
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

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

COMMISSION FILE NUMBER: 814-00757

FS Investment Corporation

(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

26-1630040
(I.R.S. Employer
Identification Number)

201 Rouse Boulevard
Philadelphia, Pennsylvania
(Address of principal executive offices)

19112
(Zip Code)

Registrant's telephone number, including area code: (215) 495-1150

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

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 shorter period that the registrant was required to submit and post such files). Yes No .

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

There were 243,488,590 shares of the registrant's common stock outstanding as of August 8, 2016.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

FS Investment Corporation
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Investments, at fair value		
Non-controlled/unaffiliated investments (amortized cost—\$3,845,357 and \$4,027,950, respectively)	\$ 3,669,909	\$ 3,820,283
Non-controlled/affiliated investments (amortized cost—\$125,334 and \$91,248, respectively)	174,729	132,357
Controlled/affiliated investments (amortized cost—\$86,909 and \$75,988, respectively)	89,990	76,731
Total investments, at fair value (amortized cost—\$4,057,600 and \$4,195,186, respectively)	3,934,628	4,029,371
Cash	43,197	80,807
Foreign currency, at fair value (cost—\$977 and \$1,175, respectively)	973	1,180
Receivable for investments sold and repaid	11,772	66
Interest receivable	48,945	34,600
Deferred financing costs	857	1,420
Prepaid expenses and other assets	820	729
Total assets	\$ 4,041,192	\$ 4,148,173
Liabilities		
Payable for investments purchased	\$ 1,303	\$ —
Credit facilities payable	57,854	34,625
Unsecured notes payable (net of deferred financing costs of \$1,318 and \$1,490, respectively)	989,642	988,274
Repurchase agreement payable ⁽¹⁾	650,000	800,000
Stockholder distributions payable	54,236	54,093
Management fees payable	17,574	18,415
Subordinated income incentive fees payable ⁽²⁾	14,210	13,374
Administrative services expense payable	898	946
Interest payable	19,837	22,061
Directors' fees payable	225	282
Other accrued expenses and liabilities	1,091	7,175
Total liabilities	1,806,870	1,939,245
Commitments and contingencies ⁽³⁾	—	—
Stockholders' equity		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value, 450,000,000 shares authorized, 243,488,590 and 242,847,016 shares issued and outstanding, respectively	243	243
Capital in excess of par value	2,270,010	2,264,345
Accumulated undistributed net realized gain/loss on investments and gain/loss on foreign currency ⁽⁴⁾	(66,997)	(45,748)
Accumulated undistributed (distributions in excess of) net investment income ⁽⁴⁾	146,393	147,946
Net unrealized appreciation (depreciation) on investments and unrealized gain/loss on foreign currency	(115,327)	(157,858)
Total stockholders' equity	2,234,322	2,208,928
Total liabilities and stockholders' equity	\$ 4,041,192	\$ 4,148,173
Net asset value per share of common stock at period end	\$ 9.18	\$ 9.10

(1) See Note 8 for a discussion of the Company's repurchase transaction.

(2) See Note 2 and Note 4 for a discussion of the methodology employed by the Company in calculating the subordinated income incentive fees.

(3) See Note 9 for a discussion of the Company's commitments and contingencies.

(4) See Note 5 for a discussion of the sources of distributions paid by the Company.

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Unaudited Consolidated Statements of Operations
(in thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Investment income				
From non-controlled/unaffiliated investments:				
Interest income	\$ 92,319	\$ 115,773	\$ 191,771	\$ 219,712
Fee income	15,335	25,721	16,977	30,417
Dividend income	—	5,519	—	5,519
From non-controlled/affiliated investments:				
Interest income	1,112	718	2,079	718
Fee income	633	—	633	—
Dividend income	—	—	224	—
From controlled/affiliated investments:				
Interest income	812	—	1,590	—
Total investment income	<u>110,211</u>	<u>147,731</u>	<u>213,274</u>	<u>256,366</u>
Operating expenses				
Management fees	17,574	19,103	35,386	38,141
Capital gains incentive fees ⁽¹⁾	—	(8,355)	—	(4,607)
Subordinated income incentive fees ⁽¹⁾	14,210	21,271	26,695	35,176
Administrative services expenses	900	882	2,096	1,873
Accounting and administrative fees	235	285	463	561
Interest expense	18,064	19,048	36,958	36,347
Directors' fees	274	229	503	456
Other general and administrative expenses	2,114	1,744	4,395	3,246
Total operating expenses	<u>53,371</u>	<u>54,207</u>	<u>106,496</u>	<u>111,193</u>
Net investment income	<u>56,840</u>	<u>93,524</u>	<u>106,778</u>	<u>145,173</u>
Realized and unrealized gain/loss				
Net realized gain (loss) on investments:				
Non-controlled/unaffiliated investments	(7,648)	(24,174)	(21,427)	(20,889)
Net realized gain (loss) on foreign currency	94	(1,007)	178	(897)
Net change in unrealized appreciation (depreciation) on investments:				
Non-controlled/unaffiliated investments	86,922	(24,301)	32,219	(13,712)
Non-controlled/affiliated investments	1,919	8,050	8,286	9,395
Controlled/affiliated investments	705	—	2,338	—
Net change in unrealized gain (loss) on foreign currency	1,325	(386)	(312)	3,062
Total net realized and unrealized gain (loss) on investments	<u>83,317</u>	<u>(41,818)</u>	<u>21,282</u>	<u>(23,041)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ 140,157</u>	<u>\$ 51,706</u>	<u>\$ 128,060</u>	<u>\$ 122,132</u>
Per share information—basic and diluted				
Net increase (decrease) in net assets resulting from operations				
(Earnings per Share)	<u>\$ 0.58</u>	<u>\$ 0.21</u>	<u>\$ 0.53</u>	<u>\$ 0.51</u>
Weighted average shares outstanding	<u>243,435,681</u>	<u>241,653,069</u>	<u>243,141,349</u>	<u>241,370,252</u>

(1) See Note 2 and Note 4 for a discussion of the methodology employed by the Company in calculating the capital gains incentive fees and subordinated income incentive fees.

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Unaudited Consolidated Statements of Changes in Net Assets
(in thousands)

	Six Months Ended June 30,	
	2016	2015
Operations		
Net investment income (loss)	\$ 106,778	\$ 145,173
Net realized gain (loss) on investments and foreign currency	(21,249)	(21,786)
Net change in unrealized appreciation (depreciation) on investments	42,843	(4,317)
Net change in unrealized gain (loss) on foreign currency	(312)	3,062
Net increase (decrease) in net assets resulting from operations	<u>128,060</u>	<u>122,132</u>
Stockholder distributions⁽¹⁾		
Distributions from net investment income	(108,331)	(107,545)
Distributions from net realized gain on investments	—	—
Net decrease in net assets resulting from stockholder distributions	<u>(108,331)</u>	<u>(107,545)</u>
Capital share transactions⁽²⁾		
Reinvestment of stockholder distributions	5,665	7,970
Net increase (decrease) in net assets resulting from capital share transactions	<u>5,665</u>	<u>7,970</u>
Total increase (decrease) in net assets	25,394	22,557
Net assets at beginning of period	2,208,928	2,366,986
Net assets at end of period	<u>\$2,234,322</u>	<u>\$ 2,389,543</u>
Accumulated undistributed (distributions in excess of) net investment income ⁽¹⁾	<u>\$ 146,393</u>	<u>\$ 106,286</u>

(1) See Note 5 for a discussion of the sources of distributions paid by the Company.

(2) See Note 3 for a discussion of the Company's capital share transactions.

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Unaudited Consolidated Statements of Cash Flows
(in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net increase (decrease) in net assets resulting from operations	\$ 128,060	\$ 122,132
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchases of investments	(445,419)	(800,306)
Paid-in-kind interest	(15,453)	(10,818)
Proceeds from sales and repayments of investments	582,167	984,564
Net realized (gain) loss on investments	21,427	20,889
Net change in unrealized (appreciation) depreciation on investments	(42,843)	4,317
Accretion of discount	(5,136)	(22,580)
Amortization of deferred financing costs and discount	1,931	1,804
Unrealized (gain)/loss on borrowings in foreign currency	2,004	(2,817)
(Increase) decrease in receivable for investments sold and repaid	(11,706)	1,067
(Increase) decrease in interest receivable	(14,345)	11,706
(Increase) decrease in prepaid expenses and other assets	(91)	(398)
Increase (decrease) in payable for investments purchased	1,303	(27,100)
Increase (decrease) in management fees payable	(841)	(479)
Increase (decrease) in accrued capital gains incentive fees	—	(4,607)
Increase (decrease) in subordinated income incentive fees payable	836	8,182
Increase (decrease) in administrative services expense payable	(48)	(645)
Increase (decrease) in interest payable	(2,224)	5,960
Increase (decrease) in directors' fees payable	(57)	(8)
Increase (decrease) in other accrued expenses and liabilities	(6,084)	(4,678)
Net cash provided by (used in) operating activities	<u>193,481</u>	<u>286,185</u>
Cash flows from financing activities		
Reinvestment of stockholder distributions	5,665	7,970
Stockholder distributions	(108,188)	(71,592)
Borrowings under credit facilities ⁽¹⁾	179,000	114,200
Borrowings under unsecured notes ⁽¹⁾	—	275,000
Repayments of credit facilities ⁽¹⁾	(157,775)	(267,586)
Repayments under repurchase agreement ⁽²⁾	(150,000)	(150,000)
Deferred financing costs paid	—	(4,105)
Net cash provided by (used in) financing activities	<u>(231,298)</u>	<u>(96,113)</u>
Total increase (decrease) in cash	(37,817)	190,072
Cash and foreign currency at beginning of period	81,987	96,844
Cash and foreign currency at end of period	<u>\$ 44,170</u>	<u>\$ 286,916</u>
Supplemental disclosure		
Local and excise taxes paid	<u>\$ 5,925</u>	<u>\$ 5,547</u>

(1) See Note 8 for a discussion of the Company's credit facilities and unsecured notes. During the six months ended June 30, 2016 and 2015, the Company paid \$23,489 and \$11,001, respectively, in interest expense on the credit facilities and unsecured notes.

(2) See Note 8 for a discussion of the Company's repurchase transaction. During the six months ended June 30, 2016 and 2015, the Company paid \$13,762 and \$17,582, respectively, in interest expense pursuant to the repurchase agreement.

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Unaudited Consolidated Schedule of Investments
As of June 30, 2016
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Senior Secured Loans—First Lien—93.5%								
5 Arch Income Fund 2, LLC	(g)(i)(n)	Diversified Financials	10.5%		11/18/21	\$ 8,590	\$ 8,642	\$ 8,590
5 Arch Income Fund 2, LLC	(g)(i)(n)(p)	Diversified Financials	10.5%		11/18/21	29,410	29,410	29,410
A.P. Plasman Inc.	(e)(f)(g)(i)	Capital Goods	L+850	1.0%	12/29/19	229,234	226,775	227,801
Aeneas Buyer Corp.	(g)	Health Care Equipment & Services	L+500	1.0%	12/18/21	497	497	496
Aeneas Buyer Corp.	(g)(p)	Health Care Equipment & Services	L+500	1.0%	12/18/21	500	500	499
Aeneas Buyer Corp.	(e)	Health Care Equipment & Services	L+813	1.0%	12/18/21	66,000	66,000	66,990
Aeneas Buyer Corp.	(g)(p)	Health Care Equipment & Services	L+750	1.0%	12/18/21	13,200	13,200	13,398
Allen Systems Group, Inc.	(e)(g)(r)	Software & Services	L+788, 1.2% PIK (1.2% Max PIK)	1.0%	4/30/20	53,152	52,782	54,215
Altus Power America, Inc.	(g)	Energy	L+750	1.5%	10/10/21	2,474	2,474	2,499
Altus Power America, Inc.	(g)(p)	Energy	L+750	1.5%	10/10/21	651	651	657
American Racing and Entertainment, LLC	(e)	Consumer Services	L+800	1.0%	7/1/18	4,825	4,825	4,855
AP Exhaust Acquisition, LLC	(f)(g)	Automobiles & Components	L+775	1.5%	1/16/21	15,811	15,811	13,933
Aspect Software, Inc.	(g)(p)	Software & Services	L+950	1.0%	5/25/18	656	656	661
Aspect Software, Inc.	(g)	Software & Services	L+950	1.0%	5/25/20	706	706	711
Atlas Aerospace LLC	(g)	Capital Goods	L+806	1.0%	5/8/19	20,000	20,000	20,100
Atlas Aerospace LLC	(g)(p)	Capital Goods	L+750	1.0%	5/8/19	7,619	7,619	7,657
BenefitMall Holdings, Inc.	(e)(g)	Commercial & Professional Services	L+725	1.0%	11/24/20	14,775	14,775	14,775
BenefitMall Holdings, Inc.	(g)(p)	Commercial & Professional Services	L+725	1.0%	11/24/20	5,455	5,455	5,455
Blue Coat Holdings, Inc.	(g)(p)	Technology Hardware & Equipment	L+350	1.0%	5/22/20	2,136	2,136	2,119
Blueprint Sub, Inc.	(g)	Software & Services	L+450	1.0%	5/7/21	702	702	702
Blueprint Sub, Inc.	(g)(p)	Software & Services	L+450	1.0%	5/7/21	702	702	702
Blueprint Sub, Inc.	(e)	Software & Services	L+750	1.0%	5/7/21	26,765	26,765	26,702
Blueprint Sub, Inc.	(g)(p)	Software & Services	L+750	1.0%	5/7/21	3,509	3,509	3,501
Cadence Aerospace Finance, Inc.	(g)	Capital Goods	L+525	1.3%	5/9/18	74	74	69
Caesars Entertainment Operating Co., Inc.	(e)(g)(i)(k)	Consumer Services	5.6%		3/1/17	12,621	12,375	11,915
Caesars Entertainment Operating Co., Inc.	(e)(i)(k)	Consumer Services	6.5%		3/1/17	2,363	2,329	2,245
Caesars Entertainment Operating Co., Inc.	(e)(f)(g)(i)(k)	Consumer Services	8.7%		3/1/17	84,594	84,386	78,096
Caesars Entertainment Resort Properties, LLC	(e)(g)	Consumer Services	L+600	1.0%	10/11/20	21,956	21,047	21,067
Corel Corp.	(g)(i)(p)	Software & Services	Prime+725		6/7/18	10,000	10,000	10,000
Corel Corp.	(e)(f)(g)(i)	Software & Services	L+825		6/7/19	103,630	103,630	104,925
Corner Investment PropCo, LLC	(e)(g)	Consumer Services	L+975	1.3%	11/2/19	42,303	42,426	41,457
Crestwood Holdings LLC	(g)	Energy	L+800	1.0%	6/19/19	5,065	5,052	4,483

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Unaudited Consolidated Schedule of Investments (continued)
As of June 30, 2016
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Eastman Kodak Co.	(g)	Consumer Durables & Apparel	L+625	1.0%	9/3/19	\$ 10,582	\$ 10,457	\$ 10,308
Greystone Equity Member Corp.	(g)(i)	Diversified Financials	L+1050		3/31/21	3,663	3,679	3,618
Greystone Equity Member Corp.	(g)(i)(p)	Diversified Financials	L+1100		3/31/21	50,337	50,337	50,332
H.M. Dunn Co., Inc.	(g)	Capital Goods	L+957	1.0%	3/26/21	1,000	1,000	1,000
H.M. Dunn Co., Inc.	(g)(p)	Capital Goods	L+725	1.0%	3/26/21	357	357	357
Harvey Industries, Inc.	(g)	Capital Goods	L+800	1.0%	10/1/21	32,667	32,667	33,402
Imagine Communications Corp.	(e)(f)(g)	Media	L+825	1.0%	4/29/20	92,677	92,677	90,592
Imagine Communications Corp.	(g)(p)	Media	L+825	1.0%	4/29/20	28,600	28,600	27,957
Industrial Group Intermediate Holdings, LLC	(g)	Materials	L+800	1.3%	5/31/20	20,799	20,799	21,006
Industry City TI Lessor, L.P.	(g)	Consumer Services	10.8%, 1.0% PIK (1.0% Max PIK)		6/30/26	33,445	33,445	34,114
JMC Acquisition Merger Corp.	(g)	Capital Goods	L+857	1.0%	11/6/21	5,679	5,679	5,623
Latham Pool Products, Inc.	(e)	Commercial & Professional Services	L+775	1.0%	6/29/21	70,000	70,000	70,000
Leading Edge Aviation Services, Inc.	(e)(f)(g)	Capital Goods	L+875	1.5%	6/30/19	31,119	30,938	30,807
LEAS Acquisition Co Ltd.	(g)(i)	Capital Goods	L+875	1.5%	6/30/19	€ 27,963	38,049	30,559
LEAS Acquisition Co Ltd.	(f)(i)	Capital Goods	L+875	1.5%	6/30/19	\$ 9,810	9,810	9,712
MB Precision Holdings LLC	(g)	Capital Goods	L+725	1.3%	1/23/20	12,788	12,788	11,493
Micronics, Inc.	(e)(g)	Capital Goods	L+800	1.3%	12/11/19	63,786	63,556	62,510
MMM Holdings, Inc.	(g)	Health Care Equipment & Services	L+825	1.5%	12/12/17	8,130	8,074	6,219
MSO of Puerto Rico, Inc.	(g)	Health Care Equipment & Services	L+825	1.5%	12/12/17	5,911	5,870	4,521
New Star Metals Inc.	(e)(g)	Capital Goods	L+800	1.3%	3/20/20	36,710	36,710	37,811
Nobel Learning Communities, Inc.	(g)	Consumer Services	L+450	1.0%	4/27/20	72	72	72
Nobel Learning Communities, Inc.	(g)(p)	Consumer Services	L+450	1.0%	4/27/20	68	68	68
Nobel Learning Communities, Inc.	(g)	Consumer Services	L+843	1.0%	4/27/21	1,056	1,056	1,072
Nova Wildcat Amerock, LLC	(g)	Consumer Durables & Apparel	L+865	1.3%	9/10/19	18,687	18,687	15,978
PHRC License, LLC	(f)(g)	Consumer Services	L+900	1.5%	8/14/20	44,312	44,312	43,868
Polymer Additives, Inc.	(g)	Materials	L+888	1.0%	12/20/21	10,511	10,511	10,564
Polymer Additives, Inc.	(g)	Materials	L+875	1.0%	12/20/21	€ 15,000	16,982	16,559
PSKW, LLC	(e)(f)(g)	Health Care Equipment & Services	L+841	1.0%	11/25/21	\$ 30,000	30,000	29,543
Roadrunner Intermediate Acquisition Co., LLC	(e)(f)(g)	Health Care Equipment & Services	L+800	1.0%	9/22/21	36,306	36,306	36,539
Rogue Wave Software, Inc.	(e)(f)(g)	Software & Services	L+803	1.0%	9/25/21	31,313	31,313	30,843
Safariland, LLC	(e)(g)	Capital Goods	L+800	1.3%	9/20/19	189,176	189,176	192,014
Sequential Brands Group, Inc.	(e)(g)(i)	Consumer Durables & Apparel	L+825		12/4/21	80,000	80,000	80,000
Shell Topco L.P.	(g)	Materials	L+750	1.5%	9/28/18	30,000	29,806	30,000

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Unaudited Consolidated Schedule of Investments (continued)
As of June 30, 2016
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Smile Brands Group Inc.	(g)	Health Care Equipment & Services	L+625, 1.5% PIK (1.5% Max PIK)	1.3%	8/16/19	\$ 20,128	\$ 19,868	\$ 17,628
Sorenson Communications, Inc.	(e)(g)	Telecommunication Services	L+575	2.3%	4/30/20	92,090	91,773	91,054
Sports Authority, Inc.	(g)(k)(q)	Retailing	L+600	1.5%	11/16/17	6,318	6,320	1,706
SunGard Availability Services Capital, Inc.	(g)	Software & Services	L+500	1.0%	3/29/19	4,382	4,173	3,938
Sunnova Asset Portfolio 5 Holdings, LLC	(g)	Energy	12.0% PIK (12.0% Max PIK)		11/14/21	4,683	4,606	4,730
Swiss Watch International, Inc.	(e)(g)	Consumer Durables & Apparel	L+825	1.3%	11/8/18	40,125	39,752	22,470
Transplace Texas, LP	(e)(f)	Transportation	L+746	1.0%	9/16/21	20,000	20,000	20,525
U.S. Xpress Enterprises, Inc.	(e)(f)	Transportation	L+950, 0.0% PIK (1.3% Max PIK)	1.5%	5/30/19	65,349	65,349	68,617
Vertellus Performance Chemicals LLC	(f)(g)	Materials	L+950	1.0%	1/30/20	38,000	38,000	35,828
VPG Group Holdings LLC	(e)(g)	Materials	L+900	1.0%	6/30/18	62,995	62,917	61,892
Warren Resources, Inc.	(f)(g)(q)	Energy	L+850	1.0%	5/22/20	3,372	3,372	2,344
Waste Pro USA, Inc.	(e)(g)	Commercial & Professional Services	L+750	1.0%	10/15/20	89,354	89,354	91,364
Waste Pro USA, Inc.	(g)(p)	Commercial & Professional Services	L+750	1.0%	10/15/20	5,667	5,667	5,794
Zeta Interactive Holdings Corp.	(e)(g)	Software & Services	L+750	1.0%	7/9/21	10,337	10,337	10,395
Zeta Interactive Holdings Corp.	(g)(p)	Software & Services	L+750	1.0%	7/9/21	2,234	2,234	2,247
Total Senior Secured Loans—First Lien						2,293,414	2,250,278	2,250,278
Unfunded Loan Commitments							(161,101)	(161,101)
Net Senior Secured Loans—First Lien							2,132,313	2,089,177
Senior Secured Loans—Second Lien—27.4%								
Alison US LLC	(g)(i)	Capital Goods	L+850	1.0%	8/29/22	4,444	4,295	3,931
Allen Systems Group, Inc.	(g)(r)	Software & Services	L+1100, 0.0% PIK (6.0% Max PIK)	1.0%	6/27/22	21,111	14,577	14,567
American Racing and Entertainment, LLC	(f)	Consumer Services	12.0%		7/1/18	5,800	5,705	5,829
AP Exhaust Acquisition, LLC	(f)	Automobiles & Components	12.0% PIK (12.0% Max PIK)		9/28/21	3,547	3,547	2,975
Arena Energy, LP	(g)	Energy	L+1100	1.0%	1/24/21	5,000	5,000	4,615
Ascent Resources—Utica, LLC	(e)(f)(g)	Energy	L+950, 2.0% PIK (2.0% Max PIK)	1.5%	9/30/18	184,950	184,328	180,326

