of common stock, subject to customary anti-dilution adjustments. In addition, if certain corporate events occur in respect of the Company, holders of the convertible senior notes may require the Company to repurchase for cash all or part of their convertible senior notes at a repurchase price equal to 100% of the principal amount of the convertible senior notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date. The Company does not have the right to redeem the convertible senior notes prior to maturity. The convertible senior notes will mature on April 1, 2016, unless repurchased or converted in accordance with their terms prior to such date.

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

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

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

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

In addition, words such as "anticipate," "believe," "expect," "project" and "intend" indicate forward-looking statements, although not all forward-looking statements include these words. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" in our annual report on Form 10-K for the year ended September 30, 2010 and elsewhere in this quarterly report on Form 10-Q. Other factors that could cause actual results to differ materially include:

- changes in the economy and the financial markets;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters;
- future changes in laws or regulations (including the interpretation of these laws and regulations by regulatory authorities) and conditions in our operating areas, particularly with respect to business development companies, small business investment companies, or SBICs, and regulated investment companies, or RICs; and
- other considerations that may be disclosed from time to time in our publicly disseminated documents and filings.

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

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

Overview

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

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

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

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

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

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

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

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

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

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

Current Market Conditions

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

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

As evidenced by our recent investment activities, we expect to grow the business in part by increasing the average investment size when and where appropriate. At the same time, we expect to focus more on first lien transactions. Although we believe that we currently have sufficient capital available to fund investments, a prolonged period of market disruptions may cause us to reduce the volume of loans we originate and/or fund, which could have an adverse effect

on our business, financial condition, and results of operations. In this regard, because our common stock has at times traded at a price below our then current net asset value per share and we are limited in our ability to sell our common stock at a price below net asset value per share, we may be limited in our ability to raise equity capital.

Critical Accounting Policies

FASB Accounting Standards Codification

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

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

Basis of Presentation

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

Investment Valuation

We are required to report our investments that are not publicly traded or for which current market values are not readily available at fair value. The fair value is deemed to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Under Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ("ASC 820"), which we adopted effective October 1, 2008, we perform detailed valuations of our debt and equity investments on an individual basis, using market, income, and bond yield approaches as appropriate. In general, we utilize the bond yield method in determining the fair value of our investments, as long as it is appropriate. If, in our judgment, the bond yield approach is not appropriate, we may use the enterprise value approach in determining the fair value of our investment in the portfolio company. If there is deterioration in the credit quality of the portfolio company or an investment is in workout status, we may use alternative methodologies including an asset liquidation or expected recovery model.

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

Under the income approach, we generally prepare and analyze discounted cash flow models based on our projections of the future free cash flows of the business. Under the bond yield approach, we use bond yield models to determine the present

value of the future cash flow streams of our debt investments. We review various sources of transactional data, including private mergers and acquisitions involving debt investments with similar characteristics, and assess the information in the valuation process.

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

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the deal team within our investment adviser responsible for the portfolio investment;
- Preliminary valuations are then reviewed and discussed with the principals of our investment adviser;
- Separately, independent valuation firms engaged by our Board of Directors prepare preliminary valuations on a selected basis and submit reports to us;
- The deal team compares and contrasts its preliminary valuations to the preliminary valuations of the independent valuation firms;
- The deal team prepares a valuation report for the Valuation Committee of our Board of Directors;
- The Valuation Committee of our Board of Directors is apprised of the preliminary valuations of the independent valuation firms;
- The Valuation Committee of our Board of Directors reviews the preliminary valuations, and the deal team responds and supplements the preliminary valuations to reflect any comments provided by the Valuation Committee;

- The Valuation Committee of our Board of Directors makes a recommendation to the Board of Directors; and
- Our Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith.

The fair value of all of our investments at March 31, 2011, and September 30, 2010, was determined by our Board of Directors. Our Board of Directors is solely responsible for the valuation of our portfolio investments at fair value as determined in good faith pursuant to our valuation policy and our consistently applied valuation process.

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

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

For the quarter ending December 31, 2007	91.9%
For the quarter ending March 31, 2008	92.1%
For the quarter ending June 30, 2008	91.7%
For the quarter ending September 30, 2008	92.8%
For the quarter ending December 31, 2008	100.0%
For the quarter ending March 31, 2009	88.7%(1)
For the quarter ending June 30, 2009	92.1%
For the quarter ending September 30, 2009	28.1%
For the quarter ending December 31, 2009	17.2%(2)
For the quarter ending March 31, 2010	26.9%
For the quarter ending June 30, 2010	53.1%
For the quarter ending September 30, 2010	61.8%
For the quarter ending December 31, 2010	73.9%
For the quarter ending March 31, 2011	82.0%

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

(2) 24.8% excluding four investments that closed in December 2009 and therefore were not part of the independent valuation process

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

As of March 31, 2011 and September 30, 2010, approximately 94.4% and 86.5%, respectively, of our total assets represented investments in portfolio companies valued at fair value.

Revenue Recognition

Interest and Dividend Income

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

Fee Income

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

We have also structured exit fees across certain of our portfolio investments to be received upon the future exit of those investments. These fees are to be paid to us upon the sooner to occur of (i) a sale of the borrower or substantially all of the assets of the borrower, (ii) the maturity date of the loan, or (iii) the date when full prepayment of the loan occurs. Exit fees are payable upon the exit of a debt security and a portion of these fees are included in net investment income over the life of the loan. The receipt of such fees is contingent upon a successful exit event for each of the investments.

Payment-in-Kind (PIK) Interest

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

For a discussion of risks we are subject to as a result of our use of PIK interest in connection with our investments, see "Risk Factors — Risks Relating to Our Business and Structure — We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income," "— We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive" and "— Our incentive fee may induce our investment adviser to make speculative investments" in our annual report on Form 10-K for the year ended September 30, 2010. In addition, if it is subsequently determined that we will not be able to collect any previously accrued PIK interest, the fair value of our loans or debt securities would decline by the amount of such previously accrued, but uncollectible, PIK interest. The accrual of PIK interest on our debt investments increases the recorded cost basis of these investments in our consolidated financial statements and, as a result, increases the cost basis of these investments for purposes of computing the capital gains incentive fee payable by us to our investment adviser.

To maintain our status as a RIC, PIK income must be paid out to our stockholders in the form of dividends even though we have not yet collected the cash and may never collect the cash relating to the PIK interest. Accumulated PIK interest was $18.9 million and represented 2.0% of the fair value of our portfolio of investments as of March 31, 2011 and $19.3 million or 3.4% as of September 30, 2010. The net increase in loan balances as a result of contracted PIK arrangements are separately identified in our Consolidated Statements of Cash Flows.

Portfolio Composition

Our investments principally consist of loans, purchased equity investments and equity grants in privately-held companies. Our loans are typically secured by either a first or second lien on the assets of the portfolio company and generally have terms of up to six years (but an expected average life of between three and four years). We are currently focusing our new debt origination efforts on first lien loans because we believe that the risk-adjusted returns from these loans are superior to second lien and unsecured loans at this time and offer superior credit quality. However, we may choose to originate second lien and unsecured loans in the future.

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

	March 31, 2011	September 30, 2010
Cost:		
First lien debt	85.92%	72.61%
Second lien debt	9.97%	25.42%
Subordinated debt	2.69%	0.80%
Purchased equity	0.65%	0.39%
Equity grants	0.70%	0.75%
Limited partnership interests	0.07%	0.03%
Total	**100.00%**	**100.00%**

	March 31, 2011	September 30, 2010
Fair value:		
First lien debt	87.46%	73.84%
Second lien debt	8.79%	24.45%
Subordinated debt	2.59%	0.78%
Purchased equity	0.42%	0.11%
Equity grants	0.68%	0.79%
Limited partnership interests	0.06%	0.03%
Total	**100.00%**	**100.00%**

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

	March 31, 2011	September 30, 2010
Cost:		
Healthcare services	18.47%	14.76%
Healthcare equipment	7.56%	8.02%
IT consulting & other services	5.23%	0.00%
Diversified support services	5.19%	4.43%
Oil & gas equipment & services	4.75%	0.00%
Education services	4.49%	7.58%
Internet software & services	4.30%	0.00%
Construction and engineering	4.16%	4.22%
Specialty stores	4.13%	0.00%
Household products	3.49%	0.18%
Electronic equipment & instruments	3.46%	5.59%
Apparel, accessories & luxury goods	3.33%	3.97%
Home improvement retail	2.96%	5.51%
Fertilizers & agricultural chemicals	2.77%	4.51%
Food distributors	2.77%	5.13%
Healthcare technology	2.23%	3.63%
Human resources & employment services	2.19%	0.00%
Electronic manufacturing services	2.06%	3.16%
Food retail	2.02%	3.31%
Advertising	2.00%	3.35%
Air freight and logistics	1.82%	2.36%
Trucking	1.79%	2.88%
Distributors	1.42%	2.25%
Data processing and outsourced services	1.38%	2.21%
Other diversified financial services	1.19%	0.00%
Industrial machinery	1.08%	1.71%
Leisure facilities	0.70%	1.16%
Building products	0.69%	1.40%
Construction materials	0.69%	2.95%
Environmental & facilities services	0.60%	1.51%
Housewares & specialties	0.56%	2.06%
Restaurants	0.43%	2.11%
Multi-sector holdings	0.07%	0.02%
Movies & entertainment	0.02%	0.03%
Total	**100.00%**	**100.00%**

	March 31, 2011	September 30, 2010
Fair Value:		
Healthcare services	19.39%	15.83%
Healthcare equipment	7.82%	8.57%