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Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Brock Holdings III, Inc.	(g)	Energy	L+825	1.8%	3/16/18	\$ 6,923	\$ 6,884	\$ 6,092
Byrider Finance, LLC	(f)(g)	Automobiles & Components	L+1000, 0.5% PIK (0.5% Max PIK)	1.3%	8/22/20	10,021	10,021	9,921
Compuware Corp.	(g)	Software & Services	L+825	1.0%	12/15/22	6,550	5,937	5,442
DEI Sales, Inc.	(e)(f)	Consumer Durables & Apparel	L+900	1.5%	1/15/18	57,500	57,197	54,625
EagleView Technology Corp.	(g)	Software & Services	L+825	1.0%	7/14/23	11,538	11,384	11,019
Eastman Kodak Co.	(e)(f)	Consumer Durables & Apparel	L+950	1.3%	9/3/20	50,000	49,137	46,250
Gruden Acquisition, Inc.	(g)	Transportation	L+850	1.0%	8/18/23	15,000	14,326	11,300
JW Aluminum Co.	(e)(f)(g)(h)(s)	Materials	9.3% PIK (9.3% Max PIK)		11/17/20	35,359	35,340	35,359
National Surgical Hospitals, Inc.	(e)	Health Care Equipment & Services	L+900	1.0%	6/1/23	30,000	30,000	29,511
Nielsen & Bainbridge, LLC	(g)	Consumer Durables & Apparel	L+925	1.0%	8/15/21	16,675	16,465	16,175
Paw Luxco II Sarl	(f)(i)	Consumer Durables & Apparel	EURIBOR+950		1/29/19	€ 16,364	20,720	12,012
PSAV Acquisition Corp.	(e)(g)	Technology Hardware & Equipment	L+825	1.0%	1/24/22	\$ 80,000	79,067	80,000
Spencer Gifts LLC	(e)	Retailing	L+825	1.0%	6/29/22	30,000	29,873	24,750
Stadium Management Corp.	(e)	Consumer Services	L+825	1.0%	2/27/21	56,776	56,776	54,647
Stardust Finance Holdings, Inc.	(g)(i)	Materials	L+950	1.0%	3/13/23	2,500	2,475	2,425
Total Senior Secured Loans—Second Lien							643,054	611,771
Senior Secured Bonds—8.1%								
Advanced Lighting Technologies, Inc.	(f)(g)	Materials	10.5%		6/1/19	78,500	77,526	25,513
Caesars Entertainment Resort Properties, LLC	(e)(g)	Consumer Services	11.0%		10/1/21	24,248	24,009	23,884
FourPoint Energy, LLC	(e)(f)	Energy	9.0%		12/31/21	74,813	72,309	72,568
Global A&T Electronics Ltd.	(g)(i)	Semiconductors & Semiconductor Equipment	10.0%		2/1/19	7,000	6,945	4,953
JW Aluminum Co.	(g)(s)	Materials	8.0%		12/29/16	8,141	8,062	8,060
Lightstream Resources Ltd.	(f)(i)	Energy	9.9%		6/15/19	2,112	2,112	1,922
Logan's Roadhouse, Inc.	(f)(g)	Consumer Services	4.0%, 10.5% PIK (10.5% Max PIK)		10/15/17	59,249	48,677	17,283
SandRidge Energy, Inc.	(g)(k)(q)	Energy	8.8%		6/1/20	19,500	19,458	7,873
Sorenson Communications, Inc.	(f)	Telecommunication Services	9.0%, 0.0% PIK (9.0% Max PIK)		10/31/20	19,898	19,302	17,759
Total Senior Secured Bonds							278,400	179,815

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Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Subordinated Debt—18.7%								
Alta Mesa Holdings, LP	(g)	Energy	9.6%		10/15/18	\$ 11,165	\$ 11,111	\$ 9,420
Aspect Software, Inc.	(g)	Software & Services	3.0% PIK (3.0% Max PIK)		5/25/23	2,941	2,941	2,941
Aurora Diagnostics, LLC	(e)(f)	Health Care Equipment & Services	10.8%		1/15/18	14,935	14,950	12,844
Bellatrix Exploration Ltd.	(g)(i)	Energy	8.5%		5/15/20	5,000	4,919	3,319
Brooklyn Basketball Holdings, LLC	(f)(g)	Consumer Services	L+725		10/25/19	19,873	19,873	19,475
CEC Entertainment, Inc.	(f)	Consumer Services	8.0%		2/15/22	5,000	5,011	4,859
Ceridian HCM Holding, Inc.	(f)(g)	Commercial & Professional Services	11.0%		3/15/21	16,800	17,341	16,758
EV Energy Partners, L.P.	(f)	Energy	8.0%		4/15/19	265	241	160
Global Jet Capital Inc.	(g)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		1/30/25	679	679	674
Global Jet Capital Inc.	(g)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		4/30/25	4,312	4,312	4,285
Global Jet Capital Inc.	(g)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		9/3/25	891	891	886
Global Jet Capital Inc.	(g)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		9/29/25	839	839	834
Global Jet Capital Inc.	(f)(g)(i)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		12/4/25	61,925	61,925	61,538
Global Jet Capital Inc.	(f)(g)(i)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		12/9/25	10,128	10,128	10,064
Global Jet Capital Inc.	(f)(i)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		1/29/26	5,304	5,304	5,270
Global Jet Capital Inc.	(g)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		4/14/26	10,837	10,837	10,769
Imagine Communications Corp.	(g)	Media	12.5% PIK (12.5% Max PIK)		8/4/18	550	550	550
Jupiter Resources Inc.	(f)(g)(i)	Energy	8.5%		10/1/22	6,425	5,450	4,634
Mood Media Corp.	(f)(g)(i)	Media	9.3%		10/15/20	43,135	42,327	29,601
Navistar International Corp.	(f)(i)	Capital Goods	8.3%		11/1/21	4,695	4,582	3,329
NewStar Financial, Inc.	(g)(i)	Diversified Financials	8.3%, 0.0% PIK (8.8% Max PIK)		12/4/24	75,000	61,168	54,750
P.F. Chang's China Bistro, Inc.	(f)(g)	Consumer Services	10.3%		6/30/20	11,433	11,780	10,565

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Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
PriSo Acquisition Corp.	(g)	Capital Goods	9.0%		5/15/23	\$ 6,000	\$ 5,945	\$ 5,910
Sequel Industrial Products Holdings, LLC	(f)	Commercial & Professional Services	14.5%, 2.5% PIK (2.5% Max PIK)		9/30/19	7,044	6,990	7,150
Sorenson Communications, Inc.	(f)	Telecommunication Services	13.0%, 0.0% PIK (13.0% Max PIK)		10/31/21	15,122	14,252	14,177
SunGard Availability Services Capital, Inc.	(f)(g)	Software & Services	8.8%		4/1/22	10,750	8,216	5,899
ThermaSys Corp.	(e)(f)(g)	Capital Goods	9.0%, 1.8% PIK (5.0% Max PIK)		5/3/20	136,885	136,885	112,417
VPG Group Holdings LLC	(e)(g)	Materials	11.0%, 2.0% PIK (2.0% Max PIK)		6/30/18	5,301	5,301	5,109
Total Subordinated Debt							474,748	418,187
Collateralized Securities—3.9%								
ACASC 2013-2A Class Subord. B	(f)(g)(i)	Diversified Financials	6.3%		10/25/25	30,500	19,087	15,657
Dryden CDO 23A Class Subord.	(g)(i)	Diversified Financials	8.8%		7/17/23	10,000	3,628	3,432
JPMorgan Chase Bank, N.A. Credit-Linked Notes	(f)(i)	Diversified Financials	11.1%		12/20/21	16,740	16,619	16,238
NewStar Clarendon 2014-1A Class D	(g)(i)	Diversified Financials	L+435		1/25/27	1,560	1,473	1,389
NewStar Clarendon 2014-1A Class Subord. B	(g)(i)	Diversified Financials	15.5%		1/25/27	17,900	15,196	14,781
Rampart CLO 2007 1A Class Subord.	(g)(i)	Diversified Financials	13.6%		10/25/21	10,000	2,434	2,273
Stone Tower CLO VI Class Subord.	(f)(i)	Diversified Financials	16.1%		4/17/21	5,000	1,667	1,735
Wind River CLO Ltd. 2012 1A Class E	(g)(i)	Diversified Financials	L+525		1/15/24	5,000	4,537	4,544
Wind River CLO Ltd. 2012 1A Class Subord. B	(g)(i)	Diversified Financials	13.6%		1/15/24	42,504	28,067	27,697
Total Collateralized Securities							92,708	87,746

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Portfolio Company ^(a)	Footnotes	Industry	Number of Shares	Amortized Cost	Fair Value ^(d)
Equity/Other—24.5%^(j)					
5 Arches, LLC, Common Equity	(g)(i)(k)(m)	Diversified Financials	9,475	\$ 250	\$ 250
A.P. Plasman Inc., Warrants, 5/25/2026	(g)(i)(k)	Capital Goods	4,633	2,545	2,522
Allen Systems Group, Inc., Common Equity	(g)(k)(r)	Software & Services	1,689,767	36,422	84,911
Allen Systems Group, Inc., Warrants, 6/27/2022	(g)(k)(r)	Software & Services	229,541	6,542	6,542
Altus Power America Holdings, LLC, Preferred Equity	(g)	Energy	824,759	785	1,320
Altus Power America Management, LLC, Class B Units	(g)(k)(o)	Energy	83	—	—
Amaya Inc., Warrants, 5/15/2024	(g)(i)(k)	Consumer Services	2,000,000	16,832	18,160
AP Exhaust Holdings, LLC, Common Equity	(g)(k)(m)	Automobiles & Components	811	811	24
Aquilex Corp., Common Equity, Class A Shares	(g)(k)(m)	Commercial & Professional Services	15,128	1,087	3,675
Aquilex Corp., Common Equity, Class B Shares	(g)(k)(m)	Commercial & Professional Services	32,637	1,690	7,928
Ascent Resources Utica Holdings, LLC, Common Equity	(g)(k)(l)	Energy	96,800,082	29,100	24,200
Aspect Software, Inc., Common Equity	(g)(k)	Software & Services	311,927	15,409	16,361
Burleigh Point, Ltd., Warrants, 7/16/2020	(g)(i)(k)	Retailing	3,451,216	1,898	276
Eastman Kodak Co., Common Equity	(e)(g)(k)	Consumer Durables & Apparel	61,859	1,203	995
FourPoint Energy, LLC, Common Equity, Class C-II-A Units	(g)(k)(m)	Energy	21,000	21,000	8,348
FourPoint Energy, LLC, Common Equity, Class D Units	(g)(k)(m)	Energy	3,937	2,601	1,575
FourPoint Energy, LLC, Common Equity, Class E-II Units	(g)(k)(m)	Energy	87,400	21,850	33,431
FourPoint Energy, LLC, Common Equity, Class E-III Units	(g)(k)(m)	Energy	70,875	17,719	28,173
Fronton Investor Holdings, LLC, Class B Units	(g)(m)(r)	Consumer Services	14,943	15,011	14,494
Global Jet Capital Holdings, LP, Preferred Equity	(f)(g)(i)(k)	Commercial & Professional Services	37,425,082	37,425	37,425
Harvey Holdings, LLC, Common Equity	(g)(k)	Capital Goods	2,333,333	2,333	4,550
Imagine Communications Corp., Common Equity, Class A Units	(g)(k)	Media	33,034	3,783	1,695
Industrial Group Intermediate Holdings, LLC, Common Equity	(g)(k)(m)	Materials	441,238	441	728
JMC Acquisition Holdings, LLC, Common Equity	(g)(k)	Capital Goods	483	483	483
JW Aluminum Co., Common Equity	(e)(f)(g)(h)(k)(s)	Materials	972	—	1,581
JW Aluminum Co., Preferred Equity	(e)(f)(g)(h)(k)(s)	Materials	4,499	43,507	44,990
Leading Edge Aviation Services, Inc., Common Equity	(f)(k)	Capital Goods	4,401	464	8
Leading Edge Aviation Services, Inc., Preferred Equity	(f)(k)	Capital Goods	1,303	1,303	1,303
MB Precision Investment Holdings LLC, Class A-2 Units	(g)(k)(m)	Capital Goods	490,213	490	74
Micronics, Inc., Common Equity	(g)(k)	Capital Goods	53,073	553	478
Micronics, Inc., Preferred Equity	(g)(k)	Capital Goods	55	553	740
New Star Metals Inc., Common Equity	(g)(k)	Capital Goods	741,082	750	2,371

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Portfolio Company ^(a)	Footnotes	Industry	Number of Shares	Amortized Cost	Fair Value ^(d)
NewStar Financial, Inc., Warrants, 11/4/2024	(g)(i)(k)	Diversified Financials	3,000,000	\$ 15,058	\$ 6,780
Plains Offshore Operations Inc., Preferred Equity	(e)(f)	Energy	52,666	68,020	64,907
Plains Offshore Operations Inc., Warrants, 11/18/2019	(e)(f)(k)	Energy	1,067,481	1,722	9
PSAV Holdings LLC, Common Equity	(f)	Technology Hardware & Equipment	10,000	10,000	27,000
Safariland, LLC, Common Equity	(f)(k)	Capital Goods	25,000	2,500	11,023
Safariland, LLC, Preferred Equity	(f)	Capital Goods	2,042	24,593	25,339
Safariland, LLC, Warrants, 7/27/2018	(f)(k)	Capital Goods	2,263	246	998
Safariland, LLC, Warrants, 9/20/2019	(f)(k)	Capital Goods	2,273	227	1,002
Sequel Industrial Products Holdings, LLC, Common Equity	(f)(g)(k)	Commercial & Professional Services	33,306	3,400	8,616
Sequel Industrial Products Holdings, LLC, Preferred Equity	(f)(g)	Commercial & Professional Services	8,000	11,615	11,621
Sequel Industrial Products Holdings, LLC, Warrants, 9/28/2022	(g)(k)	Commercial & Professional Services	1,293	1	178
Sequel Industrial Products Holdings, LLC, Warrants, 5/10/2022	(f)(k)	Commercial & Professional Services	19,388	12	3,077
Sequential Brands Group, Inc., Common Equity	(g)(i)(k)	Consumer Durables & Apparel	206,664	2,790	1,649
Sorenson Communications, Inc., Common Equity	(f)(k)	Telecommunication Services	46,163	—	31,682
Sunnova Energy Corp., Common Equity	(g)(k)	Energy	192,389	722	1,216
Sunnova Energy Corp., Preferred Equity	(g)(k)	Energy	18,182	97	97
ThermaSys Corp., Common Equity	(f)(k)	Capital Goods	51,813	1	—
ThermaSys Corp., Preferred Equity	(f)(k)	Capital Goods	51,813	5,181	—
VPG Group Holdings LLC, Class A-2 Units	(f)(k)	Materials	3,637,500	3,638	1,273
Zeta Interactive Holdings Corp., Preferred Equity	(g)(k)	Software & Services	215,662	1,714	1,854
Total Equity/Other				<u>436,377</u>	<u>547,932</u>
TOTAL INVESTMENTS—176.1%				<u>\$4,057,600</u>	<u>3,934,628</u>
LIABILITIES IN EXCESS OF OTHER ASSETS—(76.1%)					<u>(1,700,306)</u>
NET ASSETS—100%					<u>\$ 2,234,322</u>

(a) Security may be an obligation of one or more entities affiliated with the named company.

(b) Certain variable rate securities in the Company's portfolio bear interest at a rate determined by a publicly disclosed base rate plus a basis point spread. As of June 30, 2016, the three-month London Interbank Offered Rate, or LIBOR, was 0.65%, the Euro Interbank Offered Rate, or EURIBOR, was (0.29)% and the U.S. Prime Lending Rate, or Prime, was 3.50%.

(c) Denominated in U.S. dollars unless otherwise noted.

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- (d) Fair value determined by the Company's board of directors (see Note 7).
- (e) Security or portion thereof held within Locust Street Funding LLC and is pledged as collateral supporting the amounts outstanding under the Class A Notes issued to Race Street Funding LLC pursuant to an indenture with Citibank, N.A., as trustee (see Note 8).
- (f) Security or portion thereof held within Race Street Funding LLC and is pledged as collateral supporting the amounts outstanding under the repurchase agreement with JPMorgan Chase Bank, N.A., London Branch (see Note 8).
- (g) Security or portion thereof is pledged as collateral supporting the amounts outstanding under the revolving credit facility with ING Capital LLC (see Note 8).
- (h) Position or portion thereof unsettled as of June 30, 2016.
- (i) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended. A business development company may not acquire any asset other than qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. As of June 30, 2016, 77.4% of the Company's total assets represented qualifying assets.
- (j) Listed investments may be treated as debt for GAAP or tax purposes.
- (k) Security is non-income producing.
- (l) Security held within IC American Energy Investments, Inc., a wholly-owned subsidiary of the Company.
- (m) Security held within FSIC Investments, Inc., a wholly-owned subsidiary of the Company.
- (n) Security held within IC Arches Investments, LLC, a wholly-owned subsidiary of the Company.
- (o) Security held within IC Altus Investments, LLC, a wholly-owned subsidiary of the Company.
- (p) Security is an unfunded commitment. The stated rate reflects the spread disclosed at the time of commitment and may not indicate the actual rate received upon funding.
- (q) Asset is on non-accrual status.
- (r) Under the Investment Company Act of 1940, as amended, the Company generally is deemed to be an "affiliated person" of a portfolio company if it owns 5% or more of the portfolio company's voting securities and generally is deemed to "control" a portfolio company if it owns more than 25% of the portfolio company's voting securities or it has the power to exercise control over the management or policies of such portfolio company. As of June 30, 2016, the Company held investments in portfolio companies of which it is deemed to be an "affiliated person" but is not deemed to "control". The following table presents certain information with respect to such portfolio companies for the six months ended June 30, 2016:

Portfolio Company	Purchases	Sales and Repayments	Interest Income	Fee Income	Dividend Income	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Senior Secured Loans—First Lien							
Allen Systems Group, Inc.	\$ 14,563	—	\$ 2,043	—	—	—	\$ 1,053
Senior Secured Loans—Second Lien							
Allen Systems Group, Inc.	\$ 14,569	—	\$ 36	\$ 633	—	—	\$ (10)
Equity/Other							
Allen Systems Group, Inc., Common Equity	—	—	—	—	—	—	\$ 7,013
Allen Systems Group, Inc., Warrants, 6/27/2022	\$ 6,542	—	—	—	—	—	—
Fronton Investor Holdings, LLC, Class B Units	—	\$ (1,874)	—	—	\$ 224	—	\$ 230

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(s) Under the Investment Company Act of 1940, as amended, the Company generally is deemed to “control” a portfolio company if it owns more than 25% of the portfolio company’s voting securities or it has the power to exercise control over the management or policies of such portfolio company. As of June 30, 2016, the Company held investments in one portfolio company of which it is deemed to be an “affiliated person” of and deemed to “control”. The following table presents certain information with respect to such portfolio company for the six months ended June 30, 2016:

<u>Portfolio Company</u>	<u>Purchases</u>	<u>Sales and Repayments</u>	<u>Interest Income</u>	<u>Fee Income</u>	<u>Dividend Income</u>	<u>Net Realized Gain (Loss)</u>	<u>Net Change in Unrealized Appreciation (Depreciation)</u>
Senior Secured Loans—Second Lien							
JW Aluminum Co.	\$ 897	—	\$ 1,581	—	—	—	\$ 19
Senior Secured Bonds							
JW Aluminum Co.	\$ 8,060	—	\$ 9	—	—	—	\$ (2)
Equity/Other							
JW Aluminum Co., Common Equity	—	—	—	—	—	—	\$ 1,581
JW Aluminum Co., Preferred Equity	\$ 406	—	—	—	—	—	\$ 740

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Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Senior Secured Loans—First Lien—98.4%								
5 Arch Income Fund 2, LLC	(g)(h)(m)	Diversified Financials	10.5%		11/18/21	\$ 2,384	\$ 2,437	\$ 2,384
5 Arch Income Fund 2, LLC	(g)(h)(m)(n)	Diversified Financials	10.5%		11/18/21	35,616	35,616	35,616
A.P. Plasman Inc.	(e)(f)(g)(h)	Capital Goods	L+775	1.0%	12/29/19	170,437	170,437	171,716
Aeneas Buyer Corp.	(g)	Health Care Equipment & Services	L+500	1.0%	12/18/21	500	500	500
Aeneas Buyer Corp.	(g)(n)	Health Care Equipment & Services	L+500	1.0%	12/18/21	500	500	500
Aeneas Buyer Corp.	(e)	Health Care Equipment & Services	L+813	1.0%	12/18/21	66,000	66,000	66,000
Aeneas Buyer Corp.	(g)(n)	Health Care Equipment & Services	L+750	1.0%	12/18/21	13,200	13,200	13,200
Allen Systems Group, Inc.	(e)(g)(q)	Software & Services	L+789, 1.2% PIK (1.2% Max PIK)	1.0%	4/30/20	37,941	37,941	38,321
Altus Power America, Inc.	(g)	Energy	L+750	1.5%	10/10/21	1,724	1,724	1,707
Altus Power America, Inc.	(g)(n)	Energy	L+750	1.5%	10/10/21	1,401	1,401	1,387
American Racing and Entertainment, LLC	(e)	Consumer Services	L+800	1.0%	7/1/18	5,450	5,450	5,491
AP Exhaust Acquisition, LLC	(f)(g)	Automobiles & Components	L+775	1.5%	1/16/21	15,811	15,811	14,842
Aspect Software, Inc.	(g)	Software & Services	L+550, 0.3% PIK (0.3% Max PIK)	1.8%	5/7/16	1,158	1,153	1,072
Atlas Aerospace LLC	(g)	Capital Goods	L+807	1.0%	5/8/19	20,000	20,000	19,900
Atlas Aerospace LLC	(g)(n)	Capital Goods	L+750	1.0%	5/8/19	7,619	7,619	7,581
BenefitMall Holdings, Inc.	(g)	Commercial & Professional Services	L+725	1.0%	11/24/20	14,850	14,850	14,702
BenefitMall Holdings, Inc.	(g)(n)	Commercial & Professional Services	L+725	1.0%	11/24/20	5,455	5,455	5,400
Blue Coat Holdings, Inc.	(g)(n)	Technology Hardware & Equipment	L+350	1.0%	5/22/20	2,136	2,136	2,004
Blueprint Sub, Inc.	(e)	Software & Services	L+750	1.0%	5/7/21	26,891	26,891	26,805
Blueprint Sub, Inc.	(g)(n)	Software & Services	L+750	1.0%	5/7/21	3,509	3,509	3,498
Blueprint Sub, Inc.	(g)	Software & Services	L+450	1.0%	5/7/21	702	702	702
Blueprint Sub, Inc.	(g)(n)	Software & Services	L+450	1.0%	5/7/21	702	702	702
Cadence Aerospace Finance, Inc.	(g)	Capital Goods	L+525	1.3%	5/9/18	74	74	73
Caesars Entertainment Operating Co., Inc.	(e)(g)(h)(j)	Consumer Services	5.2%		3/1/17	12,621	12,218	10,811
Caesars Entertainment Operating Co., Inc.	(e)(h)(j)	Consumer Services	6.0%		3/1/17	2,363	2,308	2,030
Caesars Entertainment Operating Co., Inc.	(e)(f)(g)(h)(j)	Consumer Services	8.1%		3/1/17	84,594	84,262	66,163
Caesars Entertainment Resort Properties, LLC	(e)(g)	Consumer Services	L+600	1.0%	10/11/20	22,069	21,072	20,152
Corel Corp.	(e)(f)(g)(h)	Software & Services	L+825		6/7/19	134,662	134,662	135,840
Corel Corp.	(g)(h)(n)	Software & Services	Prime+725		6/7/18	10,000	10,000	10,000
Corner Investment PropCo, LLC	(e)(g)	Consumer Services	L+975	1.3%	11/2/19	42,336	42,480	41,435
CoSentry.Net, LLC	(e)(g)	Software & Services	L+800	1.3%	12/31/19	62,331	62,331	63,578

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Crestwood Holdings LLC	(g)	Energy	L+600	1.0%	6/19/19	\$ 5,166	\$ 5,150	\$ 3,349
Eastman Kodak Co.	(g)	Consumer Durables & Apparel	L+625	1.0%	9/3/19	10,636	10,494	9,218
Flanders Corp.	(e)(g)	Capital Goods	L+950	1.5%	5/14/18	33,993	33,574	34,672
Fronton Holdings, LLC	(e)	Consumer Services	15.0%		4/30/19	3,736	3,708	3,736
Greystone Bridge Manager LLC	(g)(h)	Diversified Financials	L+1050		5/1/20	3,367	3,384	3,300
Greystone Bridge Manager LLC	(g)(h)(n)	Diversified Financials	L+1050		5/1/20	403	403	395
H.M. Dunn Co., Inc.	(g)	Capital Goods	L+809	1.0%	3/26/21	1,000	1,000	990
H.M. Dunn Co., Inc.	(g)(n)	Capital Goods	L+725	1.0%	3/26/21	357	357	354
Harvey Industries, Inc.	(g)	Capital Goods	L+800	1.0%	10/1/21	32,667	32,667	32,667
Imagine Communications Corp.	(e)(f)(g)	Media	L+825	1.0%	4/29/20	101,367	101,367	97,566
Imagine Communications Corp.	(g)(n)	Media	L+825	1.0%	4/29/20	30,000	30,000	28,875
Industrial Group Intermediate Holdings, LLC	(g)	Materials	L+800	1.3%	5/31/20	13,954	13,954	13,814
Industry City TI Lessor, L.P.	(g)	Consumer Services	10.3%, 0.0% PIK (5.3% Max PIK)		6/30/26	25,377	25,377	26,519
JMC Acquisition Merger Corp.	(g)	Capital Goods	L+858	1.0%	11/6/21	5,000	5,000	5,000
JMC Acquisition Merger Corp.	(g)(n)	Capital Goods	L+750	1.0%	11/6/21	906	906	906
Latham Pool Products, Inc.	(e)	Commercial & Professional Services	L+775	1.0%	6/29/21	70,000	70,000	68,600
Leading Edge Aviation Services, Inc.	(e)(f)(g)	Capital Goods	L+875	1.5%	6/30/19	31,983	31,757	31,183
LEAS Acquisition Co Ltd.	(g)(h)	Capital Goods	L+875	1.5%	6/30/19	€ 28,738	39,110	30,424
LEAS Acquisition Co Ltd.	(f)(h)	Capital Goods	L+875	1.5%	6/30/19	\$ 10,083	10,083	9,830
MB Precision Holdings LLC	(g)	Capital Goods	L+725	1.3%	1/23/20	12,855	12,855	12,726
Micronics, Inc.	(e)(g)	Capital Goods	L+800	1.3%	12/11/19	64,110	63,843	63,148
MMM Holdings, Inc.	(g)	Health Care Equipment & Services	L+825	1.5%	12/12/17	8,414	8,338	3,954
MSO of Puerto Rico, Inc.	(g)	Health Care Equipment & Services	L+825	1.5%	12/12/17	6,117	6,061	2,874
New Star Metals Inc.	(e)(g)	Capital Goods	L+800	1.3%	3/20/20	40,250	40,250	40,250
Nobel Learning Communities, Inc.	(g)	Consumer Services	L+845	1.0%	4/27/21	1,056	1,056	1,052
Nobel Learning Communities, Inc.	(g)	Consumer Services	L+450	1.0%	4/27/20	45	45	45
Nobel Learning Communities, Inc.	(g)(n)	Consumer Services	L+450	1.0%	4/27/20	94	94	94
Nova Wildcat Amerock, LLC	(g)	Consumer Durables & Apparel	L+330, 5.4% PIK (5.4% Max PIK)	1.3%	9/10/19	18,817	18,817	16,276
PHRC License, LLC	(f)(g)	Consumer Services	L+900	1.5%	8/14/20	44,569	44,569	44,123
Pittsburgh Glass Works, LLC	(e)	Automobiles & Components	L+916	1.0%	11/25/21	67,944	67,944	67,944
Polymer Additives, Inc.	(g)	Materials	L+838	1.0%	12/20/21	10,511	10,511	10,722
PSKW, LLC	(e)(f)(g)	Health Care Equipment & Services	L+842	1.0%	11/25/21	30,000	30,000	30,020
Reddy Ice Corp.	(g)	Food, Beverage & Tobacco	L+550	1.3%	5/1/19	321	319	264

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Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Roadrunner Intermediate Acquisition Co., LLC	(e)(f)(g)	Health Care Equipment & Services	L+800	1.0%	9/22/21	\$ 36,769	\$ 36,769	\$ 36,655
Rogue Wave Software, Inc.	(e)(f)(g)	Software & Services	L+804	1.0%	9/25/21	31,313	31,313	30,921
Safariland, LLC	(e)(g)	Capital Goods	L+800	1.3%	9/20/19	193,376	193,376	196,277
Sequential Brands Group, Inc.	(e)(g)(h)	Consumer Durables & Apparel	L+825		12/4/21	80,000	80,000	79,200
Shell Topco L.P.	(g)	Materials	L+750	1.5%	9/28/18	30,000	29,768	30,075
Smile Brands Group Inc.	(g)	Health Care Equipment & Services	L+650, 1.3% PIK (1.5% Max PIK)	1.3%	8/16/19	20,063	19,768	14,571
Sorenson Communications, Inc.	(e)(g)	Telecommunication Services	L+575	2.3%	4/30/20	92,560	92,208	92,792
Sports Authority, Inc.	(g)	Retailing	L+600	1.5%	11/16/17	6,318	6,321	2,069
Stallion Oilfield Holdings, Inc.	(g)	Energy	L+675	1.3%	6/19/18	4,760	4,735	2,580
SunGard Availability Services Capital, Inc.	(g)	Software & Services	L+500	1.0%	3/29/19	4,424	4,177	3,860
Sunnova Asset Portfolio 5 Holdings, LLC	(g)	Energy	12.0% (12.0% Max PIK)		11/14/21	7,217	7,080	7,055
Sunnova Asset Portfolio 5 Holdings, LLC	(g)(n)	Energy	12.0% (12.0% Max PIK)		11/14/21	207	207	202
Swiss Watch International, Inc.	(e)(g)	Consumer Durables & Apparel	L+725	1.3%	11/8/18	41,000	40,552	25,420
Transplace Texas, LP	(e)(f)	Transportation	L+747	1.0%	9/16/21	20,000	20,000	19,825
U.S. Xpress Enterprises, Inc.	(e)(f)	Transportation	L+1000, 0.0% PIK (1.5% Max PIK)	1.5%	5/30/19	66,546	66,546	66,546
Vertellus Performance Chemicals LLC	(f)(g)	Materials	L+950	1.0%	1/30/20	38,000	38,000	35,940
VPG Group Holdings LLC	(e)(g)	Materials	L+900	1.0%	6/30/18	63,695	63,541	62,421
Warren Resources, Inc.	(f)(g)	Energy	L+850	1.0%	5/22/20	3,372	3,372	2,748
Waste Pro USA, Inc.	(e)(f)(g)	Commercial & Professional Services	L+750	1.0%	10/15/20	86,020	86,020	87,310
Waste Pro USA, Inc.	(g)(n)	Commercial & Professional Services	L+750	1.0%	10/15/20	9,444	9,444	9,586
Zeta Interactive Holdings Corp.	(e)(g)	Software & Services	L+750	1.0%	7/9/21	10,337	10,337	10,325
Zeta Interactive Holdings Corp.	(g)(n)	Software & Services	L+750	1.0%	7/9/21	2,234	2,234	2,232
Total Senior Secured Loans—First Lien							<u>2,372,202</u>	<u>2,297,612</u>
Unfunded Loan Commitments							<u>(123,783)</u>	<u>(123,783)</u>
Net Senior Secured Loans—First Lien							<u>2,248,419</u>	<u>2,173,829</u>
Senior Secured Loans—Second Lien—28.3%								
AdvancePierre Foods, Inc.	(e)(g)	Food, Beverage & Tobacco	L+825	1.3%	10/10/17	10,556	10,491	10,384
Alison US LLC	(g)(h)	Capital Goods	L+850	1.0%	8/29/22	4,444	4,286	3,611
American Racing and Entertainment, LLC	(f)	Consumer Services	12.0%		7/1/18	5,800	5,688	5,836

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Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
AP Exhaust Acquisition, LLC	(f)	Automobiles & Components	12.0%, 0.0% PIK (12.0% Max PIK)		9/28/21	\$ 3,243	\$ 3,243	\$ 2,959
Arena Energy, LP	(g)	Energy	L+1000	1.0%	1/24/21	5,000	5,000	4,604
Ascent Resources—Utica, LLC	(e)(f)(g)	Energy	L+950, 2.0% PIK (2.0% Max PIK)	1.5%	9/30/18	183,088	182,329	163,864
Brock Holdings III, Inc.	(g)	Energy	L+825	1.8%	3/16/18	6,923	6,874	5,331
Byrider Finance, LLC	(f)(g)	Automobiles & Components	L+1000	1.3%	8/22/20	10,000	10,000	9,800
Compuware Corp.	(g)	Software & Services	L+825	1.0%	12/15/22	6,550	5,893	5,928
DEI Sales, Inc.	(e)(f)	Consumer Durables & Apparel	L+900	1.5%	1/15/18	57,500	57,121	55,344
EagleView Technology Corp.	(g)	Software & Services	L+825	1.0%	7/14/23	11,538	11,373	11,063
Eastman Kodak Co.	(e)(f)	Consumer Durables & Apparel	L+950	1.3%	9/3/20	50,000	49,060	43,250
Gruden Acquisition, Inc.	(g)	Transportation	L+850	1.0%	8/18/23	15,000	14,281	14,288
JW Aluminum Co.	(e)(f)(g)(r)	Materials	L+850	0.8%	11/17/20	32,887	32,887	32,887
National Surgical Hospitals, Inc.	(e)	Health Care Equipment & Services	L+900	1.0%	6/1/23	30,000	30,000	29,092
Nielsen & Bainbridge, LLC	(g)	Consumer Durables & Apparel	L+925	1.0%	8/15/21	16,675	16,450	16,425
Paw Luxco II Sarl	(f)(h)	Consumer Durables & Apparel	EURIBOR+950		1/29/19	€ 16,364	20,535	12,460
PSAV Acquisition Corp.	(e)(g)	Technology Hardware & Equipment	L+825	1.0%	1/24/22	\$ 80,000	79,008	79,600
Spencer Gifts LLC	(e)(g)	Retailing	L+825	1.0%	6/29/22	60,000	59,723	60,300
Stadium Management Corp.	(e)	Consumer Services	L+825	1.0%	2/27/21	57,500	57,500	57,788
Total Senior Secured Loans—Second Lien							661,742	624,814
Senior Secured Bonds—10.9%								
Advanced Lighting Technologies, Inc.	(f)(g)	Materials	10.5%		6/1/19	78,500	77,390	38,661
Aspect Software, Inc.	(f)(g)	Software & Services	10.6%		5/15/17	8,500	8,424	6,981
Avaya Inc.	(e)(f)(g)	Technology Hardware & Equipment	10.5%		3/1/21	48,800	44,622	16,714
Caesars Entertainment Resort Properties, LLC	(e)(g)	Consumer Services	11.0%		10/1/21	29,248	28,993	26,469
FourPoint Energy, LLC	(e)(f)	Energy	8.0%		12/31/20	92,531	89,745	71,943
FourPoint Energy, LLC	(f)(n)	Energy	8.0%		12/31/20	5,906	5,877	4,592
Global A&T Electronics Ltd.	(g)(h)	Semiconductors & Semiconductor Equipment	10.0%		2/1/19	7,000	6,936	5,530
Lightstream Resources Ltd.	(f)(h)	Energy	9.9%		6/15/19	2,112	2,112	1,764
Logan's Roadhouse, Inc.	(f)(g)	Consumer Services	4.0%, 10.5% PIK (10.5% Max PIK)		10/15/17	59,249	47,267	49,432
SandRidge Energy, Inc.	(g)	Energy	8.8%		6/1/20	19,500	19,457	5,953

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Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Sorenson Communications, Inc.	(f)	Telecommunication Services	9.0%, 0.0% PIK (9.0% Max PIK)		10/31/20	\$ 19,898	\$ 19,250	\$ 18,592
Total Senior Secured Bonds							350,073	246,631
Unfunded Bond Commitments							(5,877)	(5,877)
Net Senior Secured Bonds							344,196	240,754
Subordinated Debt—19.8%								
Alta Mesa Holdings, LP	(g)	Energy	9.6%		10/15/18	11,165	11,102	3,922
Aurora Diagnostics, LLC	(e)(f)	Health Care Equipment & Services	10.8%		1/15/18	18,065	18,089	11,754
Bellatrix Exploration Ltd.	(g)(h)	Energy	8.5%		5/15/20	5,000	4,911	3,369
Brooklyn Basketball Holdings, LLC	(f)(g)	Consumer Services	L+725		10/25/19	19,873	19,873	19,773
CEC Entertainment, Inc.	(f)	Consumer Services	8.0%		2/15/22	5,000	5,012	4,756
Ceridian HCM Holding Inc.	(f)(g)	Commercial & Professional Services	11.0%		3/15/21	10,800	11,354	8,532
EV Energy Partners, L.P.	(f)	Energy	8.0%		4/15/19	265	237	132
Flanders Corp.	(e)(f)	Capital Goods	13.8% PIK (13.8% Max PIK)		5/14/18	25,666	25,569	26,693
Flanders Corp.	(f)(g)	Capital Goods	17.5% PIK (17.5% Max PIK)		5/14/18	25,754	24,651	27,750
Global Jet Capital Inc.	(g)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		1/30/25	635	635	635
Global Jet Capital Inc.	(g)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		4/30/25	4,030	4,030	4,030
Global Jet Capital Inc.	(g)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		9/3/25	828	828	828
Global Jet Capital Inc.	(g)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		9/29/25	779	779	779
Global Jet Capital Inc.	(f)(g)(h)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		12/4/25	57,459	57,459	57,459
Global Jet Capital Inc.	(f)(g)(h)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		12/9/25	9,397	9,397	9,397
Imagine Communications Corp.	(g)	Media	12.5% PIK (12.5% Max PIK)		8/4/18	517	517	517
Jupiter Resources Inc.	(f)(g)(h)	Energy	8.5%		10/1/22	6,425	5,399	2,578
Mood Media Corp.	(f)(g)(h)	Media	9.3%		10/15/20	43,135	42,256	27,660

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Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Navistar International Corp.	(f)(h)	Capital Goods	8.3%		11/1/21	\$ 8,345	\$ 8,163	\$ 5,646
NewStar Financial, Inc.	(g)(h)	Diversified Financials	8.3%, 0.0% PIK (8.8% Max PIK)		12/4/24	68,750	54,501	50,188
P.F. Chang's China Bistro, Inc.	(f)(g)	Consumer Services	10.3%		6/30/20	11,433	11,815	9,525
PriSo Acquisition Corp.	(g)	Capital Goods	9.0%		5/15/23	6,000	5,943	5,760
Sequel Industrial Products Holdings, LLC	(f)	Commercial & Professional Services	14.5%, 0.0% PIK (2.5% Max PIK)		9/30/19	7,000	6,934	7,140
Sorenson Communications, Inc.	(f)	Telecommunication Services	13.0%, 0.0% PIK (13.0% Max PIK)		10/31/21	15,122	14,200	15,732
SunGard Availability Services Capital, Inc.	(f)(g)	Software & Services	8.8%		4/1/22	10,750	8,081	6,544
ThermaSys Corp.	(e)(f)	Capital Goods	9.0%, 1.8% PIK (5.0% Max PIK)		5/3/20	135,676	135,676	122,278
VPG Group Holdings LLC	(e)	Materials	11.0%, 2.0% PIK (2.0% Max PIK)		6/30/18	5,247	5,247	5,037
Total Subordinated Debt							492,658	438,414
Collateralized Securities—3.9%								
ACASC 2013-2A Class Subord. B	(f)(g)(h)	Diversified Financials	7.2%		10/25/25	30,500	21,267	16,659
Dryden CDO 23A Class Subord.	(g)(h)	Diversified Financials	9.8%		7/17/23	10,000	4,507	3,455
JPMorgan Chase Bank, N.A. Credit-Linked Notes	(f)(h)	Diversified Financials	14.2%		12/20/21	16,740	16,724	15,987
NewStar Clarendon 2014-1A Class D	(g)(h)	Diversified Financials	L+435		1/25/27	1,560	1,461	1,420
NewStar Clarendon 2014-1A Class Subord. B	(g)(h)	Diversified Financials	13.6%		1/25/27	17,900	16,150	14,955
Rampart CLO 2007 1A Class Subord.	(g)(h)	Diversified Financials	14.4%		10/25/21	10,000	2,576	3,034
Stone Tower CLO VI Class Subord.	(f)(h)	Diversified Financials	18.3%		4/17/21	5,000	1,823	2,141
Wind River CLO Ltd. 2012 1A Class Subord. B	(g)(h)	Diversified Financials	12.4%		1/15/24	42,504	30,186	27,356
Total Collateralized Securities							94,694	85,007

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Equity/Other—21.1%⁽ⁱ⁾					
5 Arches, LLC, Common Equity	(g)(h)(j)(l)	Diversified Financials	9,475	\$ 250	\$ 250
Allen Systems Group, Inc., Common Equity	(g)(j)(q)	Software & Services	1,689,767	36,422	77,898
Altus Power America Holdings, LLC, Preferred Equity	(g)	Energy	574,758	575	1,063
Altus Power America Management, LLC, Class B Units	(g)(j)	Energy	83	—	—
Amaya Inc., Warrants, 5/15/2024	(g)(h)(f)	Consumer Services	2,000,000	16,832	15,260
AP Exhaust Holdings, LLC, Common Equity	(g)(j)(l)	Automobiles & Components	811	811	405
Aquilex Corp., Common Equity, Class A Shares	(e)	Commercial & Professional Services	15,128	1,087	4,496
Aquilex Corp., Common Equity, Class B Shares	(e)(f)	Commercial & Professional Services	32,637	1,690	9,700
Ascent Resources Utica Holdings, LLC, Common Equity	(g)(j)(k)	Energy	10,192,939	9,700	2,039
Burleigh Point, Ltd., Warrants, 7/16/2020	(g)(h)(f)	Retailing	3,451,216	1,898	2,278
CoSentry.Net, LLC, Preferred Equity	(f)(j)	Software & Services	2,632	2,500	4,385
Eastman Kodak Co., Common Equity	(e)(g)(j)	Consumer Durables & Apparel	61,859	1,203	784
Flanders Corp., Common Equity	(f)(j)	Capital Goods	6,829,973	7,183	18,441
FourPoint Energy, LLC, Common Equity, Class C Units	(g)(j)(l)	Energy	21,000	21,000	14,700
FourPoint Energy, LLC, Common Equity, Class D Units	(g)(j)(l)	Energy	3,937	2,601	2,776
Fronton Investor Holdings, LLC, Class B Units	(g)(l)(q)	Consumer Services	14,943	16,885	16,138
Global Jet Capital Holdings, LP, Preferred Equity	(f)(g)(h)(j)	Commercial & Professional Services	30,791,193	30,791	30,791
Harvey Holdings, LLC, Common Equity	(g)(j)	Capital Goods	2,333,333	2,333	2,217
Imagine Communications Corp., Common Equity, Class A Units	(g)(j)	Media	33,034	3,783	2,124
Industrial Group Intermediate Holdings, LLC, Common Equity	(g)(j)(l)	Materials	347,107	347	573
JMC Acquisition Holdings, LLC, Common Equity	(g)(j)	Capital Goods	483	483	483
JW Aluminum Co., Common Equity	(e)(f)(g)(j)(r)	Materials	949	—	—
JW Aluminum Co., Preferred Equity	(e)(f)(g)(j)(r)	Materials	4,395	43,101	43,844
Leading Edge Aviation Services, Inc., Common Equity	(f)(j)	Capital Goods	4,401	464	—
Leading Edge Aviation Services, Inc., Preferred Equity	(f)(j)	Capital Goods	1,303	1,303	1,263
MB Precision Investment Holdings LLC, Class A-2 Units	(g)(j)(l)	Capital Goods	490,213	490	466
Micronics, Inc., Common Equity	(g)(j)	Capital Goods	53,073	553	536
Micronics, Inc., Preferred Equity	(g)(j)	Capital Goods	55	553	706
New Star Metals Inc., Common Equity	(g)(j)	Capital Goods	741,082	750	667
NewStar Financial, Inc., Warrants, 11/4/2024	(g)(h)(j)(o)	Diversified Financials	3,000,000	15,058	14,760
Plains Offshore Operations Inc., Preferred Equity	(e)(f)	Energy	52,666	65,802	64,672
Plains Offshore Operations Inc., Warrants, 11/18/2019	(e)(f)(j)	Energy	1,067,481	1,722	—
PSAV Holdings LLC, Common Equity	(f)	Technology Hardware & Equipment	10,000	10,000	31,500

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Consolidated Schedule of Investments (continued)
As of December 31, 2015
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Portfolio Company ^(a)	Footnotes	Industry	Number of Shares	Amortized Cost	Fair Value ^(d)
Safariland, LLC, Common Equity	(f)(j)	Capital Goods	25,000	\$ 2,500	\$ 13,088
Safariland, LLC, Preferred Equity	(f)	Capital Goods	2,042	23,794	24,582
Safariland, LLC, Warrants, 7/27/2018	(f)(j)	Capital Goods	2,263	246	1,185
Safariland, LLC, Warrants, 9/20/2019	(f)(j)	Capital Goods	2,273	227	1,190
Sequel Industrial Products Holdings, LLC, Common Equity	(f)(g)(j)	Commercial & Professional Services	33,306	3,400	8,593
Sequel Industrial Products Holdings, LLC, Preferred Equity	(f)(g)	Commercial & Professional Services	8,000	11,081	11,088
Sequel Industrial Products Holdings, LLC, Warrants, 9/28/2022	(g)(j)	Commercial & Professional Services	1,293	1	177
Sequel Industrial Products Holdings, LLC, Warrants, 5/10/2022	(f)(j)	Commercial & Professional Services	19,388	12	3,063
Sequential Brands Group, Inc., Common Equity	(g)(h)(j)	Consumer Durables & Apparel	206,664	2,790	1,412
Sorenson Communications, Inc., Common Equity	(f)(j)	Telecommunication Services	46,163	—	33,090
Sunnova Holdings, LLC, Common Equity	(g)(j)	Energy	31,018	722	853
ThermaSys Corp., Common Equity	(f)(j)	Capital Goods	51,813	1	—
ThermaSys Corp., Preferred Equity	(f)(j)	Capital Goods	51,813	5,181	1,010
VPG Group Holdings LLC, Class A-2 Units	(f)(j)	Materials	3,637,500	3,638	1,455
Zeta Interactive Holdings Corp., Preferred Equity	(g)(j)	Software & Services	215,662	1,714	1,782
Total Equity/Other				353,477	467,783
Unfunded Contingent Warrant Commitment	(p)				(1,230)
Net Equity/Other					466,553
TOTAL INVESTMENTS—182.4%				\$4,195,186	4,029,371
LIABILITIES IN EXCESS OF OTHER ASSETS—(82.4%)					(1,820,443)
NET ASSETS—100%					\$ 2,208,928

(a) Security may be an obligation of one or more entities affiliated with the named company.