IT consulting & other services	5.44%	0.00%
Diversified support services	5.39%	4.66%
Oil & gas equipment & services	4.92%	0.00%
Internet software & services	4.45%	0.00%
Specialty stores	4.31%	0.00%
Construction and engineering	3.88%	4.23%
Apparel, accessories & luxury goods	3.68%	4.18%
Household products	3.62%	0.19%
Electronic equipment & instruments	3.57%	5.83%
Education services	3.19%	7.47%
Home improvement retail	3.00%	5.76%
Fertilizers & agricultural chemicals	2.89%	4.76%
Food distributors	2.89%	5.38%
Healthcare technology	2.34%	3.93%
Human resources & employment services	2.28%	0.00%
Food retail	2.10%	3.50%
Advertising	2.06%	3.52%
Air freight and logistics	1.90%	2.49%
Electronic manufacturing services	1.59%	3.20%
Distributors	1.46%	2.35%
Data processing and outsourced services	1.38%	2.26%
Other diversified financial services	1.25%	0.00%
Industrial machinery	1.16%	1.81%
Leisure facilities	0.73%	1.25%
Construction materials	0.71%	3.02%
Building products	0.71%	1.21%
Environmental & facilities services	0.60%	0.91%
Housewares & specialties	0.43%	0.66%
Trucking	0.41%	0.82%
Restaurants	0.36%	2.15%
Multi-sector holdings	0.06%	0.01%
Movies & entertainment	0.03%	0.05%
Total	**100.00%**	**100.00%**

Portfolio Asset Quality

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

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

The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value, as of March 31, 2011 and September 30, 2010:

	March 31, 2011			September 30, 2010		
	Fair Value	**Percentage of Total Portfolio**	**Leverage Ratio**	**Fair Value**	**Percentage of Total Portfolio**	**Leverage Ratio**
1	$102,517,984	10.91%	3.07	$ 89,150,457	15.81%	2.97
2	811,039,654	86.30%	3.42	424,494,799	75.29%	4.31
3	18,238,348	1.94%	4.52	18,055,528	3.20%	13.25
4	—	0.00%	—	23,823,120	4.23%	8.13
5	7,953,067	0.85%	NM(1)	8,297,412	1.47%	NM(1)
Total	**$939,749,053**	**100.00%**	**3.30**	**$563,821,316**	**100.00%**	**4.53**

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

We may from time to time modify the payment terms of our investments, either in response to current economic conditions and their impact on certain of our portfolio companies or in accordance with tier pricing provisions in certain loan agreements. As of March 31, 2011, we had modified the payment terms of our investments in five portfolio companies. Such modified terms may include increased PIK interest provisions and reduced cash interest rates. These modifications, and any future modifications to our loan agreements, may limit the amount of interest income that we recognize from the modified investments, which may, in turn, limit our ability to make distributions to our stockholders.

Loans and Debt Securities on Non-Accrual Status

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

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

	March 31, 2011	September 30, 2010	March 31, 2010
Lighting by Gregory, LLC	Cash non-accrual	Cash non-accrual	Cash non-accrual
Martini Park, LLC	—	—	PIK non-accrual
Nicos Polymers & Grinding, Inc.	—	Cash non-accrual	PIK non-accrual
MK Network, LLC	Cash non-accrual	Cash non-accrual	—
Premier Trailer Leasing, Inc.	Cash non-accrual	Cash non-accrual	Cash non-accrual
Vanguard Vinyl, Inc.	—	Cash non-accrual	—

Non-accrual interest amounts related to the above investments for the three and six months ended March 31, 2011 and March 31, 2010 were as follows:

	Three months ended March 31, 2011	Three months ended March 31, 2010	Six months ended March 31, 2011	Six months ended March 31, 2010
Cash interest income	$1,460,163	$1,311,024	$3,566,595	$2,445,588
PIK interest income	146,184	451,313	386,574	920,196
OID income	30,138	103,911	60,276	207,822
Total	**$1,636,485**	**$1,866,248**	**$4,013,445**	**$3,573,606**

Discussion and Analysis of Results and Operations

Results of Operations

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

Comparison of the three and six months ended March 31, 2011 and March 31, 2010

Total Investment Income

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

Total investment income for the three months ended March 31, 2011 and March 31, 2010 was $29.7 million and $17.9 million, respectively. For the three months ended March 31, 2011, this amount primarily consisted of $25.8 million of interest income from portfolio investments (which included $3.5 million of PIK interest), and $3.9 million of fee income. For the three months ended March 31, 2010, total investment income primarily consisted of $16.4 million of interest income from portfolio investments (which included $2.3 million of PIK interest), and $1.4 million of fee income.

Total investment income for the six months ended March 31, 2011 and March 31, 2010 was $55.0 million and $31.1 million, respectively. For the six months ended March 31, 2011, this amount primarily consisted of $46.6 million of interest income from portfolio investments (which included $6.6 million of PIK interest), and $8.4 million of fee income. For the six months ended March 31, 2010, this amount primarily consisted of $28.7 million of interest income from portfolio investments (which included $4.3 million of PIK interest), and $2.4 million of fee income.

The increase in our total investment income for the three and six months ended March 31, 2011 as compared to the three and six months ended March 31, 2010 was primarily attributable to higher average levels of outstanding debt investments, which was principally due to an increase of 21 investments in our portfolio in the year-over-year period, partially offset by scheduled amortization repayments received and other debt payoffs during the same period.

Expenses

Expenses (net of the permanently waived portion of the base management fee) for the three months ended March 31, 2011 and March 31, 2010 were $13.1 million and $6.7 million, respectively. Expenses increased for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 by $6.4 million, primarily as a result of increases in the base management fee, the incentive fee, interest expense and professional fees.

Expenses (net of the permanently waived portion of the base management fee) for the six months ended March 31, 2011 and March 31, 2010 were $24.4 million and $11.5 million, respectively. Expenses increased for the six months ended March 31, 2011 as compared to the six months ended March 31, 2010 by $12.9 million, primarily as a result of increases in the base management fee, the incentive fee, interest expense, professional fees, and other general and administrative expenses.

Net Investment Income

As a result of the $11.8 million increase in total investment income as compared to the $6.4 million increase in net expenses, net investment income for the three months ended March 31, 2011 reflected a $5.3 million, or 47.7%, increase compared to the three months ended March 31, 2010.

As a result of the $23.9 million increase in total investment income as compared to the $12.9 million increase in net expenses, net investment income for the six months ended March 31, 2011 reflected an $11.0 million, or 56.5%, increase compared to the six months ended March 31, 2010.

Realized Gain (Loss) on Sale of Investments

Net realized gain (loss) on investments is the difference between the proceeds received from dispositions of portfolio investments and their stated costs. Realized losses may also be recorded in connection with our determination that certain investments are considered worthless securities and/or meet the conditions for loss recognition per the applicable tax rules.

During the six months ended March 31, 2011, we recorded investment realization events, including the following:

- In October 2010, we received a cash payment of $8.7 million from Goldco, Inc. in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In November 2010, we received a cash payment of $11.0 million from TBA Global, LLC in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In November 2010, we restructured our investment in Vanguard Vinyl, Inc. The restructuring resulted in a material modification of the terms of the loan agreement. As such, we recorded a realized loss in the amount of $1.7 million in accordance with ASC 470-50;
- In December 2010, we restructured our investment in Nicos Polymers & Grinding, Inc. The restructuring resulted in a material modification of the terms of the loan agreement. As such, we recorded a realized loss in the amount of $3.9 million in accordance with ASC 470-50;
- In December 2010, we received a cash payment of $25.3 million from Boot Barn in full satisfaction of all obligations under the loan agreement. The debt investment was exited at par and no realized gain or loss was recorded on this transaction;
- In December 2010, we received a cash payment of $11.7 million from Western Emulsions, Inc. in partial satisfaction of the obligations under the loan agreement. No realized gain or loss was recorded on this transaction;
- In December 2010, we restructured our investment in Lighting by Gregory, LLC. The restructuring resulted in a material modification of the terms of the loan agreement. As such, we recorded a realized loss in the amount of $7.8 million in accordance with ASC 470-50; and
- In March 2011, we received a cash payment of $5.0 million from AmBath/ReBath Holdings, Inc. as part of a restructuring of the loan agreement. The restructuring resulted in a material modification of the terms of the loan agreement. As such, we recorded a realized loss in the amount of $0.3 million in accordance with ASC 470-50.

During the six months ended March 31, 2010, we recorded investment realization events, including the following:

- In October 2009, we received a cash payment in the amount of $0.1 million representing a payment in full of all amounts due in connection with the cancellation of our loan agreement with American Hardwoods Industries, LLC. We recorded a $0.1 million reduction to the previously recorded $10.4 million realized loss on the investment in American Hardwoods;
- In October 2009, we received a cash payment of $3.9 million from Elephant & Castle, Inc. in partial satisfaction of the obligations under the loan agreement. No realized gain or loss was recorded on this transaction; and
- In March 2010, we recorded a realized loss in the amount of $2.9 million in connection with the sale of a portion of our investment in CPAC, Inc.

Net Unrealized Appreciation or Depreciation on Investments and Interest Rate Swaps

Net unrealized appreciation or depreciation is the net change in the fair value of our investment portfolio and our interest rate swaps during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

During the three months ended March 31, 2011, we recorded net unrealized depreciation of $0.4 million. This consisted of $1.4 million of net unrealized depreciation of equity investments, offset by $0.2 million of net unrealized appreciation on debt investments, $0.6 million of net reclassifications to realized losses and $0.2 million of net unrealized appreciation on interest rate swaps. During the three months ended March 31, 2010, we recorded net unrealized appreciation of $1.2 million. This consisted of $3.3 million of reclassifications to realized losses and $1.1 million of net unrealized appreciation on equity investments, partially offset by $3.2 million of net unrealized depreciation on debt investments.

During the six months ended March 31, 2011, we recorded net unrealized appreciation of $16.5 million. This consisted of $10.9 million of net reclassifications to realized losses, $5.7 million of net unrealized appreciation on debt investments and $1.0 million of net unrealized appreciation on interest rate swaps, offset by $1.1 million of net unrealized depreciation on equity investments. During the six months ended March 31, 2010, we recorded net unrealized appreciation of $2.2 million. This consisted of $3.3 million of reclassifications to realized losses and $0.9 million of net unrealized appreciation on equity investments, partially offset by $2.0 million of net unrealized depreciation on debt investments.