(b) Certain variable rate securities in the Company's portfolio bear interest at a rate determined by a publicly disclosed base rate plus a basis point spread. As of December 31, 2015, the three-month London Interbank Offered Rate, or LIBOR, was 0.61%, the Euro Interbank Offered Rate, or EURIBOR, was (0.13)% and the U.S. Prime Lending Rate, or Prime, was 3.50%.

(c) Denominated in U.S. dollars unless otherwise noted.

(d) Fair value determined by the Company's board of directors (see Note 7).

(e) Security or portion thereof held within Locust Street Funding LLC and is pledged as collateral supporting the amounts outstanding under the Class A Notes issued to Race Street Funding LLC pursuant to an indenture with Citibank, N.A., as trustee (see Note 8).

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Consolidated Schedule of Investments (continued)
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- (f) Security or portion thereof held within Race Street Funding LLC and is pledged as collateral supporting the amounts outstanding under the repurchase agreement with JPMorgan Chase Bank, N.A., London Branch (see Note 8).
- (g) Security or portion thereof is pledged as collateral supporting the amounts outstanding under the revolving credit facility with ING Capital LLC (see Note 8).
- (h) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended. A business development company may not acquire any asset other than qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. As of December 31, 2015, 79.7% of the Company's total assets represented qualifying assets.
- (i) Listed investments may be treated as debt for GAAP or tax purposes.
- (j) Security is non-income producing.
- (k) Security held within IC American Energy Investments, Inc., a wholly-owned subsidiary of the Company.
- (l) Security held within FSIC Investments, Inc., a wholly-owned subsidiary of the Company.
- (m) Security held within IC Arches Investments, LLC, a wholly-owned subsidiary of the Company.
- (n) Security is an unfunded commitment. Reflects the stated spread at the time of commitment, but may not be the actual rate received upon funding.
- (o) Includes 250,000 NewStar Financial, Inc., or NewStar, warrants, which is the maximum number of warrants that the Company will forfeit in the event that the Company declines to fund additional subordinated debt investments in NewStar in an amount not to exceed \$6,250, upon the request of NewStar.
- (p) Represents the maximum number of NewStar warrants that the Company will forfeit in the event that the Company declines to fund additional subordinated debt investments in NewStar in an amount not to exceed \$6,250, upon the request of NewStar.
- (q) Under the Investment Company Act of 1940, as amended, the Company generally is deemed to be an "affiliated person" of a portfolio company if it owns 5% or more of the portfolio company's voting securities and generally is deemed to "control" a portfolio company if it owns more than 25% of the portfolio company's voting securities or it has the power to exercise control over the management or policies of such portfolio company. As of December 31, 2015, the Company held investments in portfolio companies of which it is deemed to be an "affiliated person" but is not deemed to "control". The following table presents certain information with respect to such portfolio companies for the year ended December 31, 2015:

<u>Portfolio Company</u>	<u>Purchases</u>	<u>Sales and Repayments</u>	<u>Interest Income</u>	<u>Fee Income</u>	<u>Dividend Income</u>	<u>Net Realized Gain (Loss)</u>	<u>Net Change in Unrealized Appreciation (Depreciation)</u>
Senior Secured Loans—First Lien							
Allen Systems Group, Inc.	\$ 37,634	—	\$ 2,603	\$ 790	—	—	\$ 380
Equity/Other							
Allen Systems Group, Inc., Common Equity	\$ 36,422	—	—	—	—	—	\$ 41,476
Fronton Investor Holdings, LLC, Class B Units	—	\$ (1,046)	—	—	\$ 299	—	\$ 2,391

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Consolidated Schedule of Investments (continued)
As of December 31, 2015
(in thousands, except share amounts)

(r) Under the Investment Company Act of 1940, as amended, the Company generally is deemed to “control” a portfolio company if it owns more than 25% of the portfolio company’s voting securities or it has the power to exercise control over the management or policies of such portfolio company. As of December 31, 2015, the Company held investments in one portfolio company of which it is deemed to be an “affiliated person” of and deemed to “control”. The following table presents certain information with respect to such portfolio company for the year ended December 31, 2015:

<u>Portfolio Company</u>	<u>Purchases</u>	<u>Sales and Repayments</u>	<u>Interest Income</u>	<u>Fee Income</u>	<u>Dividend Income</u>	<u>Net Realized Gain (Loss)</u>	<u>Net Change in Unrealized Appreciation (Depreciation)</u>
Senior Secured Loans—Second Lien							
JW Aluminum Co.	\$ 32,887	—	\$ 380	—	—	—	—
Equity/Other							
JW Aluminum Co., Common Equity	—	—	—	—	—	—	—
JW Aluminum Co., Preferred Equity	\$ 43,101	—	—	—	—	—	\$ 743

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements
(in thousands, except share and per share amounts)

Note 1. Principal Business and Organization

FS Investment Corporation (NYSE: FSIC), or the Company, was incorporated under the general corporation laws of the State of Maryland on December 21, 2007 and formally commenced investment operations on January 2, 2009. The Company is an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, the Company has elected to be treated for U.S. federal income tax purposes, and intends to qualify annually, as a regulated investment company, or RIC, as defined under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. As of June 30, 2016, the Company had two wholly-owned financing subsidiaries and four wholly-owned subsidiaries through which it holds equity interests in non-controlled portfolio companies. The consolidated financial statements include both the Company's accounts and the accounts of its wholly-owned subsidiaries as of June 30, 2016. All significant intercompany transactions have been eliminated in consolidation.

The Company's investment objectives are to generate current income and, to a lesser extent, long-term capital appreciation by investing primarily in senior secured loans and second lien secured loans of private U.S. companies. The Company seeks to generate superior risk-adjusted returns by focusing on debt investments in a broad array of private U.S. companies, including middle market companies, which the Company defines as companies with annual revenues of \$50 million to \$2.5 billion at the time of investment. The Company may purchase interests in loans or make other debt investments, including investments in senior secured bonds, through secondary market transactions in the "over-the-counter" market or directly from the Company's target companies as primary market or directly originated investments. In connection with the Company's debt investments, the Company may on occasion receive equity interests such as warrants or options as additional consideration. The Company may also purchase or otherwise acquire minority interests in the form of common or preferred equity or equity-related securities, such as rights and warrants that may be converted into or exchanged for common stock or other equity or the cash value of common stock or other equity, in the Company's target companies, generally in conjunction with one of the Company's debt investments or through a co-investment with a financial sponsor, such as an institutional investor or private equity firm. In addition, a portion of the Company's portfolio may be comprised of corporate bonds, collateralized loan obligations, or CLOs, other debt securities and derivatives, including total return swaps and credit default swaps.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For a more complete discussion of significant accounting policies and certain other information, the Company's interim unaudited consolidated financial statements should be read in conjunction with its audited consolidated financial statements as of and for the year ended December 31, 2015 included in the Company's annual report on Form 10-K for the year ended December 31, 2015. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The December 31, 2015 consolidated balance sheet and consolidated schedule of investments are derived from the Company's audited consolidated financial statements as of and for the year ended December 31, 2015. The Company is considered an investment company under GAAP and follows the accounting and reporting guidance applicable to investment companies. The Company has evaluated the impact of subsequent events through the date the consolidated financial statements were issued and filed with the U.S. Securities and Exchange Commission, or the SEC.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 2. Summary of Significant Accounting Policies (continued)

Use of Estimates: The preparation of the unaudited consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Many of the amounts have been rounded, and all amounts are in thousands, except share and per share amounts.

Capital Gains Incentive Fee: At the Company's 2013 annual meeting of stockholders, the Company received stockholder approval to amend and restate the investment advisory and administrative services agreement, dated February 12, 2008 (as amended on August 5, 2008), or the 2008 investment advisory and administrative services agreement, by and between the Company and FB Income Advisor, LLC, or FB Advisor, effective upon a listing of the Company's shares of common stock on a national securities exchange. The Company's shares of common stock were listed and commenced trading on the New York Stock Exchange, or the NYSE, on April 16, 2014. On April 16, 2014, the Company entered into an amended and restated investment advisory agreement, or the April 2014 investment advisory agreement, with FB Advisor. Also on April 16, 2014, the Company entered into an administration agreement with FB Advisor, or the administration agreement, which governs the administrative services provided to the Company by FB Advisor that had previously been addressed in the 2008 investment advisory and administrative services agreement.

At a special meeting of stockholders of the Company that was adjourned on June 23, 2014 and reconvened on July 17, 2014, the Company received stockholder approval to amend and restate the April 2014 investment advisory agreement. On July 17, 2014, the Company entered into an amended and restated investment advisory agreement, or the July 2014 investment advisory agreement, with FB Advisor.

Pursuant to the terms of each of the 2008 investment advisory and administrative services agreement, the April 2014 investment advisory agreement and the July 2014 investment advisory agreement, the incentive fee on capital gains is determined and payable in arrears as of the end of each calendar year (or upon termination of such agreement). Such fee will equal 20.0% of the Company's incentive fee capital gains (i.e., the Company's realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, net of all realized capital losses and unrealized capital depreciation on a cumulative basis), less the aggregate amount of any previously paid capital gains incentive fees. On a quarterly basis, the Company accrues for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

While none of the 2008 investment advisory and administrative services agreement, the April 2014 investment advisory agreement or the July 2014 investment advisory agreement include or contemplate the inclusion of unrealized gains in the calculation of the capital gains incentive fee, pursuant to an interpretation of an American Institute of Certified Public Accountants, or AICPA, Technical Practice Aid for investment companies, commencing during the quarter ended December 31, 2010, the Company changed its methodology for accruing for this incentive fee to include unrealized gains in the calculation of the capital gains incentive fee expense and related accrued capital gains incentive fee. This accrual reflects the incentive fees that would be payable to FB Advisor if the Company's entire portfolio was liquidated at its fair value as of the balance sheet date even though FB Advisor is not entitled to an incentive fee with respect to unrealized gains unless and until such gains are actually realized.

Subordinated Income Incentive Fee: Pursuant to the terms of each of the 2008 investment advisory and administrative services agreement, the April 2014 investment advisory agreement and the July 2014 investment

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 2. Summary of Significant Accounting Policies (continued)

advisory agreement, FB Advisor may also be entitled to receive a subordinated incentive fee on income. The subordinated incentive fee on income under the 2008 investment advisory and administrative services agreement, which was calculated and payable quarterly in arrears, equaled 20.0% of the Company's "pre-incentive fee net investment income" for the immediately preceding quarter and was subject to a hurdle rate, expressed as a rate of return on adjusted capital, as defined in the 2008 investment advisory and administrative services agreement, equal to 2.0% per quarter, or an annualized hurdle rate of 8.0%. As a result, FB Advisor did not earn this incentive fee for any quarter until the Company's pre-incentive fee net investment income for such quarter exceeded the hurdle rate of 2.0%. Once the Company's pre-incentive fee net investment income in any quarter exceeded the hurdle rate, FB Advisor was entitled to a "catch-up" fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until the Company's pre-incentive fee net investment income for such quarter equaled 2.5%, or 10.0% annually, of adjusted capital. Thereafter, FB Advisor received 20.0% of pre-incentive fee net investment income. Under the April 2014 investment advisory agreement, the subordinated incentive fee on income was calculated in the same manner, except that the hurdle rate used to compute the subordinated incentive fee on income was based on the value of the Company's net assets rather than adjusted capital.

Under the July 2014 investment advisory agreement, the hurdle rate, expressed as a rate of return on the value of the Company's net assets, was reduced from 2.0% to 1.875% per quarter, or an annualized hurdle rate of 7.5%. As a result, FB Advisor will not earn this incentive fee for any quarter until the Company's pre-incentive fee net investment income for such quarter exceeds the hurdle rate of 1.875%. Once the Company's pre-incentive fee net investment income in any quarter exceeds the hurdle rate, FB Advisor will be entitled to a "catch-up" fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until the Company's pre-incentive fee net investment income for such quarter equals 2.34375%, or 9.375% annually, of net assets. Thereafter, FB Advisor will be entitled to receive 20.0% of pre-incentive fee net investment income.

Under both the April 2014 investment advisory agreement and the July 2014 investment advisory agreement, the subordinated incentive fee on income is subject to a total return requirement, which provides that no incentive fee in respect of the Company's pre-incentive fee net investment income will be payable except to the extent that 20.0% of the cumulative net increase in net assets resulting from operations over the then-current and eleven preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the eleven preceding calendar quarters. Accordingly, any subordinated incentive fee on income that is payable in a calendar quarter will be limited to the lesser of (i) 20.0% of the amount by which the Company's pre-incentive fee net investment income for such calendar quarter exceeds the applicable quarterly hurdle rate, subject to the "catch-up" provision, and (ii) (x) 20.0% of the cumulative net increase in net assets resulting from operations for the then-current and eleven preceding calendar quarters *minus* (y) the cumulative incentive fees accrued and/or paid for the eleven preceding calendar quarters. For the foregoing purpose, the "cumulative net increase in net assets resulting from operations" is the sum of pre-incentive fee net investment income, base management fees, realized gains and losses and unrealized appreciation and depreciation of the Company for the then-current and eleven preceding calendar quarters. There will be no accumulation of amounts on the hurdle rate from quarter to quarter and, accordingly, there will be no clawback of amounts previously paid if subsequent quarters are below the applicable quarterly hurdle rate and there will be no delay of payment if prior quarters are below the applicable quarterly hurdle rate.

Reclassifications: Certain amounts in the unaudited consolidated financial statements for the three and six months ended June 30, 2015 and the audited consolidated financial statements for the year ended December 31,

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 2. Summary of Significant Accounting Policies (continued)

2015 may have been reclassified to conform to the classifications used to prepare the unaudited consolidated financial statements for the three and six months ended June 30, 2016. These reclassifications had no material impact on the Company's consolidated financial position, results of operations or cash flows as previously reported.

In April 2015, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Update No. 2015-03, *Interest—Imputation of Interest*, or ASU 2015-03, to simplify the presentation of debt issuance costs in financial statements. Under pre-existing guidance, debt issuance costs were recognized as a deferred charge and presented as an asset on the balance sheet. ASU 2015-03 requires that debt issuance costs related to a recognized liability for indebtedness be presented in the balance sheet as a direct deduction from the carrying amount of that liability, consistent with debt discounts. In August 2015, the FASB issued Accounting Standards Update No. 2015-15, *Interest—Imputation of Interest*, or ASU 2015-15, to update the guidance to include SEC staff views regarding the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC indicated that it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

Commencing January 1, 2016, the Company adopted ASU 2015-03 and changed its method of disclosing debt issuance costs for its repurchase agreement and unsecured notes. ASU 2015-03 affects the presentation and disclosure of such costs in the Company's financial statements. There is no change to the Company's recognition and measurement of debt issuance costs. In accordance with ASU 2015-15, the Company elected to continue to present debt issuance costs associated with line-of-credit arrangements as an asset, unchanged from its prior method of disclosure.

Comparative financial statements of prior interim and annual periods have been adjusted to apply the new method retrospectively. The adoption and retrospective adjustment of ASU 2015-03 had no material impact on the Company's consolidated financial position, results of operations or cash flows as previously reported.

Note 3. Share Transactions

Below is a summary of transactions with respect to shares of the Company's common stock during the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,			
	2016		2015	
	Shares	Amount	Shares	Amount
Reinvestment of Distributions	641,574	\$5,665	806,066	\$7,970
Net Proceeds from Share Transactions	641,574	\$5,665	806,066	\$7,970

During the six months ended June 30, 2016, the Company issued 641,574 shares of common stock pursuant to its distribution reinvestment plan, or DRP, for gross proceeds of \$5,665 at an average price per share of \$8.83 and the administrator for the Company's DRP purchased 619,897 shares of common stock in the open market at

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 3. Share Transactions (continued)

an average price per share of \$9.05 (totaling \$5,612) pursuant to the Company's DRP, and distributed such shares to participants in the Company's DRP. During the six months ended June 30, 2015, the Company issued 806,066 shares of common stock pursuant to its DRP for gross proceeds of \$7,970 at an average price per share of \$9.89. During the period from July 1, 2016 to August 8, 2016, the administrator for the Company's DRP purchased 612,115 shares of common stock in the open market at an average price per share of \$9.16 (totaling \$5,604) pursuant to the Company's DRP, and distributed such shares to participants in the Company's DRP. For additional information regarding the terms of the DRP, see Note 5.

Note 4. Related Party Transactions

Compensation of the Investment Adviser

Pursuant to the 2008 investment advisory and administrative services agreement, the April 2014 investment advisory agreement and the July 2014 investment advisory agreement, FB Advisor is entitled to an annual base management fee based on the average value of the Company's gross assets and an incentive fee based on the Company's performance. The Company commenced accruing fees under the 2008 investment advisory and administrative services agreement on January 2, 2009, upon commencement of the Company's investment operations. Base management fees are paid on a quarterly basis in arrears. The annual base management fees under the 2008 investment advisory and administrative services agreement and the April 2014 investment advisory agreement were equal to 2.0% of the average value of the Company's gross assets.

In anticipation of the listing of the Company's shares of common stock on the NYSE, FB Advisor recommended that the April 2014 investment advisory agreement be further amended to (i) reduce the annualized hurdle rate used in connection with the calculation of the subordinated incentive fee on income, expressed as a rate of return on the Company's net assets, from 8% to 7.5% and (ii) assuming the reduction to the hurdle rate was approved, reduce the base management fee from 2.0% to 1.75% of the average value of the Company's gross assets. At a special meeting of stockholders that was adjourned on June 23, 2014 and reconvened on July 17, 2014, the Company received stockholder approval to amend and restate the April 2014 investment advisory agreement to reflect the amendments approved by the Company's stockholders. On July 17, 2014, the Company entered into the July 2014 investment advisory agreement. While stockholder approval of the proposal was pending, FB Advisor agreed, effective April 1, 2014, to waive a portion of the base management fee to which it was entitled under the April 2014 investment advisory agreement so that the fee received equaled 1.75% of the average value of the Company's gross assets.

The incentive fee consists of two parts. The first part of the incentive fee, which is referred to as the subordinated incentive fee on income, is calculated and payable quarterly in arrears, and equals 20.0% of the Company's "pre-incentive fee net investment income" for the immediately preceding quarter. Under the 2008 investment advisory and administrative services agreement, the subordinated incentive fee on income was subject to a hurdle rate, expressed as a rate of return on adjusted capital, as defined in the 2008 investment advisory and administrative services agreement, equal to 2.0% per quarter, or an annualized hurdle rate of 8.0%. As a result, FB Advisor did not earn this incentive fee for any quarter until the Company's pre-incentive fee net investment income for such quarter exceeded the hurdle rate of 2.0%. Once the Company's pre-incentive fee net investment income in any quarter exceeded the hurdle rate, FB Advisor was entitled to a "catch-up" fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until the Company's pre-incentive fee net investment income for such quarter equaled 2.5%, or 10.0% annually, of adjusted capital. Thereafter, FB

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 4. Related Party Transactions (continued)

Advisor received 20.0% of pre-incentive fee net investment income. Under the April 2014 investment advisory agreement, the subordinated incentive fee on income was calculated in the same manner, except that the hurdle rate used to compute the subordinated incentive fee on income was based on the value of the Company's net assets rather than adjusted capital.

Under the July 2014 investment advisory agreement, the hurdle rate, expressed as a rate of return on the value of the Company's net assets, was reduced from 2.0% to 1.875% per quarter, or an annualized hurdle rate of 7.5%. As a result, FB Advisor will not earn this incentive fee for any quarter until the Company's pre-incentive fee net investment income for such quarter exceeds the hurdle rate of 1.875%. Once the Company's pre-incentive fee net investment income in any quarter exceeds the hurdle rate, FB Advisor will be entitled to a "catch-up" fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until the Company's pre-incentive fee net investment income for such quarter equals 2.34375%, or 9.375% annually, of the value of the Company's net assets. Thereafter, FB Advisor will be entitled to receive 20.0% of pre-incentive fee net investment income.

Under both the April 2014 investment advisory agreement and the July 2014 investment advisory agreement, the subordinated incentive fee on income is subject to a total return requirement, which provides that no incentive fee in respect of the Company's pre-incentive fee net investment income will be payable except to the extent that 20.0% of the cumulative net increase in net assets resulting from operations over the then-current and eleven preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the eleven preceding calendar quarters. Accordingly, any subordinated incentive fee on income that is payable in a calendar quarter will be limited to the lesser of (i) 20.0% of the amount by which the Company's pre-incentive fee net investment income for such calendar quarter exceeds the applicable quarterly hurdle rate, subject to the "catch-up" provision, and (ii) (x) 20.0% of the cumulative net increase in net assets resulting from operations for the then-current and eleven preceding calendar quarters *minus* (y) the cumulative incentive fees accrued and/or paid for the eleven preceding calendar quarters. For the foregoing purpose, the "cumulative net increase in net assets resulting from operations" is the sum of pre-incentive fee net investment income, base management fees, realized gains and losses and unrealized appreciation and depreciation of the Company for the then-current and eleven preceding calendar quarters. There will be no accumulation of amounts on the hurdle rate from quarter to quarter and, accordingly, there will be no clawback of amounts previously paid if subsequent quarters are below the applicable quarterly hurdle rate and there will be no delay of payment if prior quarters are below the applicable quarterly hurdle rate.

The second part of the incentive fee, which is referred to as the incentive fee on capital gains, is determined and payable in arrears as of the end of each calendar year (or upon termination of the July 2014 investment advisory agreement). This fee equals 20.0% of the Company's incentive fee capital gains, which equal the Company's realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, 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. The Company accrues for the capital gains incentive fee, which, if earned, is paid annually. The Company accrues the incentive fee based on net realized and unrealized gains; however, the fee payable to FB Advisor is based on realized gains and no such fee is payable with respect to unrealized gains unless and until such gains are actually realized. The methodology for calculating the capital gains incentive fee is identical under the 2008 investment advisory and administrative services agreement, the April 2014 investment advisory agreement and the July 2014 investment advisory agreement.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 4. Related Party Transactions (continued)

Pursuant to an investment sub-advisory agreement, or the investment sub-advisory agreement, between FB Advisor and GSO / Blackstone Debt Funds Management LLC, or GDFM, GDFM will receive 50% of all management and incentive fees payable to FB Advisor under the July 2014 investment advisory agreement with respect to each year.

Pursuant to the 2008 investment advisory and administrative services agreement, the Company reimbursed FB Advisor for expenses necessary to perform services related to the Company's administration and operations. The amount of this reimbursement was set at the lesser of (1) FB Advisor's actual costs incurred in providing such services and (2) the amount that the Company estimated it would be required to pay alternative service providers for comparable services in the same geographic location. FB Advisor was required to allocate the cost of such services to the Company based on factors such as total assets, revenues, time allocations and/or other reasonable metrics. The Company's board of directors then assessed the reasonableness of such reimbursements based on the breadth, depth and quality of such services as compared to the estimated cost to the Company of obtaining similar services from third-party providers known to be available. In addition, the Company's board of directors considered whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, the Company's board of directors compared the total amount paid to FB Advisor for such services as a percentage of the Company's net assets to the same ratio as reported by other comparable BDCs.

Pursuant to the administration agreement, the Company reimburses FB Advisor for expenses necessary to perform services related to the Company's administration and operations, including FB Advisor's allocable portion of the compensation and related expenses of certain personnel of Franklin Square Holdings, L.P., or Franklin Square Holdings, providing administrative services to the Company on behalf of FB Advisor. The Company reimburses FB Advisor no less than quarterly for all costs and expenses incurred by FB Advisor in performing its obligations and providing personnel and facilities under the administration agreement. FB Advisor allocates the cost of such services to the Company based on factors such as total assets, revenues, time allocations and/or other reasonable metrics. The Company's board of directors reviews the methodology employed in determining how the expenses are allocated to the Company and the proposed allocation of administrative expenses among the Company and certain affiliates of FB Advisor. The Company's board of directors then assesses the reasonableness of such reimbursements for expenses allocated to the Company based on the breadth, depth and quality of such services as compared to the estimated cost to the Company of obtaining similar services from third-party service providers known to be available. In addition, the Company's board of directors considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, the Company's board of directors compares the total amount paid to FB Advisor for such services as a percentage of the Company's net assets to the same ratio as reported by other comparable BDCs.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 4. Related Party Transactions (continued)

The following table describes the fees and expenses accrued under the July 2014 investment advisory agreement and the administration agreement, as applicable, during the three and six months ended June 30, 2016 and 2015:

Related Party	Source Agreement	Description	Three Months Ended June 30,		Six Months Ended June 30,	
			2016	2015	2016	2015
FB Advisor	July 2014 Investment Advisory Agreement	Base Management Fee ⁽¹⁾	\$ 17,574	\$ 19,103	\$ 35,386	\$ 38,141
FB Advisor	July 2014 Investment Advisory Agreement	Capital Gains Incentive Fee ⁽²⁾	—	\$ (8,355)	—	\$ (4,607)
FB Advisor	July 2014 Investment Advisory Agreement	Subordinated Incentive Fee on Income ⁽³⁾	\$ 14,210	\$ 21,271	\$ 26,695	\$ 35,176
FB Advisor	Administration Agreement	Administrative Services Expenses ⁽⁴⁾	\$ 900	\$ 882	\$ 2,096	\$ 1,873

- (1) During the six months ended June 30, 2016 and 2015, \$36,227 and \$38,620, respectively, in base management fees were paid to FB Advisor. As of June 30, 2016, \$17,574 in base management fees were payable to FB Advisor.
- (2) During the six months ended June 30, 2015, the Company reversed capital gains incentive fees of \$4,607 based on the performance of its portfolio, all of which was based on unrealized gains and none of which is payable by the Company unless and until those gains are actually realized. The Company paid FB Advisor no capital gains incentive fees during the six months ended June 30, 2016. As of June 30, 2016, no capital gains incentive fees were accrued.
- (3) During the six months ended June 30, 2016 and 2015, \$25,859 and \$26,994, respectively, of subordinated incentive fees on income were paid to FB Advisor. As of June 30, 2016, a subordinated incentive fee on income of \$14,210 was payable to FB Advisor.
- (4) During the six months ended June 30, 2016 and 2015, \$1,944 and \$1,471, respectively, of administrative services expenses related to the allocation of costs of administrative personnel for services rendered to the Company by FB Advisor and the remainder related to other reimbursable expenses. The Company paid \$2,144 and \$2,518, respectively, in administrative services expenses to FB Advisor during the six months ended June 30, 2016 and 2015.

Potential Conflicts of Interest

FB Advisor's senior management team is comprised of substantially the same personnel as the senior management teams of FS Investment Advisor, LLC, FSIC II Advisor, LLC, FSIC III Advisor, LLC, FSIC IV Advisor, LLC and FS Global Advisor, LLC, the investment advisers to certain other BDCs and a closed-end management investment company affiliated with Franklin Square Holdings. As a result, such personnel provide investment advisory services to the Company and each of FS Energy and Power Fund, FS Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV and FS Global Credit Opportunities Fund. While none of FB Advisor, FS Investment Advisor, LLC, FSIC II Advisor, LLC, FSIC III Advisor, LLC, FSIC IV Advisor, LLC or FS Global Advisor, LLC, is currently making private corporate debt investments for clients other than the Company, FS Energy and Power Fund, FS Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV or FS Global Credit Opportunities Fund, respectively, any, or all, may do so in the future. In the event that FB Advisor undertakes to provide investment advisory services to other clients in the future, it intends to allocate investment opportunities in a fair and equitable manner consistent with the Company's investment objectives and strategies, if necessary, so that the Company will not be disadvantaged in relation to any other client of FB Advisor or its management team. In addition, even

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 4. Related Party Transactions (continued)

in the absence of FB Advisor retaining additional clients, it is possible that some investment opportunities may be provided to FS Energy and Power Fund, FS Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV and/or FS Global Credit Opportunities Fund rather than to the Company.

Exemptive Relief

As a BDC, the Company is subject to certain regulatory restrictions in making its investments. For example, BDCs generally are not permitted to co-invest with certain affiliated entities in transactions originated by the BDC or its affiliates in the absence of an exemptive order from the SEC. However, BDCs are permitted to, and may, simultaneously co-invest in transactions where price is the only negotiated term. In an order dated June 4, 2013, the SEC granted exemptive relief permitting the Company, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions with certain affiliates of FB Advisor, including FS Energy and Power Fund, FS Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV and any future BDCs that are advised by FB Advisor or its affiliated investment advisers, or collectively the Company's co-investment affiliates. The Company believes this relief has and may continue to enhance its ability to further its investment objectives and strategy. The Company believes this relief may also increase favorable investment opportunities for it, in part, by allowing the Company to participate in larger investments, together with its co-investment affiliates, than would be available to the Company if such relief had not been obtained. Because the Company did not seek exemptive relief to engage in co-investment transactions with GDFM and its affiliates, the Company is permitted to co-invest with GDFM and its affiliates only in accordance with existing regulatory guidance (e.g., where price is the only negotiated term).

Trademark License Agreement

On April 16, 2014, in connection with the listing of its common stock on the NYSE, the Company entered into a trademark license agreement, or the trademark license agreement, with Franklin Square Holdings. Pursuant to the trademark license agreement, Franklin Square Holdings granted the Company a non-exclusive, nontransferable, royalty-free right and license to use the name "FS Investment Corporation" and certain other trademarks, or the licensed marks, as a component of the Company's name (and in connection with marketing the investment advisory and other services that FB Advisor may provide to the Company). Other than with respect to this limited license, the Company has no other rights to the licensed marks. The trademark license agreement may be terminated by Franklin Square Holdings or the Company on sixty days' prior written notice and expires if FB Advisor or one of Franklin Square Holdings' affiliates ceases to serve as investment adviser to the Company. Furthermore, Franklin Square Holdings may terminate the trademark license agreement at any time and in its sole discretion in the event that Franklin Square Holdings or the Company receives notice of any third-party claim arising out of the Company's use of the licensed marks or if the Company attempts to assign or sublicense the trademark license agreement or any of the Company's rights or duties under the trademark license agreement without the prior written consent of Franklin Square Holdings. FB Advisor is a third-party beneficiary of the trademark license agreement.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 5. Distributions

The following table reflects the cash distributions per share that the Company has declared on its common stock during the six months ended June 30, 2016 and 2015:

<u>For the Three Months Ended</u>	<u>Distribution</u>	
	<u>Per Share</u>	<u>Amount</u>
Fiscal 2015		
March 31, 2015	\$0.2228	\$53,706
June 30, 2015	\$0.2228	\$53,839
Fiscal 2016		
March 31, 2016	\$0.2228	\$54,093
June 30, 2016	\$0.2228	\$54,238

On August 2, 2016, the Company's board of directors declared a regular quarterly cash distribution of \$0.22275 per share, which will be paid on or about October 4, 2016 to stockholders of record as of the close of business on September 21, 2016. The timing and amount of any future distributions to stockholders are subject to applicable legal restrictions and the sole discretion of the Company's board of directors.

Pursuant to the Company's DRP, the Company will reinvest all cash dividends or distributions declared by the Company's board of directors on behalf of stockholders who do not elect to receive their distributions in cash. As a result, if the Company's board of directors declares a distribution, then stockholders who have not elected to "opt out" of the DRP will have their distributions automatically reinvested in additional shares of the Company's common stock.

With respect to each distribution pursuant to the DRP, the Company reserves the right to either issue new shares of common stock or purchase shares of common stock in the open market in connection with implementation of the DRP. Unless the Company, in its sole discretion, otherwise directs the plan administrator, (A) if the per share market price (as defined in the DRP) is equal to or greater than the estimated net asset value per share (rounded up to the nearest whole cent) of the Company's common stock on the payment date for the distribution, then the Company will issue shares of common stock at the greater of (i) net asset value per share of common stock or (ii) 95% of the market price; or (B) if the market price is less than the net asset value per share, then, in the sole discretion of the Company, (i) shares of common stock will be purchased in open market transactions for the accounts of participants to the extent practicable, or (ii) the Company will issue shares of common stock at net asset value per share. Pursuant to the terms of the DRP, the number of shares of common stock to be issued to a participant will be determined by dividing the total dollar amount of the distribution payable to a participant by the price per share at which the Company issues such shares; provided, however, that shares purchased in open market transactions by the plan administrator will be allocated to a participant based on the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased in the open market.

If a stockholder receives distributions in the form of common stock pursuant to the DRP, such stockholder generally will be subject to the same federal, state and local tax consequences as if it elected to receive distributions in cash. If the Company's common stock is trading at or below net asset value, a stockholder receiving distributions in the form of additional common stock will be treated as receiving a distribution in the amount of cash that they would have received if they had elected to receive the distribution in cash. If the Company's common stock is trading above net asset value, a stockholder receiving distributions in the form of additional common stock will be treated as receiving a distribution in the amount of the fair market value of the

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 5. Distributions (continued)

Company's common stock. The stockholder's basis for determining gain or loss upon the sale of common stock received in a distribution will be equal to the total dollar amount of the distribution payable to the stockholder. Any stock received in a distribution will have a holding period for tax purposes commencing on the day following the day on which the shares of common stock are credited to the stockholder's account.

The Company may fund its cash distributions to stockholders from any sources of funds legally available to it, including proceeds from the sale of shares of the Company's common stock, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets, and dividends or other distributions paid to the Company on account of preferred and common equity investments in portfolio companies. The Company has not established limits on the amount of funds it may use from available sources to make distributions. During certain periods, the Company's distributions may exceed its earnings. As a result, it is possible that a portion of the distributions the Company makes may represent a return of capital. A return of capital generally is a return of a stockholder's investment rather than a return of earnings or gains derived from the Company's investment activities. Each year a statement on Form 1099-DIV identifying the sources of the distributions (i.e., paid from ordinary income, paid from net capital gains on the sale of securities, and/or a return of capital, which is a nontaxable distribution) will be mailed to the Company's stockholders. There can be no assurance that the Company will be able to pay distributions at a specific rate or at all.

The following table reflects the sources of the cash distributions on a tax basis that the Company has paid on its common stock during the six months ended June 30, 2016 and 2015:

Source of Distribution	Six Months Ended June 30,			
	2016		2015	
	Distribution Amount	Percentage	Distribution Amount	Percentage
Offering proceeds	\$ —	—	\$ —	—
Borrowings	—	—	—	—
Net investment income ⁽¹⁾	108,331	100%	107,545	100%
Short-term capital gains proceeds from the sale of assets	—	—	—	—
Long-term capital gains proceeds from the sale of assets	—	—	—	—
Non-capital gains proceeds from the sale of assets	—	—	—	—
Distributions on account of preferred and common equity	—	—	—	—
Total	\$ 108,331	100%	\$ 107,545	100%

(1) During the six months ended June 30, 2016 and 2015, 90.7% and 93.7%, respectively, of the Company's gross investment income was attributable to cash income earned, 2.1% and 2.1%, respectively, was attributable to non-cash accretion of discount and 7.2% and 4.2%, respectively, was attributable to paid-in-kind, or PIK, interest.

The Company's net investment income on a tax basis for the six months ended June 30, 2016 and 2015 was \$104,372 and \$113,037, respectively. As of June 30, 2016 and December 31, 2015, the Company had \$152,597 and \$156,556 of undistributed net investment income, respectively, and \$43,545 and \$29,888, respectively, of accumulated capital losses on a tax basis.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 5. Distributions (continued)

The difference between the Company's GAAP-basis net investment income and its tax-basis net investment income is primarily due to the reclassification of unamortized original issue discount and prepayment fees recognized upon prepayment of loans from income for GAAP purposes to realized gains for tax purposes.

The following table sets forth a reconciliation between GAAP-basis net investment income and tax-basis net investment income during the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,	
	2016	2015
GAAP-basis net investment income	\$ 106,778	\$ 145,173
Reversal of incentive fee accrual on unrealized gains	—	(4,607)
Reclassification of unamortized original issue discount and prepayment fees	(7,770)	(29,653)
Other miscellaneous differences	5,364	2,124
Tax-basis net investment income	\$ 104,372	\$ 113,037

The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's fiscal year based upon the Company's taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full year. The actual tax characteristics of distributions to stockholders are reported to stockholders annually on Form 1099-DIV.

As of June 30, 2016 and December 31, 2015, the components of accumulated earnings on a tax basis were as follows:

	June 30, 2016 (Unaudited)	December 31, 2015
Distributable ordinary income	\$ 152,597	\$ 156,556
Distributable realized gains (accumulated capital losses) ⁽¹⁾	(43,545)	(29,888)
Other temporary differences	(214)	(343)
Net unrealized appreciation (depreciation) on investments and gain/loss on foreign currency ⁽²⁾	(142,064)	(184,276)
Total	\$ (33,226)	\$ (57,951)

- (1) Under the Regulated Investment Company Modernization Act of 2010, net capital losses recognized for tax years beginning after December 22, 2010 may be carried forward indefinitely, and their character is retained as short-term or long-term losses. As of June 30, 2016, the Company had short-term and long-term capital loss carryforwards available to offset future realized capital gains of \$1,147 and \$42,398, respectively.
- (2) As of June 30, 2016 and December 31, 2015, the gross unrealized appreciation on the Company's investments and gain on foreign currency was \$160,605 and \$148,633, respectively. As of June 30, 2016 and December 31, 2015, the gross unrealized depreciation on the Company's investments and loss on foreign currency was \$302,669 and \$332,909, respectively.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 5. Distributions (continued)

The aggregate cost of the Company's investments for U.S. federal income tax purposes totaled \$4,084,337 and \$4,221,604 as of June 30, 2016 and December 31, 2015, respectively. The aggregate net unrealized appreciation (depreciation) on a tax basis was \$(142,064) and \$(184,276) as of June 30, 2016 and December 31, 2015, respectively.

Note 6. Investment Portfolio

The following table summarizes the composition of the Company's investment portfolio at cost and fair value as of June 30, 2016 and December 31, 2015:

	June 30, 2016 (Unaudited)			December 31, 2015		
	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio
Senior Secured Loans—First Lien	\$2,132,313	\$2,089,177	53%	\$2,248,419	\$2,173,829	54%
Senior Secured Loans—Second Lien	643,054	611,771	15%	661,742	624,814	15%
Senior Secured Bonds	278,400	179,815	5%	344,196	240,754	6%
Subordinated Debt	474,748	418,187	11%	492,658	438,414	11%
Collateralized Securities	92,708	87,746	2%	94,694	85,007	2%
Equity/Other	436,377	547,932	14%	353,477	466,553	12%
Total	\$4,057,600	\$3,934,628	100%	\$4,195,186	\$4,029,371	100%

(1) Amortized cost represents the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.

As of June 30, 2016, except for JW Aluminum Co., in which the Company has a second lien secured loan investment, a senior secured bond investment and two equity/other investments, the Company did not "control" any of its portfolio companies, as defined in the 1940 Act. As of June 30, 2016, except for Allen Systems Group, Inc., in which the Company has two senior secured loan investments and two equity/other investments, and Fronton Investor Holdings, LLC, in which the Company has an equity/other investment, the Company was not an "affiliated person" of any of its portfolio companies, as defined in the 1940 Act.

As of December 31, 2015, except for JW Aluminum Co., in which the Company has a second lien secured loan investment and two equity/other investments, the Company did not "control" any of its portfolio companies, as defined in the 1940 Act. As of December 31, 2015, except for Allen Systems Group, Inc., in which the Company has a senior secured loan investment and an equity/other investment, and Fronton Investor Holdings, LLC, in which the Company has an equity/other investment, the Company was not an "affiliated person" of any of its portfolio companies, as defined in the 1940 Act.

In general, under the 1940 Act, the Company would be presumed to "control" a portfolio company if it owned more than 25% of its voting securities or it had the power to exercise control over the management or policies of such portfolio company, and would be an "affiliated person" of a portfolio company if it owned 5% or more of its voting securities.

The Company's investment portfolio may contain loans and other unfunded arrangements that are in the form of lines of credit, revolving credit facilities, delayed draw credit facilities or other investments, which

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 6. Investment Portfolio (continued)

require the Company to provide funding when requested by portfolio companies in accordance with the terms of the underlying agreements. As of June 30, 2016, the Company had seventeen unfunded debt investments with aggregate unfunded commitments of \$161,101 and one unfunded commitment to purchase up to \$217 in shares of preferred stock of Altus Power America Holdings, LLC. As of December 31, 2015, the Company had nineteen unfunded debt investments with aggregate unfunded commitments of \$129,660, one unfunded commitment to purchase up to \$467 in shares of preferred stock of Altus Power America Holdings, LLC and one unfunded equity investment in Sunnova Holdings, LLC with an unfunded commitment of \$123. The Company maintains sufficient cash on hand and available borrowings to fund such unfunded commitments should the need arise. For additional details regarding the Company's unfunded debt investments, see the Company's unaudited consolidated schedule of investments as of June 30, 2016 and the Company's audited consolidated schedule of investments as of December 31, 2015.

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets in such industries as of June 30, 2016 and December 31, 2015:

Industry Classification	June 30, 2016 (Unaudited)		December 31, 2015	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Automobiles & Components	\$ 26,853	1%	\$ 95,950	2%
Capital Goods	839,417	21%	906,387	22%
Commercial & Professional Services	367,014	9%	327,407	8%
Consumer Durables & Apparel	260,462	7%	259,789	6%
Consumer Services	407,957	10%	426,534	11%
Diversified Financials	161,729	4%	154,651	4%
Energy	468,267	12%	365,698	9%
Food, Beverage & Tobacco	—	—	10,648	0%
Health Care Equipment & Services	204,488	5%	195,420	5%
Materials	300,887	8%	275,429	7%
Media	121,795	3%	126,742	3%
Retailing	26,732	1%	64,647	2%
Semiconductors & Semiconductor Equipment	4,953	0%	5,530	0%
Software & Services	381,977	10%	425,992	11%
Technology Hardware & Equipment	106,983	3%	127,682	3%
Telecommunication Services	154,672	4%	160,206	4%
Transportation	100,442	2%	100,659	3%
Total	<u>\$3,934,628</u>	<u>100%</u>	<u>\$4,029,371</u>	<u>100%</u>

Note 7. Fair Value of Financial Instruments

Under existing accounting guidance, fair value is defined as the price that the Company would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment. This accounting guidance emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 7. Fair Value of Financial Instruments (continued)

risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances. The Company classifies the inputs used to measure these fair values into the following hierarchy as defined by current accounting guidance:

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets.

Level 3: Inputs that are unobservable for an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

As of June 30, 2016 and December 31, 2015, the Company's investments were categorized as follows in the fair value hierarchy:

Valuation Inputs	June 30, 2016 (Unaudited)	December 31, 2015
Level 1—Price quotations in active markets	\$ 2,644	\$ 784
Level 2—Significant other observable inputs	—	—
Level 3—Significant unobservable inputs	3,931,984	4,028,587
	<u>\$3,934,628</u>	<u>\$ 4,029,371</u>

The Company's investments as of June 30, 2016 consisted primarily of debt investments that were acquired directly from the issuer. Sixty-one senior secured loan investments, three senior secured bond investments, fifteen subordinated debt investments and one collateralized security, for which broker quotes were not available, were valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, the borrower's ability to adequately service its debt, prevailing interest rates for like investments, expected cash flows, call features and other relevant terms of the debt. Except as described below, all of the Company's equity/other investments were also valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, contractual rights ascribed to such investments, as well as various income scenarios and multiples of earnings before interest, taxes, depreciation and amortization, or EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. Two equity investments, which were traded on an active public market, were valued at their respective closing price as of June 30, 2016. One senior secured bond investment, which was newly issued and purchased near June 30, 2016, was valued at cost as the Company's board of directors determined that the cost of such investment was the best indication of its fair value. Except as described above, the Company valued its other investments by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by independent third-party pricing services and screened for validity by such services.