Financial Condition, Liquidity and Capital Resources

Cash Flows

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

For the six months ended March 31, 2011, we experienced a net decrease in cash and cash equivalents of $38.2 million. During that period, we used $342.6 million of cash in operating activities, primarily for the funding of $452.7 million of investments, partially offset by $72.4 million of principal payments received and $30.6 million of net investment income. During the same period, cash provided by financing activities was $304.4 million, primarily consisting of $134.0 million of net borrowings under our credit facilities, $65.3 million of SBA borrowings, and $143.9 million of proceeds from the issuance of our common stock, partially offset by $34.0 million of cash dividends paid, and $4.3 million of deferred financing costs paid. We intend to fund our future distribution obligations through operating cash flow or with funds obtained through future equity and debt offerings or credit facilities, as we deem appropriate.

For the six months ended March 31, 2010, we experienced a net decrease in cash and cash equivalents of $89.7 million. During that period, we used $144.4 million of cash in operating activities, primarily for the funding of $176.7 million of investments, partially offset by $15.4 million of principal payments and proceeds received and $19.6 million of net investment income. During the same period cash provided by financing activities was $54.7 million, primarily consisting of $78.1 million of proceeds from the issuance of our common stock, partially offset by $22.6 million of cash dividends paid.

As of March 31, 2011, we had 38.6 million in cash and cash equivalents, portfolio investments (at fair value) of $939.7 million, $6.6 million of interest and fees receivable, $138.3 million of SBA debentures payable, $134.0 million of borrowings outstanding under our credit facilities, and unfunded commitments of $85.6 million.

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

Other Sources of Liquidity

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

Although we expect to fund the growth of our investment portfolio through the net proceeds from future equity offerings, including our dividend reinvestment plan, and issuances of senior securities or future borrowings, to the extent permitted by the 1940 Act, our plans to raise capital may not be successful. In this regard, because our common stock has at times traded at a price below our then-current net asset value per share and we are limited in our ability to sell our common stock at a price below net asset value per share, we may be limited in our ability to raise equity capital.

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

Also, as a business development company, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200%. This requirement limits the amount that we may borrow. As of March 31, 2011, we were in compliance with this requirement. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

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

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

SBA regulations currently limit the amount that our SBIC subsidiary may borrow to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of March 31, 2011, our SBIC subsidiary had $75 million in regulatory capital. The SBA has issued a capital commitment to our SBIC subsidiary in the amount of $150 million, and $138.3 million of SBA debentures were outstanding as of March 31, 2011. $73.0 million of these debentures bear interest at a rate of 3.50% per annum, including the SBA annual charge of 0.285%, and $65.3 million of these debentures bear interest at a rate of 4.369% per annum, including the SBA annual charge of 0.285%.

We have received exemptive relief from the Securities and Exchange Commission (“SEC”) to permit us to exclude the debt of the SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the 200% asset coverage test under the 1940 Act. This allows us increased flexibility under the 200% asset coverage test by permitting us to borrow up to $150 million more than we would otherwise be able to absent the receipt of this exemptive relief.

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

Significant capital transactions that occurred from October 1, 2009 through March 31, 2011

The following table reflects the dividend distributions per share that our Board of Directors has declared on our common stock from October 1, 2009 through March 31, 2011:

Date Declared	Record Date	Payment Date	Amount per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
November 12, 2009	December 10, 2009	December 29, 2009	$ 0.27	$ 9.7 million	44,420	$ 0.5 million
January 12, 2010	March 3, 2010	March 30, 2010	0.30	12.9 million	58,689	0.7 million
May 3, 2010	May 20, 2010	June 30, 2010	0.32	14.0 million	42,269	0.5 million
August 2, 2010	September 1, 2010	September 29, 2010	0.10	5.2 million	25,425	0.3 million
August 2, 2010	October 6, 2010	October 27, 2010	0.10	5.2 million	24,850	0.3 million
August 2, 2010	November 3, 2010	November 24, 2010	0.11	5.7 million	26,569	0.3 million
August 2, 2010	December 1, 2010	December 29, 2010	0.11	5.7 million	28,238	0.3 million
November 30, 2010	January 4, 2011	January 31, 2011	0.1066	5.4 million	36,038	0.5 million
November 30, 2010	February 1, 2011	February 28, 2011	0.1066	5.5 million	29,072	0.4 million
November 30, 2010	March 1, 2011	March 31, 2011	0.1066	6.5 million	43,766	0.6 million
January 30, 2011	April 1, 2011	April 29, 2011	0.1066	6.5 million	45,193	0.6 million
January 30, 2011	May 2, 2011	May 31, 2011	0.1066	—	—	—
January 30, 2011	June 1, 2011	June 30, 2011	0.1066	—	—	—

The following table reflects shareholder transactions that occurred from October 1, 2009 through March 31, 2011:

Date	Transaction	Shares	Share Price	Gross Proceeds (Uses)
January 27, 2010	Public offering	7,000,000	$ 11.20	$ 78.4 million
February 25, 2010	Underwriters' exercise of over-allotment	300,500	11.20	3.4 million
June 21, 2010	Public offering (1)	9,200,000	11.50	105.8 million
December 2010	At-the-market offering	429,110	11.87(2)	5.1 million
February 4, 2011	Public offering (1)	11,500,000	12.65	145.5 million

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

(2) Average offering price

Borrowings

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

On May 26, 2010, we amended the Wells Fargo facility to expand the borrowing capacity under that facility. Pursuant to the amendment, we received an additional $50 million commitment, thereby increasing the size of the facility from $50 million to $100 million, with an accordion feature that allows for potential future expansion of that facility from a total

of $100 million up to a total of $150 million. In addition, the interest rate of the Wells Fargo facility was reduced from LIBOR plus 4% per annum to LIBOR plus 3.5% per annum, with no LIBOR floor, and the maturity date of the facility was extended from November 16, 2012 to May 26, 2013. The facility may be extended for up to two additional years upon the mutual consent of Wells Fargo and each of the lender parties thereto.

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

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

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

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

The Wells Fargo facility is secured by all of the assets of Funding, and all of our equity interest in Funding. We intend to use the net proceeds of the Wells Fargo facility to fund a portion of our loan origination activities and for general corporate purposes. Each loan origination under the facility is subject to the satisfaction of certain conditions. We cannot be assured that Funding will be able to borrow funds under the Wells Fargo facility at any particular time or at all. As of March 31, 2011, we had $60.0 million of borrowings outstanding under the Wells Fargo facility.

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

On February 22, 2011, we amended the ING facility to, among other things, expand the borrowing capacity to $215 million. In addition, the ING facility's accordion feature was increased to allow for potential future expansion up to a total of $300 million and the maturity date was extended to February 22, 2014.

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

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

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

As of March 31, 2011, we had $74.0 million of borrowings outstanding under the ING facility.

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

Interest expense for the three and six months ended March 31, 2011 was $2.7 million and $4.7 million, respectively. Interest expense for the three and six months ended March 31, 2010 was $0.3 million and $0.4 million, respectively.

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

Facility	Financial Covenant	Description	Target Value	Reported Value (1)
Wells Fargo facility	Minimum shareholders' equity (inclusive of affiliates)	Net assets shall not be less than $510 million plus 50% of the aggregate net proceeds of all sales of equity interests after February 25, 2011	$510 million	$575 million
	Minimum shareholders' equity (exclusive of affiliates)	Net assets exclusive of affiliates other than Funding shall not be less than $250 million	$250 million	$500 million
	Asset coverage ratio	Asset coverage ratio shall not be less than 2.00:1	2.00:1	5.78:1
ING facility	Minimum shareholders' equity	Net assets shall not be less than the greater of (a) 55% of total assets; and (b) $385 million plus 50% of the aggregate net proceeds of all sales of equity interests after February 24, 2010	$439 million	$575 million
	Asset coverage ratio	Asset coverage ratio shall not be less than 2.25:1	2.25:1	7.46:1
	Interest coverage ratio	Interest coverage ratio shall not be less than 2.50:1	2.50:1	31.48:1
	Eligible portfolio investments test	Aggregate value of (a) Cash and cash equivalents and (b) Portfolio investments rated 1, 2 or 3 shall not be less than $175 million	$175 million	$332 million

(1) As contractually required, we report financial covenants based on the last filed quarterly or annual report, in this case our Form 10-Q for the quarter ended December 31, 2010.

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

Facility	Date	Transaction	Total Facility Amount	Upfront fee Paid	Total Facility Availability	Amount Drawn	Interest Rate
Wells Fargo facility	November 16, 2009	Entered into credit facility	$ 50 million	$ 0.8 million			LIBOR + 4.00%
	May 26, 2010	Expanded credit facility	100 million	0.9 million			LIBOR + 3.50%
	February 28, 2011	Amended credit facility	100 million	0.4 million	$ 78 million (1)	$ 60 million	LIBOR + 3.00%
ING facility	May 27, 2010	Entered into credit facility	90 million	0.8 million			LIBOR + 3.50%
	February 22, 2011	Expanded credit facility	215 million	1.6 million	215 million	74 million	LIBOR + 3.50%
SBA	February 16, 2010	Received capital commitment	75 million	0.8 million			
	September 21, 2010	Received capital commitment	150 million	0.8 million	150 million	138.3 million	3.50% (2) 4.369% (3)

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

(2) For the first $73.0 million; includes the SBA annual charge of 0.285%.

(3) For the remaining $65.3 million; includes the SBA annual charge of 0.285%.

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of March 31, 2011, our only off-balance sheet arrangements consisted of $85.6 million of unfunded commitments, which was comprised of $82.1 million to provide debt financing to certain of our portfolio companies and $3.5 million related to unfunded limited partnership interests. As of September 30, 2010, our only off-balance sheet arrangements consisted of $49.5 million, which was comprised of $46.7 million to provide debt financing to certain of our portfolio companies and $2.8 million related to unfunded limited partnership interests. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Statement of Assets and Liabilities and are not reflected on our Consolidated Statement of Assets and Liabilities.