The Company's investments as of December 31, 2015 consisted primarily of debt investments that were acquired directly from the issuer. Sixty senior secured loan investments, three senior secured bond investments,

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 7. Fair Value of Financial Instruments (continued)

fourteen subordinated debt investments and one collateralized security, for which broker quotes were not available, were valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, the borrower's ability to adequately service its debt, prevailing interest rates for like investments, expected cash flows, call features and other relevant terms of the debt. Except as described below, all of the Company's equity/other investments were also valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, contractual rights ascribed to such investments, as well as various income scenarios and multiples of EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. One equity investment, which was traded on an active public market, was valued at its closing price as of December 31, 2015. Two senior secured loan investments, which were newly issued and purchased near December 31, 2015, were valued at cost as the Company's board of directors determined that the cost of each such investment was the best indication of its fair value. Except as described above, the Company valued its other investments by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by independent third-party pricing services and screened for validity by such services.

The Company periodically benchmarks the bid and ask prices it receives from the third-party pricing services and/or dealers, as applicable, against the actual prices at which the Company purchases and sells its investments. Based on the results of the benchmark analysis and the experience of the Company's management in purchasing and selling these investments, the Company believes that these prices are reliable indicators of fair value. However, because of the private nature of this marketplace (meaning actual transactions are not publicly reported), the Company believes that these valuation inputs are classified as Level 3 within the fair value hierarchy. The Company may also use other methods, including the use of an independent valuation firm, to determine fair value for securities for which it cannot obtain prevailing bid and ask prices through third-party pricing services or independent dealers, or where the Company's board of directors otherwise determines that the use of such other methods is appropriate. The Company periodically benchmarks the valuations provided by the independent valuation firms against the actual prices at which the Company purchases and sells its investments. The valuation committee of the Company's board of directors, or the valuation committee, and the board of directors, reviewed and approved the valuation determinations made with respect to these investments in a manner consistent with the Company's valuation policy.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 7. Fair Value of Financial Instruments (continued)

The following is a reconciliation for the six months ended June 30, 2016 and 2015 of investments for which significant unobservable inputs (Level 3) were used in determining fair value:

	For the Six Months Ended June 30, 2016						
	Senior Secured Loans— First Lien	Senior Secured Loans—Second Lien	Senior Secured Bonds	Subordinated Debt	Collateralized Securities	Equity/Other	Total
Fair value at beginning of period	\$2,173,829	\$ 624,814	\$240,754	\$ 438,414	\$ 85,007	\$ 465,769	\$4,028,587
Accretion of discount (amortization of premium)	1,363	715	2,091	896	17	54	5,136
Net realized gain (loss)	10,385	219	(41,179)	(637)	—	9,785	(21,427)
Net change in unrealized appreciation (depreciation)	31,454	5,645	4,857	(2,317)	4,725	(1,969)	42,395
Purchases	289,650	17,941	8,060	30,700	4,551	94,517	445,419
Paid-in-kind interest	648	3,742	—	9,784	—	1,279	15,453
Sales and redemptions	(418,152)	(41,305)	(34,768)	(58,653)	(6,554)	(22,735)	(582,167)
Net transfers in or out of Level 3 ⁽¹⁾	—	—	—	—	—	(1,412)	(1,412)
Fair value at end of period	<u>\$2,089,177</u>	<u>\$ 611,771</u>	<u>\$179,815</u>	<u>\$ 418,187</u>	<u>\$ 87,746</u>	<u>\$ 545,288</u>	<u>\$3,931,984</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to investments still held at the reporting date	<u>\$ 32,338</u>	<u>\$ 5,539</u>	<u>\$ (24,495)</u>	<u>\$ 1,908</u>	<u>\$ 4,725</u>	<u>\$ 11,058</u>	<u>\$ 31,073</u>

- (1) There was one transfer of an investment from Level 3 to Level 1 during the six months ended June 30, 2016. It is the Company's policy to recognize transfers between levels at the beginning of the reporting period.

	For the Six Months Ended June 30, 2015						
	Senior Secured Loans—First Lien	Senior Secured Loans—Second Lien	Senior Secured Bonds	Subordinated Debt	Collateralized Securities	Equity/Other	Total
Fair value at beginning of period	\$ 2,206,206	\$ 708,255	\$359,275	\$ 464,304	\$ 123,920	\$ 320,144	\$4,182,104
Accretion of discount (amortization of premium)	3,350	681	1,938	16,497	66	48	22,580
Net realized gain (loss)	(7,040)	145	(21,853)	(82)	2,283	5,658	(20,889)
Net change in unrealized appreciation (depreciation)	(17,520)	(2,850)	17,363	(17,916)	(6,055)	22,965	(4,013)
Purchases	448,926	175,119	42,833	88,455	436	44,537	800,306
Paid-in-kind interest	1,349	1,876	665	5,743	—	1,185	10,818
Sales and redemptions	(779,755)	(39,203)	(46,753)	(91,792)	(11,871)	(15,190)	(984,564)
Net transfers in or out of Level 3	—	—	—	—	—	—	—
Fair value at end of period	<u>\$ 1,855,516</u>	<u>\$ 844,023</u>	<u>\$353,468</u>	<u>\$ 465,209</u>	<u>\$ 108,779</u>	<u>\$ 379,347</u>	<u>\$4,006,342</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to investments still held at the reporting date	<u>\$ (11,722)</u>	<u>\$ (3,070)</u>	<u>\$ (5,541)</u>	<u>\$ (10,295)</u>	<u>\$ (3,782)</u>	<u>\$ 27,498</u>	<u>\$ (6,912)</u>

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 7. Fair Value of Financial Instruments (continued)

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements as of June 30, 2016 and December 31, 2015 were as follows:

Type of Investment	Fair Value at June 30, 2016 (Unaudited)	Valuation Technique ⁽¹⁾	Unobservable Input	Range	Weighted Average
Senior Secured Loans—First Lien	\$1,647,124	Market Comparables	Market Yield (%)	3.3% - 19.3%	10.0%
			EBITDA Multiples (x)	1.4x - 8.6x	4.3x
	147,362	Other ⁽²⁾	Other ⁽²⁾	N/A	N/A
	294,691	Market Quotes	Indicative Dealer Quotes	23.5% - 99.4%	94.4%
Senior Secured Loans—Second Lien	417,728	Market Comparables	Market Yield (%)	7.3% - 21.5%	13.1%
	194,043	Market Quotes	Indicative Dealer Quotes	64.5% - 98.0%	89.8%
Senior Secured Bonds	91,773	Market Comparables	Market Yield (%)	9.5% - 14.3%	9.9%
			EBITDA Multiples (x)	4.0x - 5.0x	4.5x
	79,982	Market Quotes	Indicative Dealer Quotes	30.0% - 98.8%	68.0%
	8,060	Cost	Cost	N/A	N/A
Subordinated Debt	296,712	Market Comparables	Market Yield (%)	8.5% - 19.8%	15.9%
			EBITDA Multiples (x)	7.5x - 9.3x	7.8x
	121,475	Market Quotes	Indicative Dealer Quotes	54.8% - 100.0%	83.0%
Collateralized Securities	16,238	Market Comparables	Market Yield (%)	12.9% - 12.9%	12.9%
	71,508	Market Quotes	Indicative Dealer Quotes	22.7% - 90.9%	64.3%
Equity/Other	438,481	Market Comparables	Market Yield (%)	12.3% - 12.8%	12.5%
			EBITDA Multiples (x)	4.8x - 16.8x	9.7x
			Production Multiples (Mboe/d)	\$35,000.0 - \$40,000.0	\$37,500.0
			Proved Reserves Multiples (Mmboe)	\$8.0 - \$10.0	\$8.4
			Undeveloped Acreage Multiples (\$/Acre)	\$8,000.0 - \$10,000.0	\$9,000.0
			Capacity Multiple (\$/kW)	\$2,000.0 - \$2,500.0	\$2,250.0
		Discounted Cash Flow	Discount Rate (%)	11.5% - 23.5%	19.6%
		Option Valuation Model	Volatility (%)	35.5% - 70.0%	51.3%
	106,807	Other ⁽²⁾	Other ⁽²⁾	N/A	N/A
Total	\$3,931,984				

- (1) Investments using a market quotes valuation technique were valued by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by independent third-party pricing services and screened for validity by such services. For investments utilizing a market comparables valuation technique, a significant increase (decrease) in the market yield, in isolation, would result in a significantly lower (higher) fair value measurement, and a significant increase (decrease) in any of the valuation multiples, in isolation, would result in a significantly higher (lower) fair value measurement. For investments utilizing a discounted cash flow valuation technique, a significant increase (decrease) in the discount rate, in isolation, would result in a significantly lower (higher) fair value measurement. For investments utilizing an option valuation model valuation technique, a significant increase (decrease) in the volatility, in isolation, would result in a significantly higher (lower) fair value measurement.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 7. Fair Value of Financial Instruments (continued)

(2) Fair value based on expected outcome of proposed corporate transactions and/or other factors.

Type of Investment	Fair Value at December 31, 2015	Valuation Technique ⁽¹⁾	Unobservable Input	Range	Weighted Average
Senior Secured Loans—First Lien	\$1,885,927	Market Comparables	Market Yield (%)	3.0% - 16.8%	9.4%
			EBITDA Multiples (x)	7.5x - 8.4x	8.1x
	37,056	Other ⁽²⁾	Other ⁽²⁾	N/A	N/A
	184,346	Market Quotes	Indicative Dealer Quotes	30.0% - 99.3%	82.6%
	66,500	Cost	Cost	100.0% - 100.0%	100.0%
Senior Secured Loans—Second Lien	383,988	Market Comparables	Market Yield (%)	6.2% - 18.0%	13.9%
	240,826	Market Quotes	Indicative Dealer Quotes	68.4% - 101.0%	94.6%
Senior Secured Bonds	121,853	Market Comparables	Market Yield (%)	14.0% - 31.5%	20.5%
			EBITDA Multiples (x)	7.0x - 7.5x	7.3x
Subordinated Debt	118,901	Market Quotes	Indicative Dealer Quotes	30.3% - 94.4%	65.6%
	232,682	Market Comparables	Market Yield (%)	8.8% - 15.3%	13.4%
			EBITDA Multiples (x)	8.8x - 9.3x	9.0x
	99,822	Other ⁽²⁾	Other ⁽²⁾	N/A	N/A
	105,910	Market Quotes	Indicative Dealer Quotes	34.9% - 104.1%	74.6%
Collateralized Securities	15,987	Market Comparables	Market Yield (%)	13.2% - 13.2%	13.2%
	69,020	Market Quotes	Indicative Dealer Quotes	30.3% - 91.0%	63.1%
Equity/Other	368,274	Market Comparables	Market Yield (%)	12.0% - 12.5%	12.3%
			EBITDA Multiples (x)	5.3x - 14.5x	9.5x
			Production Multiples (Mboe/d)	\$50,000.0 - \$55,000.0	\$52,500.0
			Proved Reserves Multiples (Mmboe)	\$8.8 - \$11.0	\$9.2
			Capacity Multiple (\$/kW)	\$2,000.0 - \$2,500.0	\$2,250.0
			Volatility (%)	40.0% - 72.5%	48.8%
	97,495	Option Valuation Model	Other ⁽²⁾	N/A	N/A
	<u>97,495</u>	Other ⁽²⁾			
Total	<u>\$4,028,587</u>				

(1) Investments using a market quotes valuation technique were valued by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by independent third-party pricing services and screened for validity by such services. For investments utilizing a market comparables valuation technique, a significant increase (decrease) in the market yield, in isolation, would result in a significantly lower (higher) fair value measurement, and a significant increase (decrease) in any of the valuation multiples, in isolation, would result in a significantly higher (lower) fair value measurement. For investments utilizing an option valuation model valuation technique, a significant increase (decrease) in the volatility, in isolation, would result in a significantly higher (lower) fair value measurement.

(2) Fair value based on expected outcome of proposed corporate transactions and/or other factors.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 8. Financing Arrangements

The following table presents summary information with respect to the Company's outstanding financing arrangements as of June 30, 2016. For additional information regarding these financing arrangements, please see the notes to the Company's audited consolidated financial statements contained in its annual report on Form 10-K for the year ended December 31, 2015 and the additional disclosure set forth in this Note 8.

Arrangement	Type of Arrangement	Rate	Amount Outstanding	Amount Available	Maturity Date
ING Credit Facility	Revolving Credit Facility	L+2.50%	\$ 57,854 ⁽¹⁾	\$ 242,146	April 3, 2018
JPM Facility	Repurchase Agreement	3.25%	\$ 650,000	\$ —	April 15, 2017
4.000% Notes due 2019	Unsecured Notes	4.00%	\$ 400,000	\$ —	July 15, 2019
4.250% Notes due 2020	Unsecured Notes	4.25%	\$ 325,000	\$ —	January 15, 2020
4.750% Notes due 2022	Unsecured Notes	4.75%	\$ 275,000	\$ —	May 15, 2022

(1) Amount includes borrowing in U.S. dollars and Euros. Euro balance outstanding of €43,350 has been converted to U.S. dollars at an exchange rate of €1.00 to \$1.10 as of June 30, 2016 to reflect total amount outstanding in U.S. dollars.

The Company's average borrowings and weighted average interest rate, including the effect of non-usage fees, for the six months ended June 30, 2016 were \$1,811,616 and 3.82%, respectively. As of June 30, 2016, the Company's weighted average effective interest rate on borrowings, including the effect of non-usage fees, was 3.98%.

Broad Street Credit Facility

On January 28, 2011, Broad Street Funding LLC, or Broad Street, the Company's former wholly-owned, special-purpose financing subsidiary, Deutsche Bank AG, New York Branch, or Deutsche Bank, and the other lenders party thereto entered into an amended and restated multi-lender, syndicated revolving credit facility, or the Broad Street credit facility, which amended and restated the revolving credit facility that Broad Street originally entered into with Deutsche Bank on March 10, 2010 and the amendments thereto. On December 15, 2015, Broad Street and Deutsche Bank entered into an amendment to the facility which extended the maturity date to January 19, 2016. The Broad Street credit facility matured and terminated on January 19, 2016. The Broad Street credit facility provided for borrowings of up to \$125,000 at a rate of LIBOR, for an interest period equal to the weighted average LIBOR interest period of debt securities owned by Broad Street, plus 1.50% per annum. Deutsche Bank was a lender and served as administrative agent under the facility.

Under the Broad Street credit facility, the Company transferred debt securities to Broad Street from time to time as a contribution to capital and retained a residual interest in the contributed debt securities through its ownership of Broad Street. The obligations of Broad Street under the facility were non-recourse to the Company and its exposure under the facility was limited to the value of its investment in Broad Street.

As of June 30, 2016 and December 31, 2015, no amounts remained outstanding under the Broad Street credit facility. The Company incurred costs of \$2,566 in connection with obtaining and amending the facility, which the Company recorded as deferred financing costs on its consolidated balance sheets and amortized to interest expense over the life of the facility. As of June 30, 2016, all of the deferred financing costs have been amortized to interest expense.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 8. Financing Arrangements (continued)

For the three and six months ended June 30, 2016 and 2015, the components of total interest expense for the Broad Street credit facility were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Direct interest expense	—	\$ 104	—	\$ 406
Total interest expense	—	\$ 104	—	\$ 406

For the six months ended June 30, 2016 and 2015, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the Broad Street credit facility were as follows:

	Six Months Ended June 30,	
	2016	2015
Cash paid for interest expense ⁽¹⁾	—	\$ 635
Average borrowings under the facility ⁽²⁾	—	\$69,063
Effective interest rate on borrowings	—	—
Weighted average interest rate	—	1.76%

(1) Interest under the Broad Street credit facility was paid quarterly in arrears.

(2) The average borrowings under the Broad Street credit facility were calculated for the period the Company had borrowings outstanding under the facility.

Borrowings of Broad Street were considered borrowings of the Company for purposes of complying with the asset coverage requirements applicable to BDCs under the 1940 Act.

ING Credit Facility

On April 3, 2014, the Company entered into a senior secured revolving credit facility with ING Capital LLC, or ING, as administrative agent, and the lenders party thereto, or the ING credit facility. The ING credit facility provides for borrowings in U.S. dollars and certain agreed upon foreign currencies in an initial aggregate amount of up to \$300,000, with an option for the Company to request, at one or more times after closing, that existing or new lenders, at their election, provide up to \$100,000 of additional commitments. The ING credit facility provides for the issuance of letters of credit in an aggregate face amount not to exceed \$25,000. The Company's obligations under the ING credit facility are guaranteed by all of the Company's subsidiaries, other than its special-purpose financing subsidiaries. The Company's obligations under the ING credit facility are secured by a first priority security interest in substantially all of the assets of the Company and the subsidiary guarantors thereunder other than the equity interests of its special-purpose financing subsidiaries.

As of June 30, 2016 and December 31, 2015, \$57,854 and \$34,625, respectively, was outstanding under the ING credit facility, which includes borrowings in Euro in an aggregate amount of €43,350 and €29,125, respectively. The carrying amount of the amount outstanding under the facility approximates its fair value. The Company incurred costs of \$3,406 in connection with obtaining the ING credit facility, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the facility. As of June 30, 2016, \$857 of such deferred financing costs had yet to be amortized to interest expense.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 8. Financing Arrangements (continued)

For the three and six months ended June 30, 2016 and 2015, the components of total interest expense for the ING credit facility were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Direct interest expense	\$ 411	\$ 989	\$ 1,234	\$ 1,893
Non-usage fees	601	152	838	310
Amortization of deferred financing costs	282	282	563	561
Total interest expense	<u>\$ 1,294</u>	<u>\$ 1,423</u>	<u>\$ 2,635</u>	<u>\$ 2,764</u>

For the six months ended June 30, 2016 and 2015, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the ING credit facility were as follows:

	Six Months Ended June 30,	
	2016	2015
Cash paid for interest expense ⁽¹⁾	\$ 2,052	\$ 2,322
Average borrowings under the facility	\$88,264	\$138,558
Effective interest rate on borrowings (including the effect of non-usage fees)	6.74%	11.29%
Weighted average interest rate (including the effect of non-usage fees)	4.64%	3.16%

(1) Interest under the ING credit facility is paid at the end of each interest period in arrears for borrowings in Euro and quarterly in arrears for base rate borrowings.

JPM Financing

On July 21, 2011, through its two wholly-owned, special-purpose financing subsidiaries, Locust Street Funding LLC, or Locust Street, and Race Street Funding LLC, or Race Street, the Company entered into a debt financing arrangement with JPMorgan Chase Bank, N.A., London Branch, or JPM, which has been subsequently amended from time to time. The Company elected to structure the financing in the manner described more fully below in order to, among other things, obtain such financing at a lower cost than would be available through alternate arrangements. The Company and JPM most recently amended the financing arrangement on April 28, 2016 to, among other things, reduce the amount of outstanding available debt financing from \$725,000 to \$650,000.

Pursuant to the financing arrangement, the assets held by Locust Street secure the obligations of Locust Street under certain Class A Floating Rate Notes, or the Class A Notes, issued by Locust Street to Race Street pursuant to the Amended and Restated Indenture, dated as of September 26, 2012 and as supplemented by Supplemental Indenture No. 1, dated April 23, 2013, Supplemental Indenture No. 2, dated May 8, 2015, Supplemental Indenture No. 3, dated March 1, 2016, and Supplemental Indenture No. 4, dated April 28, 2016, in each case, with Citibank N.A., as trustee, or the Amended and Restated Indenture. Pursuant to the Amended and Restated Indenture, the aggregate principal amount of Class A Notes issued by Locust Street remaining outstanding is \$780,000. All principal and interest on the Class A Notes will be due and payable on the stated maturity date of April 15, 2024. Race Street has purchased all Class A Notes issued by Locust Street at a purchase price equal to their par value.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 8. Financing Arrangements (continued)

Race Street, in turn, has entered into an amended repurchase transaction with JPM pursuant to the terms of an amended and restated global master repurchase agreement and the related annex and amended and restated confirmation thereto, each dated as of April 28, 2016, or, collectively, the JPM Facility. Pursuant to the JPM Facility, JPM has purchased the \$780,000 of Class A Notes held by Race Street for a purchase price equal to \$650,000. Under the JPM Facility, Race Street will, on a quarterly basis, repurchase the Class A Notes sold to JPM under the JPM Facility and subsequently resell the Class A Notes to JPM. The final repurchase transaction must occur no later than April 15, 2017. The repurchase price paid by Race Street to JPM for each repurchase of Class A Notes will be equal to the purchase price paid by JPM for the Class A Notes, plus interest thereon accrued at a fixed rate of 3.25% per annum. Race Street is permitted to reduce (based on certain thresholds during specific periods) the aggregate principal amount of Class A Notes subject to the JPM Facility. Such reductions, and any other reductions of the principal amount of Class A Notes, including upon an event of default, are subject to breakage fees in an amount equal to the present value of 1.25% per annum over the remaining term of the JPM Facility applied to the amount of such reduction.

Pursuant to the financing arrangement, the assets held by Race Street secure the obligations of Race Street under the JPM Facility.

As of June 30, 2016 and December 31, 2015, Class A Notes in the aggregate principal amount of \$780,000 and \$960,000, respectively, had been purchased by Race Street from Locust Street and subsequently sold to JPM under the JPM Facility for aggregate proceeds of \$650,000 and \$800,000, respectively. The carrying amount outstanding under the JPM Facility approximates its fair value. The Company funded each purchase of Class A Notes by Race Street through a capital contribution to Race Street. As of June 30, 2016 and December 31, 2015, Race Street's liability under the JPM Facility was \$650,000 and \$800,000, plus \$3,756 and \$5,633, respectively, of accrued interest expense. The Class A Notes issued by Locust Street and purchased by Race Street eliminate in consolidation on the Company's financial statements.

As of June 30, 2016 and December 31, 2015, the fair value of assets held by Locust Street was \$1,391,119 and \$1,661,239, respectively, which included assets purchased by Locust Street with proceeds from the issuance of Class A Notes. As of June 30, 2016 and December 31, 2015, the fair value of assets held by Race Street was \$696,904 and \$817,593, respectively.

The Company incurred costs of \$425 in connection with obtaining the JPM Facility, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the JPM Facility. As of June 30, 2016, all of the deferred financing costs have been amortized to interest expense.

For the three and six months ended June 30, 2016 and 2015, the components of total interest expense for the JPM Facility were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Direct interest expense	\$ 5,522	\$ 7,073	\$11,885	\$14,792
Amortization of deferred financing costs	—	26	—	52
Total interest expense	\$ 5,522	\$ 7,099	\$11,885	\$14,844

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Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 8. Financing Arrangements (continued)

For the six months ended June 30, 2016 and 2015, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the JPM Facility were as follows:

	Six Months Ended June 30,	
	2016	2015
Cash paid for interest expense ⁽¹⁾	\$ 13,762	\$ 17,582
Average borrowings under the facility	\$723,352	\$905,249
Effective interest rate on borrowings	3.25%	3.25%
Weighted average interest rate	3.25%	3.25%

(1) Interest under the JPM Facility is paid quarterly in arrears.