Contractual Obligations

On February 3, 2010, our SBIC subsidiary received a license, effective February 1, 2010, from the SBA to operate as an SBIC. The SBIC license allows our SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with 10-year maturities. As of March 31, 2011, we had $138.3 million of SBA debentures payable. $73.0 million of these debentures bear interest at a rate of 3.50% per annum, including the SBA annual charge of 0.285%, and $65.3 million of these debentures bear interest at a rate of 4.369% per annum, including the SBA annual charge of 0.285%.

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

LIBOR plus 3.5% per annum, with no LIBOR floor, and the maturity date of the facility was extended from November 16, 2012 to May 26, 2013. On November 5, 2010, we amended the Wells Fargo facility to, among other things, provide for the issuance from time to time of letters of credit for the benefit of our portfolio companies. The letters of credit are subject to certain restrictions, including a borrowing base limitation and an aggregate sublimit of $15.0 million. On February 28, 2011, we amended the Wells Fargo Facility to, among other things, reduce the interest rate to LIBOR plus 3.0% per annum, with no LIBOR floor, and extend the maturity date of the facility to February 25, 2014.

On May 27, 2010, we entered into the ING facility, which allows for us to borrow money at a rate of either (i) LIBOR plus 3.5% per annum or (ii) 2.5% per annum plus an alternate base rate based on the greatest of the Prime Rate, Federal Funds Rate plus 0.5% per annum or LIBOR plus 1% per annum, and has a maturity date of May 27, 2013. The ING facility also allows us to request letters of credit from ING Capital LLC, as the issuing bank. The initial commitment under the ING facility was $90 million, and the ING facility included an accordion feature that allowed for potential future expansion of the facility up to a total of $150 million. On February 22, 2011, we amended the ING facility to expand the borrowing capacity to $215 million. In addition, the ING facility's accordion feature was increased to allow for potential future expansion up to a total of $300 million and the maturity date was extended to February 22, 2014.

As of March 31, 2011, we had $74.0 million of borrowings outstanding under the ING facility and $60.0 million of borrowings outstanding under the Wells Fargo facility.

The table below reflects information pertaining to debt outstanding under the SBA debentures payable, the Wells Fargo facility and the ING facility:

	Debt Outstanding as of September 30, 2010	Debt Outstanding as of March 31, 2011	Weighted average debt outstanding for the six months ended March 31, 2011	Maximum debt outstanding for the six months ended March 31, 2011
SBA debentures payable	$73,000,000	$138,300,000	$104,859,341	$138,300,000
Wells Fargo facility	—	60,000,000	35,489,011	85,000,000
ING facility	—	74,000,000	22,576,923	90,000,000
Total debt	73,000,000	272,300,000	162,925,275	298,300,000

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

	Payments due by period as of March 31, 2011				
	Total	< 1 year	1-3 years	3-5 years	> 5 years
SBA debentures payable	$ 138,300,000	$ —	$ —	$ —	$ 138,300,000
Interest due on SBA debentures	52,638,157	5,203,917	10,815,914	10,830,728	25,787,598
Wells Fargo facility	60,000,000	60,000,000	—	—	—
Interest due on Wells Fargo facility	3,920,944	1,202,611	2,718,333	—	—
ING facility	74,000,000	74,000,000	—	—	—
Interest due on ING facility	5,802,446	1,627,863	4,174,583	—	—
Total	**$ 334,661,547**	**$ 142,034,391**	**$ 17,708,830**	**$ 10,830,728**	**$ 164,087,598**

A summary of the composition of unfunded commitments (consisting of revolvers, term loans and limited partnership interests) as of March 31, 2011 and September 30, 2010 is shown in the table below:

	March 31, 2011	September 30, 2010
Traffic Control & Safety Corporation	$ 2,250,000	$ —
HealthDrive Corporation	1,000,000	1,500,000
IZI Medical Products, Inc.	2,500,000	2,500,000
Trans-Trade, Inc.	1,000,000	500,000
Riverlake Equity Partners II, LP (limited partnership interest)	877,895	966,360
Riverside Fund IV, LP (limited partnership interest)	583,522	864,175
ADAPCO, Inc.	5,250,000	5,750,000
AmBath/ReBath Holdings, Inc.	1,500,000	1,500,000
JTC Education, Inc.	5,159,479	9,062,453
Tegra Medical, LLC	2,500,000	4,000,000
Vanguard Vinyl, Inc.	—	1,250,000
Flatout, Inc.	1,500,000	1,500,000
Psilos Group Partners IV, LP (limited partnership interest)	1,000,000	1,000,000
Mansell Group, Inc.	1,000,000	2,000,000
NDSSI Holdings, Inc.	1,500,000	1,500,000
Eagle Hospital Physicians, Inc.	2,500,000	2,500,000
Enhanced Recovery Company, LLC	3,000,000	3,623,148
Epic Acquisition, Inc.	2,400,000	2,700,000
Specialty Bakers, LLC	4,000,000	2,000,000
Rail Acquisition Corp.	4,879,435	4,798,897
Bunker Hill Capital II (QP), L.P. (limited partnership interest)	1,000,000	—
CRGT, Inc.	12,500,000	—
Welocalize, Inc.	3,750,000	—
Miche Bag, LLC	5,000,000	—
Dominion Diagnostics, LLC	5,000,000	—
Advanced Pain Management	400,000	—
DISA, Inc.	4,000,000	—
Saddleback Fence and Vinyl Products, Inc.	400,000	—
Best Vinyl Fence & Deck, LLC	1,000,000	—
Physicians Pharmacy Alliance, Inc.	2,000,000	—
Cardon Healthcare Network, LLC	2,000,000	—
IOS Acquisitions, Inc.	2,000,000	—
Phoenix Brands Merger Sub LLC	2,142,857	—

Total	**$85,593,188**	**$49,515,033**

Regulated Investment Company Status and Dividends

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

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

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

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

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

receive cash may receive less than 10% of such stockholder's distribution in cash). This Revenue Procedure applies to distributions declared on or before December 31, 2012 with respect to taxable years ending on or before December 31, 2011. We have no current intention of paying dividends in shares of our stock.

Related Party Transactions

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

The investment advisory agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. During the three and six months ended March 31, 2011, we paid our investment adviser $8.9 million and $16.2 million, respectively, under the investment advisory agreement.

Pursuant to the administration agreement with FSC, Inc., which is controlled by Mr. Tannenbaum, FSC, Inc. will furnish us with the facilities and administrative services necessary to conduct our day-to-day operations, including equipment, clerical, bookkeeping and recordkeeping services at such facilities. In addition, FSC, Inc. will assist us in connection with the determination and publishing of our net asset value, the preparation and filing of tax returns and the printing and dissemination of reports to our stockholders. We will pay FSC, Inc. our allocable portion of overhead and other expenses incurred by it in performing its obligations under the administration agreement, including a portion of the rent and the compensation of our chief financial officer and chief compliance officer and their respective staffs. FSC, Inc. has voluntarily determined to forgo receiving reimbursement for the services performed for us by our chief compliance officer. Although FSC, Inc. currently intends to forgo its right to receive such reimbursement, it is under no obligation to do so and may cease to do so at any time in the future. The administration agreement may be terminated by either party without penalty upon no fewer than 60 days' written notice to the other. During the three and six months ended March 31, 2011, we paid FSC, Inc. $0.6 million and $1.3 million, respectively, under the administration agreement.

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

Recent Developments

On April 1, 2011, we repaid $18.0 million under the ING facility. On April 12, 2011, we repaid $60.0 million and $56.0 million under the Wells Fargo facility and ING facility, respectively. As of May 4, 2011, we had no loans outstanding under our credit facilities.

In April 2011, we received investment grade issuer and corporate debt ratings (BBB-) from the global ratings agency Fitch Ratings.

On April 12, 2011, we closed a private offering of $150 million aggregate principal amount of our 5.375% convertible senior notes due 2016. These convertible senior notes were sold only to qualified institutional buyers (as defined in the Securities Act) pursuant to Rule 144A under the Securities Act. We have granted the initial purchasers for the offering the option, which expires May 7, 2011, to purchase up to an additional $22.5 million aggregate principal amount of the convertible senior notes. In addition, Leonard M. Tannenbaum, our chief executive officer, purchased $2 million principal amount of the convertible senior notes directly from us in a private placement.

The convertible senior notes are unsecured and bear interest at a rate of 5.375% per year, payable semiannually. In certain circumstances, the convertible senior notes are convertible into shares of our common stock at an initial conversion rate of 67.7415 shares of common stock per $1,000 principal amount of convertible senior notes, which is equivalent to an initial conversion price of approximately $14.76 per share of our common stock, subject to customary anti-dilution adjustments. In addition, if certain corporate events occur in respect of us, holders of the convertible senior notes may require us to repurchase for cash all or part of their convertible senior notes at a repurchase price equal to 100% of the principal amount of the convertible senior notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date. We do not have the right to redeem the convertible senior notes prior to maturity. The convertible senior notes will mature on April 1, 2016, unless repurchased or converted in accordance with their terms prior to such date.

On April 29, 2011, we paid a dividend in the amount of $0.1066 per share to stockholders of record on April 1, 2011.

On May 2, 2011, our Board of Directors declared the following dividends:

* $0.1066 per share, payable on July 29, 2011 to stockholders of record on July 1, 2011;
* $0.1066 per share, payable on August 31, 2011 to stockholders of record on August 1, 2011; and
* $0.1066 per share, payable on September 30, 2011 to stockholders of record on September 1, 2011.

Recently Issued Accounting Standards

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

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

We are subject to financial market risks, including changes in interest rates. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments, cash and cash equivalents and idle funds investments. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs. Our investment income will be affected by changes in various interest rates, including LIBOR and prime rates, to the extent any of our debt investments include floating interest rates. In addition, our investments are carried at fair value as determined in good faith by our Board of Directors in accordance with the 1940 Act (See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Investment Valuation"). Our valuation methodology utilizes discount rates in part in valuing our investments, and changes in those discount rates may have an impact on the valuation of our investments.

As of March 31, 2011, 59.6% of our debt investment portfolio (at fair value) and 57.2% of our debt investment portfolio (at cost) bore interest at floating rates. The composition of our floating rate debt investments by cash interest rate floor (excluding PIK) as of March 31, 2011 and September 30, 2010 was as follows:

	March 31, 2011		September 30, 2010	
	Fair Value	% of Portfolio	Fair Value	% of Portfolio
Under 1%	$107,539,185	19.44%	$ 10,648,037	5.82%
1% to under 2%	112,417,512	20.32%	—	0.00%
2% to under 3%	161,566,612	29.20%	36,950,245	20.19%
3% to under 4%	164,233,771	29.68%	125,254,206	68.45%
4% to under 5%	1,006,811	0.18%	1,247,418	0.68%
5% and over	6,543,222	1.18%	8,895,803	4.86%
Total	**$553,307,113**	**100.00%**	**$182,995,709**	**100.00%**

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

Basis point increase	Interest income	Interest expense	Net increase (decrease)
100	$ 1,062,000	$ 340,000	$ 722,000
200	3,236,000	680,000	2,556,000
300	7,543,000	1,020,000	6,523,000
400	13,061,000	1,360,000	11,701,000
500	18,595,000	1,700,000	16,895,000

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

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

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

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings.*

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

Item 1A. *Risk Factors*.

Except as described below, there have been no material changes during the three months ended March 31, 2011 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2010.

Risks Related to Our Convertible Senior Notes

Our stockholders may experience dilution upon the conversion of our convertible senior notes.

Our convertible senior notes are convertible into shares of our common stock beginning January 1, 2016 or, under certain circumstances, earlier. Upon conversion, we must deliver shares of our common stock. The conversion rate of our convertible senior notes is initially 67.7415 shares of our common stock per $1,000 principal amount of our convertible senior notes (equivalent to an initial conversion price of approximately $14.76 per share of common stock), subject to adjustment in certain circumstances. If we deliver shares of common stock upon a conversion at the time our net asset value per share exceeds the conversion price in effect at such time, our stockholders may incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of our common stock upon our issuance of common stock in connection with the conversion of our convertible senior notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance.

We may not have, or have the ability to raise, the funds necessary to repurchase our convertible senior notes upon a fundamental change, and our debt may contain limitations on our ability to deliver shares of our common stock upon conversion or pay cash upon repurchase of our convertible senior notes.

Holders of our convertible senior notes will have the right to require us to repurchase their notes upon the occurrence of certain significant corporate events involving us, including if our common stock ceases to trade on any national securities exchange or we consolidate or merge into another entity in certain circumstances, at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. We refer to such a corporate event as a "fundamental change." However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of convertible senior notes surrendered therefor. In addition, our ability to repurchase our convertible senior notes or deliver shares of our common stock upon conversions of the convertible senior notes may be limited by law, by regulatory authority or by agreements governing our indebtedness, including our credit facilities. In this regard, the ING facility currently prohibits us from repurchasing our convertible senior notes upon the occurrence of a fundamental change. Our failure to repurchase the notes at a time when the repurchase is required by the indenture relating to the convertible senior notes or to deliver any shares of our common stock deliverable on future conversions of the convertible senior notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the occurrence of a fundamental change itself could also lead to a default under agreements governing our indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase our convertible senior notes.

Provisions of our convertible senior notes could discourage an acquisition of us by a third party.

Certain provisions of our convertible senior notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of a fundamental change, the holders of our convertible senior notes will have the right, at their option, to require us to repurchase all or a portion of their convertible senior notes, plus accrued and unpaid interest. We may also be required to increase the conversion rate of the convertible senior notes in certain other circumstances, including in the event of certain fundamental changes. These provisions could discourage an acquisition of us by a third party.

Certain adverse consequences could result if our convertible senior notes are treated as equity interests in us for purposes of regulations under the Employee Retirement Income Security Act of 1974.

Pursuant to regulations under the Employee Retirement Income Security Act of 1974 ("ERISA"), it is possible that, due to their convertibility feature, our convertible senior notes could be treated as equity interests in us. In that event, if employee benefit plans subject to Title I of ERISA, plans that are not subject to ERISA but that are subject to Section 4975 of the Code, such as individual retirement accounts, and entities that are deemed to hold the assets of such plans or accounts (such plans, accounts, and entities, "Benefit Plan Investors") were to acquire 25% or more of the aggregate value of our convertible senior notes, among other consequences, we and our management would be subject to ERISA fiduciary duties, and certain transactions we might enter into, or may have entered into, in the ordinary course of our business might constitute non-exempt "prohibited transactions" under Section 406 of ERISA or Section 4975 of the Code and might have to be rescinded at significant cost to us. Moreover, if our underlying assets were deemed to be assets constituting plan assets, (i) our assets could be subject to ERISA's reporting and disclosure requirements, (ii) a fiduciary causing a Benefit Plan Investor to make an investment in our equity interests could be deemed to have delegated its responsibility to manage the assets of the Benefit Plan Investor, and (iii) various providers of fiduciary or other services to us, and any other parties with authority or control with respect to our assets, could be deemed to be plan fiduciaries or otherwise parties in interest or disqualified persons by virtue of their provision of such services.

We do not believe that our convertible senior notes should be treated as equity interests in us for purposes of ERISA in light of the relevant regulations. No assurance can be given, however, that our convertible senior notes will not be so treated.

The accounting for convertible debt securities is complex and subject to uncertainty.

The accounting for convertible debt securities is complex and subject to frequent scrutiny by the accounting regulatory bodies and is subject to change. The issuance of our convertible senior notes may have an accounting effect on our earnings per share on a fully diluted basis. Further, we cannot predict if or when changes in the accounting for convertible debt securities could be made and whether any such change could have an adverse impact on our reported or future financial results. Any such impacts could adversely affect the market price of our common stock.

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

We issued a total of 108,876 shares of common stock under our dividend reinvestment plan during the three months ended March 31, 2011. This issuance was not subject to the registration requirements of the Securities Act of 1933. The aggregate price for the shares of common stock issued under the dividend reinvestment plan was $1.4 million.

Item 6. ***Exhibits.***

Exhibit Number	Description of Exhibit
4.1	Indenture, dated April 12, 2011, between Registrant and Deutsche Bank Trust Company Americas, as trustee (Incorporated by reference to Exhibit 4.1 filed with Fifth Street Finance Corp.'s Form 8-K (File No. 001-33901) filed on April 12, 2011).
4.2	Form of 5.375% Convertible Senior Notes due 2016 (Incorporated by reference to Exhibit 4.2 filed with Fifth Street Finance Corp.'s Form 8-K (File No. 001-33901) filed on April 12, 2011).
10.1	Purchase Agreement, dated April 7, 2011, by and among Registrant, Fifth Street Management LLC, FSC, Inc., J.P. Morgan Securities LLC and Morgan Stanley & Co. Incorporated (Incorporated by reference to Exhibit 10.1 filed with Fifth Street Finance Corp.'s Form 8-K (File No. 001-33901) filed on April 12, 2011)
10.2	Amendment No. 1 to the Amended and Restated Loan and Servicing Agreement among Fifth Street Funding, LLC, Registrant, Wells Fargo Securities, LLC and Wells Fargo Bank, N.A., dated as of February 25, 2011 (Incorporated by reference to Exhibit (k)(4) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-166012) filed on March 30, 2011).
10.3	Amended and Restated Senior Secured Revolving Credit Agreement among Registrant, ING Capital LLC, Royal Bank of Canada, UBS Loan Finance LLC, Morgan Stanley Bank, N.A. Key Equipment Finance Inc., Deutsche Bank Trust Company Americas and Patriot National Bank, dated as of February 22, 2011 (Incorporated by reference to Exhibit (k)(8) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-166012) filed on March 30, 2011).
10.4	Amendment and Reaffirmation Agreement among Registrant, FSFC Holdings, Inc., FSF/MP Holdings, Inc., Fifth Street Fund of Funds LLC and ING Capital LLC, dated as of February 22, 2011 (Incorporated by reference to Exhibit (k)(10) filed with Fifth Street Finance Corp.'s Registration Statement on Form N-2 (File No. 333-166012) filed on March 30, 2011).
10.5*	Second Amended and Restated Investment Advisory Agreement by and between Registrant and Fifth Street Management LLC.
10.6*	Amended and Restated Administration Agreement by and between Registrant and FSC, Inc.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1*	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.2*	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

* Submitted herewith.

Table of Contents

SIGNATURES

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

Fifth Street Finance Corp.

Date: May 4, 2011

/s/ Leonard M. Tannenbaum
Leonard M. Tannenbaum
Chairman and Chief Executive Officer

Date: May 4, 2011

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

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.5*	Amended and Restated Investment Advisory Agreement by and between Registrant and Fifth Street Management, LLC.
10.6*	Amended and Restated Administration Agreement by and between Registrant and FSC, Inc.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1*	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.2*	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

* Submitted herewith.

Exhibit 10.5

SECOND AMENDED AND RESTATED INVESTMENT ADVISORY AGREEMENT

BETWEEN

FIFTH STREET FINANCE CORP.

AND

FIFTH STREET MANAGEMENT LLC

This Second Amended and Restated Investment Advisory Agreement (this "***Agreement***") made this 2nd day of May 2011, by and between FIFTH STREET FINANCE CORP., a Delaware corporation (the "***Company***"), and FIFTH STREET MANAGEMENT LLC, a Delaware limited liability company (the "***Adviser***").