Amounts outstanding under the JPM Facility will be considered borrowings of the Company for purposes of complying with the asset coverage requirements applicable to BDCs under the 1940 Act.

4.000% Notes due 2019

On July 14, 2014, the Company and U.S. Bank National Association, or U.S. Bank, entered into an indenture, or the base indenture, and a first supplemental indenture thereto, or together with the base indenture and any supplemental indentures thereto, the indenture, relating to the Company's issuance of \$400,000 aggregate principal amount of its 4.000% notes due 2019, or the 4.000% notes.

The 4.000% notes will mature on July 15, 2019 and may be redeemed in whole or in part at the Company's option at any time or from time to time at the applicable redemption price set forth in the indenture. The 4.000% notes bear interest at a rate of 4.000% per year, payable semi-annually on January 15 and July 15 of each year, commencing on January 15, 2015. The 4.000% notes are general unsecured obligations of the Company that rank senior in right of payment to all of the Company's existing and future indebtedness that is expressly subordinated in right of payment to the 4.000% notes and rank *pari passu* with all outstanding and future unsecured unsubordinated indebtedness issued by the Company.

In addition, on the occurrence of a "change of control repurchase event," as defined in the indenture, the Company will generally be required to make an offer to purchase the outstanding 4.000% notes at a price equal to 100% of the principal amount of such notes plus accrued and unpaid interest to the repurchase date.

The indenture contains certain covenants, including covenants requiring the Company to comply with the asset coverage requirements of Section 18(a)(1) (A) of the 1940 Act, as modified by Section 61(a)(1) of the 1940 Act, whether or not it is subject to those requirements, and to provide financial information to the holders of the 4.000% notes and U.S. Bank if the Company is no longer subject to the reporting requirements under the Securities Exchange Act of 1934, as amended, or the Exchange Act. These covenants are subject to limitations and exceptions that are described in the indenture.

As of June 30, 2016 and December 31, 2015, \$400,000 of the 4.000% notes was outstanding. As of June 30, 2016, the fair value of the 4.000% notes was approximately \$405,565. The Company incurred costs of \$569 in connection with issuing the 4.000% notes, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the 4.000% notes. As of June 30,

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 8. Financing Arrangements (continued)

2016, \$340 of such deferred financing costs had yet to be amortized to interest expense. In connection with issuing the 4.000% notes, the Company has charged \$5,608 of discount against the carrying amount of such notes. As of June 30, 2016, \$3,406 of such discount had yet to be amortized to interest expense.

For the three and six months ended June 30, 2016 and 2015, the components of total interest expense for the 4.000% notes were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Direct interest expense	\$ 3,845	\$ 4,023	\$ 7,633	\$ 7,971
Amortization of deferred financing costs and discount	307	310	615	619
Total interest expense	<u>\$ 4,152</u>	<u>\$ 4,333</u>	<u>\$ 8,248</u>	<u>\$ 8,590</u>

For the six months ended June 30, 2016 and 2015, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the 4.000% notes were as follows:

	Six Months Ended June 30,	
	2016	2015
Cash paid for interest expense ⁽¹⁾	\$ 8,000	\$ 8,044
Average borrowings under the 4.000% notes	\$400,000	\$400,000
Effective interest rate on borrowings	4.00%	4.00%
Weighted average interest rate	4.00%	4.00%

(1) Interest under the 4.000% notes is paid semi-annually in arrears.

4.250% Notes due 2020

On December 3, 2014, the Company and U.S. Bank entered into a second supplemental indenture to the base indenture relating to the Company's issuance of \$325,000 aggregate principal amount of its 4.250% notes due 2020, or the 4.250% notes.

The 4.250% notes will mature on January 15, 2020 and may be redeemed in whole or in part at the Company's option at any time or from time to time at the applicable redemption price set forth in the indenture. The 4.250% notes bear interest at a rate of 4.250% per year, payable semi-annually on January 15 and July 15 of each year, commencing on July 15, 2015. The 4.250% notes are general unsecured obligations of the Company that rank senior in right of payment to all of the Company's existing and future indebtedness that is expressly subordinated in right of payment to the 4.250% notes and rank *pari passu* with all outstanding and future unsecured unsubordinated indebtedness issued by the Company.

In addition, on the occurrence of a "change of control repurchase event," as defined in the indenture, the Company will generally be required to make an offer to purchase the outstanding 4.250% notes at a price equal to 100% of the principal amount of such notes plus accrued and unpaid interest to the repurchase date.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 8. Financing Arrangements (continued)

The indenture contains certain covenants, including covenants requiring the Company to comply with the asset coverage requirements of Section 18(a)(1) (A) of the 1940 Act, as modified by Section 61(a)(1) of the 1940 Act, whether or not it is subject to those requirements, and to provide financial information to the holders of the 4.250% notes and U.S. Bank if the Company is no longer subject to the reporting requirements under the Exchange Act. These covenants are subject to limitations and exceptions that are described in the indenture.

As of June 30, 2016 and December 31, 2015, \$325,000 of the 4.250% notes was outstanding. As of June 30, 2016, the fair value of the 4.250% notes was approximately \$331,047. The Company incurred costs of \$839 in connection with issuing the 4.250% notes, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the 4.250% notes. As of June 30, 2016, \$581 of such deferred financing costs had yet to be amortized to interest expense. In connection with issuing the 4.250% notes, the Company has charged \$4,115 of discount against the carrying amount of such notes. As of June 30, 2016, \$2,847 of such discount had yet to be amortized to interest expense.

For the three and six months ended June 30, 2016 and 2015, the components of total interest expense for the 4.250% notes were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Direct interest expense	\$ 3,453	\$ 3,512	\$ 6,906	\$ 6,921
Amortization of deferred financing costs and discount	241	241	482	486
Total interest expense	\$ 3,694	\$ 3,753	\$ 7,388	\$ 7,407

For the six months ended June 30, 2016 and 2015, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the 4.250% notes were as follows:

	Six Months Ended June 30,	
	2016	2015
Cash paid for interest expense ⁽¹⁾	\$ 6,906	—
Average borrowings under the 4.250% notes	\$325,000	\$325,000
Effective interest rate on borrowings	4.25%	4.25%
Weighted average interest rate	4.25%	4.25%

(1) Interest under the 4.250% notes is paid semi-annually in arrears.

4.750% Notes due 2022

On April 30, 2015, the Company and U.S. Bank entered into a third supplemental indenture to the base indenture relating to the Company's issuance of \$275,000 aggregate principal amount of its 4.750% notes due 2022, or the 4.750% notes.

The 4.750% notes will mature on May 15, 2022 and may be redeemed in whole or in part at the Company's option at any time or from time to time at the applicable redemption price set forth in the indenture. The 4.750%

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 8. Financing Arrangements (continued)

notes bear interest at a rate of 4.750% per year payable semi-annually on May 15 and November 15 of each year, commencing on November 15, 2015. The 4.750% notes are general unsecured obligations of the Company that rank senior in right of payment to all of the Company's existing and future indebtedness that is expressly subordinated in right of payment to the 4.750% notes and rank *pari passu* with all outstanding and future unsecured unsubordinated indebtedness issued by the Company.

In addition, on the occurrence of a "change of control repurchase event," as defined in the indenture, the Company will generally be required to make an offer to purchase the outstanding 4.750% notes at a price equal to 100% of the principal amount of such notes plus accrued and unpaid interest to the repurchase date.

The indenture contains certain covenants, including covenants requiring the Company to comply with the asset coverage requirements of Section 18(a)(1) (A) of the 1940 Act, as modified by Section 61(a)(1) of the 1940 Act, whether or not it is subject to those requirements, and to provide financial information to the holders of the 4.750% notes and U.S. Bank if the Company is no longer subject to the reporting requirements under the Exchange Act. These covenants are subject to limitations and exceptions that are described in the indenture.

As of June 30, 2016 and December 31, 2015, \$275,000 of the 4.750% notes was outstanding. As of June 30, 2016, the fair value of the 4.750% notes was approximately \$279,676. The Company incurred costs of \$469 in connection with issuing the 4.750% notes, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the 4.750% notes. As of June 30, 2016, \$397 of such deferred financing costs had yet to be amortized to interest expense. In connection with issuing the 4.750% notes, the Company has charged \$3,344 of discount against the carrying amount of such notes. As of June 30, 2016, \$2,787 of such discount had yet to be amortized to interest expense.

For the three and six months ended June 30, 2016 and 2015, the components of total interest expense for the 4.750% notes were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Direct interest expense	\$ 3,266	\$ 2,250	\$ 6,531	\$ 2,250
Amortization of deferred financing costs and discount	136	86	271	86
Total interest expense	\$ 3,402	\$ 2,336	\$ 6,802	\$ 2,336

For the six months ended June 30, 2016 and 2015, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the 4.750% notes were as follows:

	Six Months Ended June 30,	
	2016	2015
Cash paid for interest expense ⁽¹⁾	\$ 6,531	—
Average borrowings under the 4.750% notes ⁽²⁾	\$275,000	\$275,000
Effective interest rate on borrowings	4.75%	4.75%
Weighted average interest rate	4.75%	4.75%

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 8. Financing Arrangements (continued)

- (1) Interest under the 4.750% notes is paid semi-annually in arrears.
- (2) For the six months ended June 30, 2015, average borrowings under the 4.750% notes are calculated for the period from the date of issuance to June 30, 2015.

Note 9. Commitments and Contingencies

The Company enters into contracts that contain a variety of indemnification provisions. The Company's maximum exposure under these arrangements is unknown; however, the Company has not had prior claims or losses pursuant to these contracts. Management of FB Advisor has reviewed the Company's existing contracts and expects the risk of loss to the Company to be remote.

The Company is not currently subject to any material legal proceedings and, to the Company's knowledge, no material legal proceedings are threatened against the Company. From time to time, the Company may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of the Company's rights under contracts with its portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, the Company does not expect that any such proceedings will have a material effect upon its financial condition or results of operations.

See Note 6 for a discussion of the Company's unfunded commitments.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 10. Financial Highlights

The following is a schedule of financial highlights of the Company for the six months ended June 30, 2016 and the year ended December 31, 2015:

	Six Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2015
Per Share Data:⁽¹⁾		
Net asset value, beginning of period	\$ 9.10	\$ 9.83
Results of operations⁽²⁾		
Net investment income (loss)	0.44	1.10
Net realized and unrealized appreciation (depreciation) on investments and gain/loss on foreign currency	0.09	(0.94)
Net increase (decrease) in net assets resulting from operations	0.53	0.16
Stockholder distributions⁽³⁾		
Distributions from net investment income	(0.45)	(0.75)
Distributions from net realized gain on investments	—	(0.14)
Net decrease in net assets resulting from stockholder distributions	(0.45)	(0.89)
Capital share transactions		
Issuance of common stock ⁽⁴⁾	0.00	0.00
Net increase (decrease) in net assets resulting from capital share transactions	—	—
Net asset value, end of period	\$ 9.18	\$ 9.10
Per share market value, end of period	\$ 9.05	\$ 8.99
Shares outstanding, end of period	243,488,590	242,847,016
Total return based on net asset value ⁽⁵⁾	5.82%	1.63%
Total return based on market value ⁽⁶⁾	5.72%	(0.78)%
Ratio/Supplemental Data:		
Net assets, end of period	\$ 2,234,322	\$ 2,208,928
Ratio of net investment income to average net assets ⁽⁷⁾	4.90%	11.25%
Ratio of total operating expenses to average net assets ⁽⁷⁾	4.89%	8.90%
Portfolio turnover ⁽⁸⁾	11.37%	39.93%
Total amount of senior securities outstanding, exclusive of treasury securities	\$ 1,707,854	\$ 1,834,625
Asset coverage per unit ⁽⁹⁾	2.31	2.20

(1) Per share data may be rounded in order to recompute the ending net asset value per share.

(2) The per share data was derived by using the weighted average shares outstanding during the applicable period.

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 10. Financial Highlights (continued)

- (3) The per share data for distributions reflect the actual amount of distributions paid per share during the applicable period.
- (4) The issuance of common stock on a per share basis reflects the incremental net asset value changes as a result of the issuance of shares of common stock, as applicable, pursuant to the Company's DRP. The issuance of common stock at a price that is greater than the net asset value per share results in an increase in net asset value per share. The per share impact of the Company's DRP is an increase to the net asset value of less than \$0.01 per share during the six months ended June 30, 2016 and year ended December 31, 2015.
- (5) The total return based on net asset value for each period presented was calculated by taking the net asset value per share as of the end of the applicable period, adding the cash distributions per share that were declared during the period and dividing the total by the net asset value per share at the beginning of the period. Total return based on net asset value does not consider the effect of any sales commissions or charges that may be incurred in connection with the sale of shares of the Company's common stock. The historical calculation of total return based on net asset value in the table should not be considered a representation of the Company's future total return based on net asset value, which may be greater or less than the return shown in the table due to a number of factors, including the Company's ability or inability to make investments in companies that meet its investment criteria, the interest rates payable on the debt securities the Company acquires, the level of the Company's expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which the Company encounters competition in its markets and general economic conditions. As a result of these factors, results for any previous period should not be relied upon as being indicative of performance in future periods. The total return calculations set forth above represent the total return on the Company's investment portfolio during the applicable period and do not represent an actual return to stockholders.
- (6) The total return based on market value for the six months ended June 30, 2016 and year ended December 31, 2015, respectively, was calculated based on the change in market price during the applicable period, including the impact of distributions reinvested in accordance with the Company's DRP. Total return based on market value does not consider the effect of any sales commissions or charges that may be incurred in connection with the sale of shares of the Company's common stock. The historical calculation of total return based on market value in the table should not be considered a representation of the Company's future total return based on market value, which may be greater or less than the return shown in the table due to a number of factors, including the Company's ability or inability to make investments in companies that meet its investment criteria, the interest rates payable on the debt securities the Company acquires, the level of the Company's expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which the Company encounters competition in its markets, general economic conditions and fluctuations in per share market value. As a result of these factors, results for any previous period should not be relied upon as being indicative of performance in future periods.
- (7) Weighted average net assets during the applicable period are used for this calculation. The following is a schedule of supplemental ratios for the six months ended June 30, 2016 and year ended December 31, 2015:

	Six Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2015
Ratio of accrued capital gains incentive fees to average net assets	—	(0.89)%
Ratio of subordinated income incentive fees to average net assets	1.23%	2.59%
Ratio of interest expense to average net assets	1.70%	3.19%
Ratio of excise taxes to average net assets	—	0.26%

FS Investment Corporation
Notes to Unaudited Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 10. Financial Highlights (continued)

- (8) Portfolio turnover for the six months ended June 30, 2016 is not annualized.
- (9) Asset coverage per unit is the ratio of the carrying value of the Company's total consolidated assets, less liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(in thousands, except share and per share amounts)

The information contained in this section should be read in conjunction with our unaudited consolidated financial statements and related notes thereto appearing elsewhere in this quarterly report on Form 10-Q. In this report, "we," "us," "our" and the "Company" refer to FS Investment Corporation.

Forward-Looking Statements

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

- our future operating results;
- our business prospects and the prospects of the companies in which we may invest;
- the impact of the investments that we expect to make;
- the ability of our portfolio companies to achieve their objectives;
- our current and expected financings and investments;
- receiving and maintaining corporate credit ratings and changes in the general interest rate environment;
- the adequacy of our cash resources, financing sources and working capital;
- the timing and amount of cash flows, distributions and dividends, if any, from our portfolio companies;
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with FB Advisor, FS Investment Advisor, LLC, FS Energy and Power Fund, FSIC II Advisor, LLC, FS Investment Corporation II, FSIC III Advisor, LLC, FS Investment Corporation III, FSIC IV Advisor, LLC, FS Investment Corporation IV, FS Global Advisor, LLC, FS Global Credit Opportunities Fund, GDFM or any of their affiliates;
- the dependence of our future success on the general economy and its effect on the industries in which we may invest;
- our use of financial leverage;
- the ability of FB Advisor to locate suitable investments for us and to monitor and administer our investments;
- the ability of FB Advisor or its affiliates to attract and retain highly talented professionals;
- our ability to maintain our qualification as a RIC and as a BDC;
- the impact on our business of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended, and the rules and regulations issued thereunder;
- the effect of changes to tax legislation and our tax position; and
- the tax status of the enterprises in which we may invest.

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

- changes in the economy;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters;

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- future changes in laws or regulations and conditions in our operating areas; and
- the price at which shares of our common stock may trade on the NYSE.

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 on Form 10-Q. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. Stockholders are advised to consult any additional disclosures that we may make directly to stockholders or through reports that we may file in the future with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this quarterly report on Form 10-Q are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Exchange Act.

Overview

We were incorporated under the general corporation laws of the State of Maryland on December 21, 2007 and formally commenced investment operations on January 2, 2009. We are an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a BDC under the 1940 Act and has elected to be treated for U.S. federal income tax purposes, and intends to qualify annually, as a RIC under Subchapter M of the Code.

On April 16, 2014, shares of our common stock began trading on the NYSE under the ticker symbol “FSIC”. This listing accomplished our goal of providing our stockholders with greatly enhanced liquidity.

Our investment activities are managed by FB Advisor and supervised by our board of directors, a majority of whom are independent. Under the July 2014 investment advisory agreement, we have agreed to pay FB Advisor an annual base management fee based on the average value of our gross assets and an incentive fee based on our performance. FB Advisor has engaged GDFM to act as our investment sub-advisor. GDFM assists FB Advisor in identifying investment opportunities and makes investment recommendations for approval by FB Advisor according to guidelines set by FB Advisor.

Our investment objectives are to generate current income and, to a lesser extent, long-term capital appreciation. We have identified and intend to focus on the following investment categories, which we believe will allow us to generate an attractive total return with an acceptable level of risk.

Direct Originations: We intend to leverage our relationship with GDFM and its global sourcing and origination platform, including its industry relationships, to directly source investment opportunities. Such investments are originated or structured for us or made by us and are not generally available to the broader market. These investments may include both debt and equity components, although we do not generally make equity investments independent of having an existing credit relationship. We believe directly originated investments may offer higher returns and more favorable protections than broadly syndicated transactions.

Opportunistic: We intend to seek to capitalize on market price inefficiencies by investing in loans, bonds and other securities where the market price of such investment reflects a lower value than deemed warranted by our fundamental analysis. We believe that market price inefficiencies may occur due to, among other things, general dislocations in the markets, a misunderstanding by the market of a particular company or an industry being out of favor with the broader investment community. We seek to allocate capital to these securities that have been misunderstood or mispriced by the market and where we believe there is an opportunity to earn an attractive return on our investment. Such opportunities may include event driven investments, anchor orders and CLOs.

In the case of event driven investments, we intend to take advantage of dislocations that arise in the markets due to an impending event and where the market’s apparent expectation of value differs substantially from our

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fundamental analysis. Such events may include a looming debt maturity or default, a merger, spin-off or other corporate reorganization, an adverse regulatory or legal ruling, or a material contract expiration, any of which may significantly improve or impair a company's financial position. Compared to other investment strategies, event driven investing depends more heavily on our ability to successfully predict the outcome of an individual event rather than on underlying macroeconomic fundamentals. As a result, successful event driven strategies may offer both substantial diversification benefits and the ability to generate performance in uncertain market environments.

We may also invest in certain opportunities that are originated and then syndicated by a commercial or investment bank, but where we provide a capital commitment significantly above the average syndicate participant, i.e., an anchor order. In these types of investments, we may receive fees, preferential pricing or other benefits not available to other lenders in return for our significant capital commitment. Our decision to provide an anchor order to a syndicated transaction is predicated on a rigorous credit analysis, our familiarity with a particular company, industry or financial sponsor, and the broader investment experiences of FB Advisor and GDFM.

In addition, our relationship with GSO Capital Partners LP, the parent of GDFM, and one of the largest CLO managers in the world, allows us to opportunistically invest in CLOs. CLOs are a form of securitization where the cash flow from a pooled basket of syndicated loans is used to support distribution payments made to different tranches of securities. While collectively CLOs represent nearly fifty percent of the broadly syndicated loan universe, investing in individual CLO tranches requires a high degree of investor sophistication due to their structural complexity and the illiquid nature of their securities.

Broadly Syndicated/Other: Although our primary focus is to invest in directly originated transactions and opportunistic investments, in certain circumstances we will also invest in the broadly syndicated loan and high yield markets. Broadly syndicated loans and bonds are generally more liquid than our directly originated investments and provide a complement to our less liquid strategies. In addition, and because we typically receive more attractive financing terms on these positions than we do on our less liquid assets, we are able to leverage the broadly syndicated portion of our portfolio in such a way that maximizes the levered return potential of our portfolio.

Our portfolio is comprised primarily of investments in senior secured loans and second lien secured loans of private middle market U.S. companies and, to a lesser extent, subordinated loans of private U.S. companies. Although we do not expect a significant portion of our portfolio to be comprised of subordinated loans, there is no limit on the amount of such loans in which we may invest. We may purchase interests in loans or make other debt investments, including investments in senior secured bonds, through secondary market transactions in the "over-the-counter" market or directly from our target companies as primary market or directly originated investments. In connection with our debt investments, we may on occasion receive equity interests such as warrants or options as additional consideration. We may also purchase or otherwise acquire minority interests in the form of common or preferred equity or equity-related securities, such as rights and warrants that may be converted into or exchanged for common stock or other equity or the cash value of common stock or other equity, in our target companies, generally in conjunction with one of our debt investments or through a co-investment with a financial sponsor, such as an institutional investor or private equity firm. In addition, a portion of our portfolio may be comprised of corporate bonds, CLOs, other debt securities and derivatives, including total return swaps and credit default swaps. FB Advisor will seek to tailor our investment focus as market conditions evolve. Depending on market conditions, we may increase or decrease our exposure to less senior portions of the capital structure or otherwise make opportunistic investments.

The senior secured loans, second lien secured loans and senior secured bonds in which we invest generally have stated terms of three to seven years and subordinated debt investments that we make generally have stated terms of up to ten years, but the expected average life of such securities is generally between three and seven years. However, there is no limit on the maturity or duration of any security in our portfolio. Our debt investments may be rated by a nationally recognized statistical rating organization and, in such case, generally

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will carry a rating below investment grade (rated lower than “Baa3” by Moody’s Investors Service, Inc. or lower than “BBB-” by Standard & Poor’s Ratings Services). We also invest in non-rated debt securities.