WHEREAS, the Company is a closed-end management investment fund that has elected to be regulated as a business development company ("***BDC***") under the Investment Company Act of 1940, as amended (the "***Investment Company Act***"); and

WHEREAS, the Adviser is organized as an investment adviser that is registered under the Investment Advisers Act of 1940, as amended (the "***Advisers Act***"); and

WHEREAS, the Company and the Adviser entered into an investment advisory agreement, dated December 14, 2007 (the "***Original Advisory Agreement***");

WHEREAS, the Company and the Adviser entered into an amended and restated investment advisory agreement, dated April 30, 2008 (the "***First Amended and Restated Advisory Agreement***"), which amended and restated in its entirety the Original Advisory Agreement; and

WHEREAS, the Company and the Adviser further desire to amend and restate in its entirety the First Amended and Restated Advisory Agreement to reflect, among other things, (i) the fact that the Adviser has agreed to permanently waive that portion of its Base Management Fee (as defined below) attributable to the Company's assets held in the form of cash and cash equivalents as of the end of each quarter beginning on March 31, 2010 and (ii) changes in certain non-substantive factual matters described therein that occurred subsequent to the date of the execution of the First Amended and Restated Advisory Agreement.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the parties hereby agree as follows:

1. <u>Duties of the Adviser</u>.

(a) The Company hereby employs the Adviser to act as the investment adviser to the Company and to manage the investment and reinvestment of the assets of the Company, subject to the supervision of the Board of Directors of the Company, (the "***Board***") for the period and upon the terms herein set forth, (i) in accordance with the investment objective, policies and restrictions that are set forth in the reports and/or registration statements that the Company files with the Securities and Exchange Commission (the "***SEC***") from time to time; (ii) during the

term of this Agreement in accordance with all other applicable federal and state laws, rules and regulations, and the Company's charter and by-laws; and (iii) in accordance with the Investment Company Act. Without limiting the generality of the foregoing, the Adviser shall, during the term and subject to the provisions of this Agreement (A) determine the composition of the portfolio of the Company, the nature and timing of the changes therein and the manner of implementing such changes; (B) identify, evaluate and negotiate the structure of the investments made by the Company; (C) close, monitor and service the Company's investments; (D) determine the securities and other assets that the Company shall purchase, retain, or sell; (E) perform due diligence on prospective portfolio companies; and (F) provide the Company with such other investment advisory, research and related services as the Company may, from time to time, reasonably require for the investment of its funds. The Adviser shall have the power and authority on behalf of the Company to effectuate its investment decisions for the Company, including the execution and delivery of all documents relating to the Company's investments and the placing of orders for other purchase or sale transactions on behalf of the Company. In the event that the Company determines to obtain debt financing, the Adviser shall arrange for such financing on the Company's behalf, subject to the oversight and approval of the Company's Board.

(b) The Adviser hereby accepts such employment and agrees during the term hereof to render the services described herein for the compensation provided herein.

(c) The Adviser is hereby authorized to enter into one or more sub-advisory agreements with other investment advisers (each, a "***Sub-Adviser***") pursuant to which the Adviser may obtain the services of the Sub-Adviser(s) to assist the Adviser in fulfilling its responsibilities hereunder. Specifically, the Adviser may retain a Sub-Adviser to recommend specific securities or other investments based upon the Company's investment objective and policies, and work, along with the Adviser, in structuring, negotiating, arranging or effecting the acquisition or disposition of such investments and monitoring investments on behalf of the Company, subject to the oversight of the Adviser and the Company. The Adviser and not the Company shall be responsible for any compensation payable to any Sub-Adviser. Any sub-advisory agreement entered into by the Adviser shall be in accordance with the requirements of the Investment Company Act and other applicable federal and state law.

(d) The Adviser shall, for all purposes herein provided, be deemed to be an independent contractor and, except as expressly provided or authorized herein, shall have no authority to act for or represent the Company in any way or otherwise be deemed an agent of the Company.

(e) Subject to review by and the overall control of the Board of the Company, the Adviser shall keep and preserve for the period required by the Investment Company Act any books and records relevant to the provision of its investment advisory services to the Company and shall specifically maintain all books and records with respect to the Company's portfolio transactions and shall render to the Company's Board such periodic and special reports as the Board may reasonably request. The Adviser agrees that all records that it maintains for the Company are the property of the Company and shall surrender promptly to the Company any such records upon the Company's request, provided that the Adviser may retain a copy of such records.

2. Company's Responsibilities and Expenses Payable by the Company.

All personnel of the Adviser, when and to the extent engaged in providing investment advisory services hereunder, and the compensation and routine overhead expenses of such personnel allocable to such services, shall be provided and paid for by the Adviser and not by the Company. The Company shall bear all other costs and expenses of its operations and transactions, including (without limitation) fees and expenses relating to: organizational and offering expenses; the investigation and monitoring of the Company's investments; the cost of calculating the Company's net asset value; the cost of effecting sales and repurchases of shares of the Company's common stock and other securities; management and incentive fees payable pursuant to the investment advisory agreement; fees payable to third parties relating to, or associated with, making investments and valuing investments (including third-party valuation firms); transfer agent and custodial fees; fees and expenses associated with marketing efforts (including attendance at investment conferences and similar events); federal and state registration fees; any exchange listing fees; federal, state and local taxes; independent directors' fees and expenses; brokerage commissions; costs of proxy statements, stockholders' reports and notices; costs of preparing government filings, including periodic and current reports with the SEC; fidelity bond, liability insurance and other insurance premiums; and printing, mailing, independent accountants and outside legal costs and all other direct expenses incurred by either FSC, Inc. or the Company in connection with administering the Company's business, including payments under the administration agreement dated as of May 2, 2011 (the **"*Adminstration Agreement*"**) that will be based upon the Company's allocable portion of overhead and other expenses incurred by the Company's administrator, FSC, Inc., in performing its obligations under the Administration Agreement and the compensation of the Company's chief financial officer and chief compliance officer, and their respective staffs.

3. Compensation of the Adviser.

The Company agrees to pay, and the Adviser agrees to accept, as compensation for the services provided by the Adviser hereunder, a base management fee ("***Base Management Fee***") and an incentive fee ("***Incentive Fee***") as hereinafter set forth. The Adviser may agree to temporarily or permanently waive, in whole or in part, the Base Management Fee and/or the Incentive Fee. See Appendix A for examples of how these fees are calculated.

(a) The Base Management Fee shall be calculated at an annual rate of 2% of the Company's gross assets, excluding any cash and cash equivalents. For purposes of this Agreement, the term "cash and cash equivalents" will have the meaning ascribed to it from time to time in the notes to the financial statements that the Company files with the SEC. The Base Management Fee shall be payable quarterly in arrears, and shall be calculated based on the value of the Company's gross assets at the end of each fiscal quarter, and appropriately adjusted for any equity capital raises or repurchases during such quarter. The Base Management Fee for any partial month or quarter shall be appropriately prorated.

(b) The Incentive Fee shall consist of two parts, as follows:

(i) The first part shall be 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 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 payment-in-kind 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, shall 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 the Company's 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 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 Adviser. The Company refers to this portion of the Company's 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 Adviser with an incentive fee of 20% on all of the Company's Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when the Company's Pre-Incentive Fee Net Investment Income exceeds 2.5% in any fiscal quarter; and
- 20% of the amount of the Company's Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.5% in any fiscal quarter (10% annualized) is payable to the 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 Adviser).

(ii) The second part of the incentive fee shall 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 shall 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.

4. Covenants of the Adviser.

The Adviser covenants that it will maintain its registration as an investment adviser under the Advisers Act. The Adviser agrees that its activities will at all times be in compliance in all material respects with all applicable federal and state laws governing its operations and investments.

5. Brokerage Commissions.

The Adviser is hereby authorized, to the fullest extent now or hereafter permitted by law, to cause the Company to pay a member of a national securities exchange, broker or dealer an amount of commission for effecting a securities transaction in excess of the amount of commission another member of such exchange, broker or dealer would have charged for effecting that transaction, if the Adviser determines in good faith, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities, that such amount of commission is reasonable in relation to the value of the brokerage and/or research services provided by such member, broker or dealer, viewed in terms of either that particular transaction or its overall responsibilities with respect to the Company's portfolio, and constitutes the best net results for the Company.

6. Other Activities of the Adviser.

The services of the Adviser to the Company are not exclusive, and the Adviser may engage in any other business or render similar or different services to others including, without limitation, the direct or indirect sponsorship or management of other investment based accounts or commingled pools of capital, however structured, having investment objectives similar to those of the Company, so long as its services to the Company hereunder are not impaired thereby, and nothing in this Agreement shall limit or restrict the right of any manager, partner, member (including its members and the owners of its members), officer or employee of the Adviser to engage in any other business or to devote his or her time and attention in part to any other business, whether of a similar or dissimilar nature, or to receive any fees or compensation in connection therewith (including fees for serving as a director of, or providing consulting services to, one or more of the Company's portfolio companies, subject to applicable law). So long as this Agreement or any extension, renewal or amendment remains in effect, the Adviser shall be the only investment adviser for the Company, subject to the Adviser's right to enter into sub-advisory agreements. The Adviser assumes no responsibility under this Agreement other than to render the services called for hereunder. It is understood that directors, officers, employees and stockholders of the Company are or may become interested in the Adviser and its

affiliates, as directors, officers, employees, partners, stockholders, members, managers or otherwise, and that the Adviser and directors, officers, employees, partners, stockholders, members and managers of the Adviser and its affiliates are or may become similarly interested in the Company as stockholders or otherwise.

7. Responsibility of Dual Directors, Officers and/or Employees.

If any person who is a manager, partner, member, officer or employee of the Adviser is or becomes a director, officer and/or employee of the Company and acts as such in any business of the Company, then such manager, partner, member, officer and/or employee of the Adviser shall be deemed to be acting in such capacity solely for the Company, and not as a manager, partner, member, officer or employee of the Adviser or under the control or direction of the Adviser, even if paid by the Adviser.

8. Limitation of Liability of the Adviser; Indemnification.

The Adviser (and its officers, managers, partners, members (and their members, including the owners of their members), agents, employees, controlling persons and any other person or entity affiliated with the Adviser) shall not be liable to the Company for any action taken or omitted to be taken by the Adviser in connection with the performance of any of its duties or obligations under this Agreement or otherwise as an investment adviser of the Company (except to the extent specified in Section 36(b) of the Investment Company Act concerning loss resulting from a breach of fiduciary duty (as the same is finally determined by judicial proceedings) with respect to the receipt of compensation for services, and the Company shall indemnify, defend and protect the Adviser (and its officers, managers, partners, members (and their members, including the owners of their members), agents, employees, controlling persons and any other person or entity affiliated with the Adviser, each of whom shall be deemed a third party beneficiary hereof) (collectively, the "***Indemnified Parties***") and hold them harmless from and against all damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) incurred by the Indemnified Parties in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of the Company or its security holders) arising out of or otherwise based upon the performance of any of the Adviser's duties or obligations under this Agreement or otherwise as an investment adviser of the Company. Notwithstanding the preceding sentence of this Section 8 to the contrary, nothing contained herein shall protect or be deemed to protect the Indemnified Parties against or entitle or be deemed to entitle the Indemnified Parties to indemnification in respect of, any liability to the Company or its security holders to which the Indemnified Parties would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of the Adviser's duties or by reason of the reckless disregard of the Adviser's duties and obligations under this Agreement.

9. Effectiveness, Duration and Termination of Agreement.

This Agreement shall become effective as of the date above written. This Agreement shall remain in effect until March 1, 2012, and thereafter shall continue automatically for successive annual periods, provided that such continuance is specifically approved at least annually by (a) the vote of the Company's Board, or by the vote of a majority of the outstanding

voting securities of the Company and (b) the vote of a majority of the Company's directors who are not parties to this Agreement or "interested persons" (as such term is defined in Section 2(a)(19) of the Investment Company Act) of any such party, in accordance with the requirements of the Investment Company Act and each of whom is an "independent director" under applicable New York Stock Exchange listing standards. This Agreement may be terminated at any time, without the payment of any penalty, upon 60 days' written notice, by the vote of a majority of the outstanding voting securities of the Company, or by the vote of the Company's directors or by the Adviser. This Agreement shall automatically terminate in the event of its "assignment" (as such term is defined for purposes of Section 15(a)(4) of the Investment Company Act). The provisions of Paragraph 8 of this Agreement shall remain in full force and effect, and the Adviser shall remain entitled to the benefits thereof, notwithstanding any termination of this Agreement.

10. Notices.

Any notice under this Agreement shall be given in writing, addressed and delivered or mailed, postage prepaid, to the other party at its principal office.

11. Amendments.

This Agreement may be amended by mutual consent.

12. Entire Agreement; Governing Law.

This Agreement contains the entire agreement of the parties and supersedes all prior agreements, understandings and arrangements with respect to the subject matter hereof. Notwithstanding the place where this Agreement may be executed by any of the parties hereto, this Agreement shall be construed in accordance with the laws of the State of New York. For so long as the Company is regulated as a BDC under the Investment Company Act, this Agreement shall also be construed in accordance with the applicable provisions of the Investment Company Act. In such case, to the extent the applicable laws of the State of New York, or any of the provisions herein, conflict with the provisions of the Investment Company Act, the latter shall control. To the fullest extent permitted by law, in the event of any dispute arising out of the terms and conditions of this Agreement, the parties hereto consent and submit to the jurisdiction of the courts of the State of New York in the county of New York and of the U.S. District Court for the Southern District of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date above written.

FIFTH STREET FINANCE CORP.

By: ______________________________
Name: Leonard M. Tannenbaum
Title: Chief Executive Officer

FIFTH STREET MANAGEMENT LLC

By: ______________________________
Name: Bernard D. Berman
Title: President

Appendix A

Example 1: Income Related Portion of Incentive Fee for Each Fiscal Quarter

Alternative 1

Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%
Hurdle rate(1) = 2%
Management fee(2) = 0.5%
Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.2%
Pre-Incentive Fee Net Investment Income
(investment income — (management fee + other expenses) = 0.55%
Pre-Incentive Fee Net Investment Income does not exceed hurdle rate, therefore there is no income-related incentive fee.

Alternative 2

Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.9%
Hurdle rate(1) = 2%
Management fee(2) = 0.5%
Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.2%
Pre-Incentive Fee Net Investment Income
(investment income — (management fee + other expenses) = 2.2%
Incentive fee = 100% X Pre-Incentive Fee Net Investment Income (subject to ‘‘catch-up’’)(4)
= 100% X (2.2% — 2%)
= 0.2%

Pre-Incentive Fee Net Investment Income exceeds the hurdle rate, but does not fully satisfy the ‘‘catch-up’’ provision, therefore the income related portion of the incentive fee is 0.2%.

Alternative 3

Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.5%
Hurdle rate(1) = 2%
Management fee(2) = 0.5%
Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.2%
Pre-Incentive Fee Net Investment Income
(investment income — (management fee + other expenses) = 2.8%
Incentive fee = 100% _ Pre-Incentive Fee Net Investment Income (subject to ‘‘catch-up’’)(4)

Incentive fee = 100% X ‘‘catch-up’’ + (20% X (Pre-Incentive Fee Net Investment Income — 2.5%))

Catch up = 2.5% — 2%

= 0.5%

Incentive fee = (100% X 0.5%) + (20% X (2.8% — 2.5%))

= 0.5% + (20% X 0.3%)

= 0.5% + 0.06%

= 0.56%

Pre-Incentive Fee Net Investment Income exceeds the hurdle rate, and fully satisfies the ‘‘catch-up’’ provision, therefore the income related portion of the incentive fee is 0.56%.

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(1) Represents 8% annualized hurdle rate.

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

(4) The ‘‘catch-up’’ provision is intended to provide the Adviser with an incentive fee of 20% on all Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when the Company’s net investment income exceeds 2.5% in any fiscal quarter.

Example 2: Capital Gains Portion of Incentive Fee(*):

Alternative 1:

Assumptions

Year 1: $20 million investment made in Company A (‘‘Investment A’’), and $30 million investment made in Company B (‘‘Investment B’’)

Year 2: Investment A sold for $50 million and fair market value (‘‘FMV’’) of Investment B determined to be $32 million

Year 3: FMV of Investment B determined to be $25 million

Year 4: Investment B sold for $31 million

The capital gains portion of the incentive fee would be:

Year 1: None

Year 2: Capital gains incentive fee of $6 million ($30 million realized capital gains on sale of Investment A multiplied by 20%)

Year 3: None à $5 million (20% multiplied by ($30 million cumulative capital gains less $5 million cumulative capital depreciation)) less $6 million (previous capital gains fee paid in Year 2)

Year 4: Capital gains incentive fee of $200,000 à $6.2 million ($31 million cumulative realized capital gains multiplied by 20%) less $6 million (capital gains incentive fee taken in Year 2)

Alternative 2

Assumptions

Year 1: $20 million investment made in Company A (‘‘Investment A’’), $30 million investment made in Company B (‘‘Investment B’’) and $25 million investment made in Company C (‘‘Investment C’’)

Year 2: Investment A sold for $50 million, FMV of Investment B determined to be $25 million and FMV of Investment C determined to be $25 million

Year 3: FMV of Investment B determined to be $27 million and Investment C sold for $30 million

Year 4: FMV of Investment B determined to be $35 million

Year 5: Investment B sold for $20 million

The capital gains incentive fee, if any, would be:

Year 1: None

Year 2: $5 million capital gains incentive fee à 20% multiplied by $25 million ($30 million realized capital gains on Investment A less unrealized capital depreciation on Investment B)

Year 3: $1.4 million capital gains incentive fee(1) à $6.4 million (20% multiplied by $32 million ($35 million cumulative realized capital gains less $3 million unrealized capital depreciation)) less $5 million capital gains incentive fee received in Year 2

Year 4: None

Year 5: None à $5 million (20% multiplied by $25 million (cumulative realized capital gains of $35 million less realized capital losses of $10 million)) less $6.4 million cumulative capital gains incentive fee paid in Year 2 and Year 3(2)

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* The hypothetical amounts of returns shown are based on a percentage of the Company's total net assets and assume no leverage. There is no guarantee that positive returns will be realized and actual returns may vary from those shown in this example.

(1) As illustrated in Year 3 of Alternative 1 above, if the Company were to be wound up on a date other than its fiscal year end of any year, the Company may have paid aggregate capital gains incentive fees that are more than the amount of such fees that would be payable if the Company had been wound up on its fiscal year end of such year.

(2) As noted above, it is possible that the cumulative aggregate capital gains fee received by the Adviser ($6.4 million) is effectively greater than $5 million (20% of cumulative aggregate realized capital gains less net realized capital losses or net unrealized depreciation ($25 million)).

AMENDED AND RESTATED ADMINISTRATION AGREEMENT

This Agreement ("***Agreement***") is made as of May 2, 2011 by and between FIFTH STREET FINANCE CORP., a Delaware corporation (the "***Company***"), and FSC, INC., a New York corporation (the "***Administrator***").

W I T N E S S E T H:

WHEREAS, the Company is a closed-end management investment company that has elected to be regulated as a business development company ("***BDC***") under the Investment Company Act of 1940, as amended (the "***Investment Company Act***"); and

WHEREAS, the Company and the Administrator entered into an administration agreement, dated as of December 14, 2007 (the "***Original Administration Agreement***"); and

WHEREAS, the Company and the Adviser desire to amend and restate in its entirety the Original Administration Agreement to reflect changes in certain non-substantive factual matters described therein that occurred subsequent to the date of its execution.

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the Company and the Administrator hereby agree as follows:

1. Duties of the Administrator

(a) Employment of Administrator. The Company hereby employs the Administrator to act as administrator of the Company, and to furnish, or arrange for others to furnish, the administrative services, personnel and facilities described below, subject to review by and the overall control of the Board of Directors of the Company (the "***Board***"), for the period and on the terms and conditions set forth in this Agreement. The Administrator hereby accepts such employment and agrees during such period to render, or arrange for the rendering of, such services and to assume the obligations herein set forth subject to the reimbursement of costs and expenses provided for below. The Administrator and such others shall for all purposes herein be deemed to be independent contractors and shall, unless otherwise expressly provided or authorized herein, have no authority to act for or represent the Company in any way or otherwise be deemed agents of the Company.

(b) Services. The Administrator shall perform (or oversee, or arrange for, the performance of) the administrative services necessary for the operation of the Company. Without limiting the generality of the foregoing, to the extent the Company so requires, the Administrator shall provide the Company with office facilities, equipment, clerical, bookkeeping and record keeping services at such facilities and such other services as the Administrator, subject to review by the Board, shall from time to time determine to be necessary or useful to perform its obligations under this Agreement. The Administrator shall also, on behalf of the Company, conduct relations with custodians, depositories, transfer agents, dividend disbursing agents, other stockholder servicing agents, accountants, attorneys, underwriters, brokers and dealers, corporate fiduciaries, insurers, banks and such other persons in any such other capacity deemed to be necessary or desirable. The Administrator shall make reports to the Board of its

performance of obligations hereunder and furnish advice and recommendations with respect to such other aspects of the business and affairs of the Company, in each case, as it shall determine to be desirable or as reasonably requested by the Board; provided that nothing herein shall be construed to require the Administrator to, and the Administrator shall not, provide any advice or recommendation relating to the securities and other assets that the Company should purchase, retain or sell or any other investment advisory services to the Company pursuant to this Agreement. The Administrator shall provide portfolio collections functions for interest income, fees and warrants and be responsible for the financial and other records that the Company is required to maintain and shall prepare, print and disseminate reports to stockholders, and reports and other materials filed with the Securities and Exchange Commission (the "***SEC***"). In addition, the Administrator will assist the Company in determining and publishing the Company's net asset value, overseeing the preparation and filing of the Company's tax returns, and generally overseeing the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others.

2. Records

The Administrator agrees to maintain and keep all books, accounts and other records of the Company that relate to activities performed by the Administrator hereunder and will maintain and keep such books, accounts and records in accordance with the Investment Company Act. In compliance with the requirements of Rule 31a-3 under the Investment Company Act, the Administrator agrees that all records which it maintains for the Company shall at all times remain the property of the Company, shall be readily accessible during normal business hours, and shall be promptly surrendered upon the termination of the Agreement or otherwise on written request. The Administrator further agrees that all records that it maintains for the Company pursuant to Rule 31a-1 under the Investment Company Act will be preserved for the periods prescribed by Rule 31a-2 under the Investment Company Act unless any such records are earlier surrendered as provided above. Records shall be surrendered in usable machine-readable form. The Administrator shall have the right to retain copies of such records subject to observance of its confidentiality obligations under this Agreement.

3. Confidentiality

All confidential information provided by a party hereto, including nonpublic personal information (regulated pursuant to Regulation S-P of the SEC), shall be used by any other party hereto solely for the purpose of rendering services pursuant to this Agreement and, except as may be required in carrying out this Agreement, shall not be disclosed to any third party, without the prior consent of such providing party. The foregoing shall not be applicable to any information that is publicly available when provided or thereafter becomes publicly available other than through a breach of this Agreement, or that is required to be disclosed to any regulatory or legal authority, or legal counsel of the parties hereto, by judicial or administrative process or otherwise by applicable law or regulation.

4. Compensation; Allocation of Costs and Expenses

In full consideration of the provision of the services of the Administrator, the Company shall reimburse the Administrator for the costs and expenses incurred by the Administrator in

performing its obligations and providing personnel and facilities hereunder. The Company will bear all costs and expenses that are incurred in its operation, administration and transactions and not specifically assumed by Fifth Street Management LLC (the "***Adviser***") pursuant to that certain Investment Advisory Agreement, dated as of May 2, 2011 (the "***Investment Advisory Agreement***") by and between the Company and the Adviser. Costs and expenses to be borne by the Company include, but are not limited to, fees and expenses relating to: organizational and offering expenses; the investigation and monitoring of the Company's investments; the cost of calculating the Company's net asset value; the cost of effecting sales and repurchases of shares of the Company's common stock and other securities; management and incentive fees payable pursuant to the Investment Advisory Agreement; fees payable to third parties relating to, or associated with, making investments and valuing investments (including third-party valuation firms); transfer agent and custodial fees; fees and expenses associated with marketing efforts (including attendance at investment conferences and similar events); federal and state registration fees; any exchange listing fees; federal, state and local taxes; independent directors' fees and expenses; brokerage commissions; costs of proxy statements, stockholders' reports and notices; costs of preparing government filings, including periodic and current reports with the SEC; fidelity bond, liability insurance and other insurance premiums; and printing, mailing, independent accountants and outside legal costs and all other direct expenses incurred by either the Administrator or the Company in connection with administering the Company's business, including payments under this Agreement.

5. Limitation of Liability of the Administrator; Indemnification

The Administrator (and its officers, managers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with the Administrator, including without limitation its members, and any person affiliated with its members to the extent they are providing services for or otherwise acting on behalf of the Administrator, Adviser or the Company) shall not be liable to the Company for any action taken or omitted to be taken by the Administrator in connection with the performance of any of its duties or obligations under this Agreement or otherwise as administrator for the Company, and the Company shall indemnify, defend and protect the Administrator (and its officers, managers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with the Administrator, including without limitation the Adviser, each of whom shall be deemed a third party beneficiary hereof) (collectively, the "***Indemnified Parties***") and hold them harmless from and against all damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) incurred by the Indemnified Parties in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of the Company or its security holders) arising out of or otherwise based upon the performance of any of the Administrator's duties or obligations under this Agreement or otherwise as administrator for the Company. Notwithstanding the preceding sentence of this Section 5 to the contrary, nothing contained herein shall protect or be deemed to protect the Indemnified Parties against or entitle or be deemed to entitle the Indemnified Parties to indemnification in respect of, any liability to the Company or its security holders to which the Indemnified Parties would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of the Administrator's duties or by reason of the reckless disregard of the Administrator's duties and obligations under this Agreement (to the extent

applicable, as the same shall be determined in accordance with the Investment Company Act and any interpretations or guidance by the SEC or its staff thereunder).

6. Activities of the Administrator

The services of the Administrator to the Company are not to be deemed to be exclusive, and the Administrator and each of its affiliates is free to render services to others. It is understood that directors, officers, employees and stockholders of the Company are or may become interested in the Administrator and its affiliates, as directors, officers, members, managers, employees, partners, stockholders or otherwise, and that the Administrator and directors, officers, members, managers, employees, partners and stockholders of the Administrator and its affiliates are or may become similarly interested in the Company as stockholders or otherwise.

7. Duration and Termination of this Agreement

(a) This Agreement shall become effective as of the first date above written. This Agreement may be terminated at any time, without the payment of any penalty, upon 60 days' written notice, by the vote of a majority of the outstanding voting securities of the Company, or by the vote of the Company's directors or by the Administrator.

(b) This Agreement shall remain in effect until March 1, 2012, and thereafter shall continue automatically for successive annual periods, provided that such continuance is specifically approved at least annually by (a) the vote of the Board, or by the vote of a majority of the outstanding voting securities of the Company and (b) the vote of a majority of the Company's directors who are not parties to this Agreement or "interested persons" (as such term is defined in Section 2(a)(19) of the Investment Company Act) of any such party, in accordance with the requirements of the Investment Company Act and each of whom is an "independent director" under applicable New York Stock Exchange listing standards.

(c) This Agreement may not be assigned by a party without the consent of the other party; provided, however, that the rights and obligations of the Company under this Agreement shall not be deemed to be assigned to a newly-formed entity in the event of the merger of the Company into, or conveyance of all of the assets of the Company to, such newly-formed entity; provided, further, however, that the sole purpose of that merger or conveyance is to effect a mere change in the Company's legal form into another limited liability entity. The provisions of Section 5 of this Agreement shall remain in full force and effect, and the Administrator shall remain entitled to the benefits thereof, notwithstanding any termination of this Agreement.

8. Amendments of this Agreement

This Agreement may be amended pursuant to a written instrument by mutual consent of the parties.

9. Governing Law

This Agreement shall be construed in accordance with the laws of the State of New York and shall be construed in accordance with the applicable provisions of the Investment Company Act. To the extent the applicable laws of the State of New York, or any of the provisions herein, conflict with the provisions of the Investment Company Act, the latter shall control.

10. Entire Agreement

This Agreement contains the entire agreement of the parties and supercedes all prior agreements, understandings and arrangements with respect to the subject matter hereof.

11. Notices

Any notice under this Agreement shall be given in writing, addressed and delivered or mailed, postage prepaid, to the other party at its principal office.

Remainder of Page Intentionally Left Blank

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

FIFTH STREET FINANCE CORP.

By: ______________________________

Name: Leonard M. Tannenbaum
Title: Chief Executive Officer

FSC, INC.

By: ______________________________

Name: Bernard D. Berman
Title: President

Exhibit 31.1

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2011 of Fifth Street Finance Corp.;

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

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

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

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 4th day of May, 2011.

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

Exhibit 31.2

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2011 of Fifth Street Finance Corp.;

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

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

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

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 4th day of May, 2011.

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended **March 31, 2011** (the “Report”) of **Fifth Street Finance Corp.** (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, **Leonard M. Tannenbaum,** the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

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

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

/s/ Leonard M. Tannenbaum
Name: Leonard M. Tannenbaum
Date: May 4, 2011

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended **March 31, 2011** (the "Report") of **Fifth Street Finance Corp.** (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, **William H. Craig,** the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

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

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

/s/ William H. Craig
Name: William H. Craig
Date: May 4, 2011