Revenues

The principal measure of our financial performance is net increase in net assets resulting from operations, which includes net investment income, net realized gain or loss on investments, net realized gain or loss on foreign currency, net unrealized appreciation or depreciation on investments and net unrealized gain or loss on foreign currency. Net investment income is the difference between our income from interest, dividends, fees and other investment income and our operating and other expenses. Net realized gain or loss on investments is the difference between the proceeds received from dispositions of portfolio investments and their amortized cost, including the respective realized gain or loss on foreign currency for those foreign denominated investment transactions. Net realized gain or loss on foreign currency is the portion of realized gain or loss attributable to foreign currency fluctuations. Net unrealized appreciation or depreciation on investments is the net change in the fair value of our investment portfolio, including the respective unrealized gain or loss on foreign currency for those foreign denominated investments. Net unrealized gain or loss on foreign currency is the net change in the value of receivables or accruals due to the impact of foreign currency fluctuations.

We principally generate revenues in the form of interest income on the debt investments we hold. In addition, we generate revenues in the form of non-recurring commitment, closing, origination, structuring or diligence fees, monitoring fees, fees for providing managerial assistance, consulting fees, prepayment fees and performance-based fees. Any such fees generated in connection with our investments will be recognized as earned. We may also generate revenues in the form of dividends and other distributions on the equity or other securities we hold.

Expenses

Our primary operating expenses include the payment of management and incentive fees and other expenses under the July 2014 investment advisory agreement and the administration agreement, interest expense from financing facilities and other indebtedness, and other expenses necessary for our operations. The management and incentive fees compensate FB Advisor for its work in identifying, evaluating, negotiating, executing, monitoring and servicing our investments. FB Advisor is responsible for compensating our investment sub-adviser.

FB Advisor oversees our day-to-day operations, including the provision of general ledger accounting, fund accounting, legal services, investor relations and other administrative services. FB Advisor also performs, or oversees the performance of, our corporate operations and required administrative services, which includes being responsible for the financial records that we are required to maintain and preparing reports for our stockholders and reports filed with the SEC. In addition, FB Advisor assists us in calculating our net asset value, overseeing the preparation and filing of tax returns and the printing and dissemination of reports to our stockholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others.

Pursuant to the administration agreement, we reimburse FB Advisor for expenses necessary to perform services related to our administration and operations, including FB Advisor’s allocable portion of the compensation and related expenses of certain personnel of Franklin Square Holdings providing administrative services to us on behalf of FB Advisor. We reimburse FB Advisor no less than quarterly for all costs and expenses incurred by FB Advisor in performing its obligations and providing personnel and facilities under the administration agreement. FB Advisor allocates the cost of such services to us based on factors such as total assets, revenues, time allocations and/or other reasonable metrics. Our board of directors reviews the methodology employed in determining how the expenses are allocated to us and the proposed allocation of administrative expenses among us and certain affiliates of FB Advisor. Our board of directors then assesses the

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reasonableness of such reimbursements for expenses allocated to us based on the breadth, depth and quality of such services as compared to the estimated cost to us of obtaining similar services from third-party service providers known to be available. In addition, our board of directors considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, our board of directors compares the total amount paid to FB Advisor for such services as a percentage of our net assets to the same ratio as reported by other comparable BDCs.

We bear all other expenses of our operations and transactions. For additional information regarding these expenses, please see our annual report on Form 10-K for the year ended December 31, 2015.

In addition, we have contracted with State Street Bank and Trust Company to provide various accounting and administrative services, including, but not limited to, preparing preliminary financial information for review by FB Advisor, preparing and monitoring expense budgets, maintaining accounting and corporate books and records, processing trade information provided by us and performing testing with respect to RIC compliance.

Portfolio Investment Activity for the Three and Six Months Ended June 30, 2016 and for the Year Ended December 31, 2015

During the six months ended June 30, 2016, we made investments in portfolio companies totaling \$445,419. During the same period, we sold investments for proceeds of \$270,562 and received principal repayments of \$311,605. As of June 30, 2016, our investment portfolio, with a total fair value of \$3,934,628 (53% in first lien senior secured loans, 15% in second lien senior secured loans, 5% in senior secured bonds, 11% in subordinated debt, 2% in collateralized securities and 14% in equity/other), consisted of interests in 108 portfolio companies. The portfolio companies that comprised our portfolio as of such date had an average annual EBITDA of approximately \$112.9 million. As of June 30, 2016, the debt investments in our portfolio were purchased at a weighted average price of 98.1% of par, and our estimated gross portfolio yield (which represents the expected annualized yield to be generated by us on our investment portfolio based on the composition of our portfolio as of such date), prior to leverage, was 9.3% based upon the amortized cost of our investments. For the six months ended June 30, 2016, our total return based on net asset value was 5.82% and our total return based on market value was 5.72%.

During the year ended December 31, 2015, we made investments in portfolio companies totaling \$1,647,620. During the same period, we sold investments for proceeds of \$607,368 and received principal repayments of \$1,018,152. As of December 31, 2015, our investment portfolio, with a total fair value of \$4,029,371 (54% in first lien senior secured loans, 15% in second lien senior secured loans, 6% in senior secured bonds, 11% in subordinated debt, 2% in collateralized securities and 12% in equity/other), consisted of interests in 114 portfolio companies. The portfolio companies that comprised our portfolio as of such date had an average annual EBITDA of approximately \$113.2 million. As of December 31, 2015, the debt investments in our portfolio were purchased at a weighted average price of 98.3% of par, and our estimated gross portfolio yield, prior to leverage, was 9.8% based upon the amortized cost of our investments. For the year ended December 31, 2015, our total return based on net asset value was 1.63% and our total return based on market value was (0.78)%.

Our estimated gross portfolio yield may be higher than an investor's yield on an investment in shares of our common stock. Our estimated gross portfolio yield does not reflect operating expenses that may be incurred by us. In addition, our estimated gross portfolio yield and total return figures disclosed above do not consider the effect of any sales commissions or charges that may be incurred in connection with the sale of shares of our common stock. Our estimated gross portfolio yield and total return based on net asset value do not represent actual investment returns to stockholders. Our estimated gross portfolio yield and total return figures are subject to change and, in the future, may be greater or less than the rates set forth above. See footnotes 5 and 6 to the table included in Note 10 to our unaudited consolidated financial statements included herein for information regarding the calculation of our total return based on net asset value and total return based on market value, respectively.

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Total Portfolio Activity

The following tables present certain selected information regarding our portfolio investment activity for the three and six months ended June 30, 2016:

Net Investment Activity	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2016
Purchases	\$ 389,802	\$ 445,419
Sales and Redemptions	(413,039)	(582,167)
Net Portfolio Activity	\$ (23,237)	\$ (136,748)

New Investment Activity by Asset Class	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2016	
	Purchases	Percentage	Purchases	Percentage
Senior Secured Loans—First Lien	\$ 269,707	69%	\$ 289,650	65%
Senior Secured Loans—Second Lien	17,941	5%	17,941	4%
Senior Secured Bonds	8,060	2%	8,060	2%
Subordinated Debt	19,184	5%	30,700	7%
Collateralized Securities	4,551	1%	4,551	1%
Equity/Other	70,359	18%	94,517	21%
Total	\$ 389,802	100%	\$ 445,419	100%

The following table summarizes the composition of our investment portfolio at cost and fair value as of June 30, 2016 and December 31, 2015:

	June 30, 2016 (Unaudited)			December 31, 2015		
	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio
Senior Secured Loans—First Lien	\$2,132,313	\$2,089,177	53%	\$2,248,419	\$2,173,829	54%
Senior Secured Loans—Second Lien	643,054	611,771	15%	661,742	624,814	15%
Senior Secured Bonds	278,400	179,815	5%	344,196	240,754	6%
Subordinated Debt	474,748	418,187	11%	492,658	438,414	11%
Collateralized Securities	92,708	87,746	2%	94,694	85,007	2%
Equity/Other	436,377	547,932	14%	353,477	466,553	12%
Total	\$4,057,600	\$3,934,628	100%	\$4,195,186	\$4,029,371	100%

(1) Amortized costs represent the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.

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The following table presents certain selected information regarding the composition of our investment portfolio as of June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Number of Portfolio Companies	108	114
% Variable Rate (based on fair value)	65.5%	66.8%
% Fixed Rate (based on fair value)	20.6%	21.6%
% Income Producing Equity/Other Investments (based on fair value)	3.7%	4.1%
% Non-Income Producing Equity/Other Investments (based on fair value)	10.2%	7.5%
Average Annual EBITDA of Portfolio Companies	\$112,900	\$ 113,200
Weighted Average Purchase Price of Debt Investments (as a % of par)	98.1%	98.3%
% of Investments on Non-Accrual (based on fair value)	0.3%	—
Gross Portfolio Yield Prior to Leverage (based on amortized cost)	9.3%	9.8%
Gross Portfolio Yield Prior to Leverage (based on amortized cost)—Excluding Non-Income Producing Assets	10.2%	10.4%

Direct Originations

The following tables present certain selected information regarding our direct originations for the three and six months ended June 30, 2016:

New Direct Originations	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2016
Total Commitments (including unfunded commitments)	\$ 398,896	\$ 442,494
Exited Investments (including partial paydowns)	(386,600)	(500,215)
Net Direct Originations	<u>\$ 12,296</u>	<u>\$ (57,721)</u>

New Direct Originations by Asset Class (including unfunded commitments)	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2016	
	Commitment Amount	Percentage	Commitment Amount	Percentage
Senior Secured Loans—First Lien	\$ 304,571	76%	\$ 313,232	71%
Senior Secured Loans—Second Lien	22,028	6%	22,028	5%
Senior Secured Bonds	8,141	2%	8,141	2%
Subordinated Debt	10,500	3%	21,729	5%
Collateralized Securities	—	—	—	—
Equity/Other	53,656	13%	77,364	17%
Total	<u>\$ 398,896</u>	<u>100%</u>	<u>\$ 442,494</u>	<u>100%</u>

	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2016
Average New Direct Origination Commitment Amount	\$ 49,862	\$ 34,038
Weighted Average Maturity for New Direct Originations	7/21/20	11/4/20
Gross Portfolio Yield Prior to Leverage (based on amortized cost) of New Direct Originations Funded during Period	9.1%	8.7%
Gross Portfolio Yield Prior to Leverage (based on amortized cost) of New Direct Originations Funded during Period—Excluding Non-Income Producing Assets	10.8%	10.8%
Gross Portfolio Yield Prior to Leverage (based on amortized cost) of Direct Originations Exited during Period	10.3%	10.0%

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The following table presents certain selected information regarding our direct originations as of June 30, 2016 and December 31, 2015:

Characteristics of All Direct Originations held in Portfolio	June 30, 2016	December 31, 2015
Number of Portfolio Companies	68	71
Average Annual EBITDA of Portfolio Companies	\$ 65,400	\$ 61,500
Average Leverage Through Tranche of Portfolio Companies—Excluding Equity/Other and Collateralized Securities	5.4x	4.9x
% of Investments on Non-Accrual	0.1%	—
Gross Portfolio Yield Prior to Leverage (based on amortized cost) of Funded Direct Originations	9.3%	9.7%
Gross Portfolio Yield Prior to Leverage (based on amortized cost) of Funded Direct Originations—Excluding Non-Income Producing Assets	10.1%	10.4%

Portfolio Composition by Strategy and Industry

The table below summarizes the composition of our investment portfolio by strategy and enumerates the percentage, by fair value, of the total portfolio assets in such strategies as of June 30, 2016 and December 31, 2015:

Portfolio Composition by Strategy	June 30, 2016		December 31, 2015	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Direct Originations	\$3,346,315	85%	\$3,434,588	85%
Opportunistic	484,305	12%	488,969	12%
Broadly Syndicated/Other	104,008	3%	105,814	3%
Total	\$3,934,628	100%	\$4,029,371	100%

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets in such industries as of June 30, 2016 and December 31, 2015:

Industry Classification	June 30, 2016 (Unaudited)		December 31, 2015	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Automobiles & Components	\$ 26,853	1%	\$ 95,950	2%
Capital Goods	839,417	21%	906,387	22%
Commercial & Professional Services	367,014	9%	327,407	8%
Consumer Durables & Apparel	260,462	7%	259,789	6%
Consumer Services	407,957	10%	426,534	11%
Diversified Financials	161,729	4%	154,651	4%
Energy	468,267	12%	365,698	9%
Food, Beverage & Tobacco	—	—	10,648	0%
Health Care Equipment & Services	204,488	5%	195,420	5%
Materials	300,887	8%	275,429	7%
Media	121,795	3%	126,742	3%
Retailing	26,732	1%	64,647	2%
Semiconductors & Semiconductor Equipment	4,953	0%	5,530	0%
Software & Services	381,977	10%	425,992	11%
Technology Hardware & Equipment	106,983	3%	127,682	3%
Telecommunication Services	154,672	4%	160,206	4%
Transportation	100,442	2%	100,659	3%
Total	\$3,934,628	100%	\$4,029,371	100%

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As of June 30, 2016, except for JW Aluminum Co., in which we have a second lien secured loan investment, a senior secured bond investment and two equity/other investments, we did not “control” any of our portfolio companies, as defined in the 1940 Act. As of June 30, 2016, except for Allen Systems Group, Inc., in which we have two senior secured loan investments and two equity/other investments, and Fronton Investor Holdings, LLC, in which we have an equity/other investment, we were not an “affiliated person” of any of our portfolio companies, as defined in the 1940 Act. In general, under the 1940 Act, we would be presumed to “control” a portfolio company if we owned more than 25% of its voting securities or we had the power to exercise control over the management or policies of such portfolio company, and would be an “affiliated person” of a portfolio company if we owned 5% or more of its voting securities.

Our investment portfolio may contain loans and other unfunded arrangements that are in the form of lines of credit, revolving credit facilities, delayed draw credit facilities or other investments, which require us to provide funding when requested by portfolio companies in accordance with the terms of the underlying agreements. As of June 30, 2016, we had seventeen unfunded debt investments with aggregate unfunded commitments of \$161,101 and one unfunded commitment to purchase up to \$217 in shares of preferred stock of Altus Power America Holdings, LLC. As of December 31, 2015, we had nineteen unfunded debt investments with aggregate unfunded commitments of \$129,660, one unfunded commitment to purchase up to \$467 in shares of preferred stock of Altus Power America Holdings, LLC and one unfunded equity investment in Sunnova Holdings, LLC with an unfunded commitment of \$123. We maintain sufficient cash on hand and available borrowings to fund such unfunded commitments should the need arise. For additional details regarding our unfunded debt investments, see our unaudited consolidated schedule of investments as of June 30, 2016 and audited consolidated schedule of investments as of December 31, 2015.

Portfolio Asset Quality

In addition to various risk management and monitoring tools, FB Advisor uses an investment rating system to characterize and monitor the expected level of returns on each investment in our portfolio. FB Advisor uses an investment rating scale of 1 to 5. The following is a description of the conditions associated with each investment rating:

Investment Rating	Summary Description
1	Investment exceeding expectations and/or capital gain expected.
2	Performing investment generally executing in accordance with the portfolio company’s business plan—full return of principal and interest expected.
3	Performing investment requiring closer monitoring.
4	Underperforming investment—some loss of interest or dividend possible, but still expecting a positive return on investment.
5	Underperforming investment with expected loss of interest and some principal.

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The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value as of June 30, 2016 and December 31, 2015:

Investment Rating	June 30, 2016		December 31, 2015	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
1	\$ 494,919	12%	\$ 723,402	18%
2	2,713,013	69%	2,748,923	68%
3	637,662	16%	501,659	13%
4	24,392	1%	44,046	1%
5	64,642	2%	11,341	0%
Total	<u>\$3,934,628</u>	<u>100%</u>	<u>\$4,029,371</u>	<u>100%</u>

The amount of the portfolio in each grading category may vary substantially from period to period resulting primarily from changes in the composition of the portfolio as a result of new investment, repayment and exit activities. In addition, changes in the grade of investments may be made to reflect our expectation of performance and changes in investment values.

Results of Operations

Comparison of the Three Months Ended June 30, 2016 and June 30, 2015

Revenues

We generated investment income of \$110,211 and \$147,731 for the three months ended June 30, 2016 and 2015, respectively, in the form of interest and fees earned on senior secured loans (first and second lien), senior secured bonds, subordinated debt and collateralized securities in our portfolio and dividends and other distributions earned on equity/other investments. Such revenues represent \$101,555 and \$139,374 of cash income earned as well as \$8,656 and \$8,357 in non-cash portions relating to accretion of discount and PIK interest for the three months ended June 30, 2016 and 2015, respectively. Cash flows related to such non-cash revenues may not occur for a number of reporting periods or years after such revenues are recognized.

During the three months ended June 30, 2016 and 2015, we generated \$94,243 and \$116,491, respectively, of interest income, which represented 85.5% and 78.9%, respectively, of total investment income. The level of interest income we receive is generally related to the balance of income-producing investments, multiplied by the weighted average yield of our investments.

During the three months ended June 30, 2016 and 2015, we generated \$15,968 and \$25,721, respectively, of fee income, which represented 14.5% and 17.4%, respectively, of total investment income. Fee income is transaction based, and typically consists of amendment and consent fees, prepayment fees, structuring fees and other non-recurring fees. As such, fee income is generally dependent on new direct origination investments and the occurrence of events at existing portfolio companies resulting in such fees.

The decrease in interest and fee income during the three months ended June 30, 2016 compared to the three months ended June 30, 2015 was primarily due to the prepayment of several large investments during the three months ended June 30, 2015.

During the three months ended June 30, 2016 and 2015, we generated \$0 and \$5,519, respectively, of dividend income. The decrease in dividend income was due primarily to a one-time dividend paid in respect of one of our investments during the three months ended June 30, 2015.

Expenses

Our total expenses were \$53,371 and \$54,207 for the three months ended June 30, 2016 and 2015, respectively. Our operating expenses include base management fees attributed to FB Advisor of \$17,574 and

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\$19,103 for the three months ended June 30, 2016 and 2015, respectively. Our expenses also include administrative services expenses attributed to FB Advisor of \$900 and \$882 for the three months ended June 30, 2016 and 2015, respectively.

FB Advisor is eligible to receive incentive fees based on our performance. During the three months ended June 30, 2016, we accrued a subordinated incentive fee on income of \$14,210. As of June 30, 2016, a subordinated incentive fee on income of \$14,210 was payable to FB Advisor. During the three months ended June 30, 2015, we accrued a subordinated incentive fee on income of \$21,271. During the three months ended June 30, 2016, we accrued no capital gains incentive fees based on the performance of our portfolio. During the three months ended June 30, 2015, we reversed capital gains incentive fees of \$8,355 based on the performance of our portfolio. See “—Critical Accounting Policies—Capital Gains Incentive Fee” for additional information about how the incentive fees are calculated.

We recorded interest expense of \$18,064 and \$19,048 for the three months ended June 30, 2016 and 2015, respectively, in connection with our financing arrangements. The fees incurred with our fund administrator, which provides various accounting and administrative services to us, totaled \$235 and \$285 for the three months ended June 30, 2016 and 2015, respectively. Fees for our board of directors were \$274 and \$229 for the three months ended June 30, 2016 and 2015, respectively.

Our other general and administrative expenses totaled \$2,114 and \$1,744 for the three months ended June 30, 2016 and 2015, respectively, and consisted of the following:

	Three Months Ended June 30,	
	2016	2015
Expenses associated with our independent audit and related fees	\$ 132	\$ 122
Legal fees	398	302
Printing fees	251	99
Stock transfer agent fees	29	30
Other	1,304	1,191
Total	<u>\$ 2,114</u>	<u>\$ 1,744</u>

Other expenses for the three months ended June 30, 2016 include \$469 of breakage fees associated with the partial paydown of the JPM Facility.

During the three months ended June 30, 2016 and 2015, the ratio of our expenses to our average net assets was 2.44% and 2.26%, respectively. Our ratio of expenses to our average net assets during the three months ended June 30, 2016 and 2015 includes \$18,064 and \$19,048, respectively, related to interest expense and \$14,210 and \$12,916, respectively, related to accruals for incentive fees. Without such expenses, our ratio of expenses to average net assets would have been 0.97% and 0.93% for the three months ended June 30, 2016 and 2015, respectively. Incentive fees and interest expense, among other things, may increase or decrease our expense ratios relative to comparative periods depending on portfolio performance and changes in amounts outstanding under our financing arrangements and benchmark interest rates such as LIBOR, among other factors. The higher ratio of adjusted expenses to average net assets during the three months ended June 30, 2016, compared to the three months ended June 30, 2015, can primarily be attributed to a decline in average net assets for the three months ended June 30, 2016.

Net Investment Income

Our net investment income totaled \$56,840 (\$0.23 per share) and \$93,524 (\$0.39 per share) for the three months ended June 30, 2016 and 2015, respectively. The decrease in net investment income can be attributed to the decrease in investment income for the three months ended June 30, 2016.

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Net Realized Gains or Losses

We sold investments and received principal repayments of \$204,716 and \$208,323, respectively, during the three months ended June 30, 2016, from which we realized a net loss of \$7,648. We also realized a net gain of \$94 from settlements on foreign currency during the three months ended June 30, 2016. We sold investments and received principal repayments of \$245,199 and \$502,010, respectively, during the three months ended June 30, 2015, from which we realized a net loss of \$24,174. We also realized a net loss of \$1,007 from settlements on foreign currency during the three months ended June 30, 2015.

Net Change in Unrealized Appreciation (Depreciation) on Investments and Unrealized Gain (Loss) on Foreign Currency

For the three months ended June 30, 2016, the net change in unrealized appreciation (depreciation) on investments totaled \$89,546 and the net change in unrealized gain (loss) on foreign currency totaled \$1,325. For the three months ended June 30, 2015, the net change in unrealized appreciation (depreciation) on investments totaled \$(16,251) and the net change in unrealized gain (loss) on foreign currency totaled \$(386). The net change in unrealized appreciation (depreciation) on our investments during the three months ended June 30, 2016 was driven by improvement in the high yield markets, a general tightening of credit spreads and specific improvements with respect to certain of our energy investments.

Net Increase (Decrease) in Net Assets Resulting from Operations

For the three months ended June 30, 2016, the net decrease in net assets resulting from operations was \$140,157 (\$0.58 per share) compared to a net increase in net assets resulting from operations of \$51,706 (\$0.21 per share) during the three months ended June 30, 2015.

Comparison of the Six Months Ended June 30, 2016 and June 30, 2015

Revenues

We generated investment income of \$213,274 and \$256,366 for the six months ended June 30, 2016 and 2015, respectively, in the form of interest and fees earned on senior secured loans (first and second lien), senior secured bonds, subordinated debt and collateralized securities in our portfolio and dividends and other distributions earned on equity/other investments. Such revenues represent \$193,322 and \$240,094 of cash income earned as well as \$19,952 and \$16,272 in non-cash portions relating to accretion of discount and PIK interest, for the six months ended June 30, 2016 and 2015, respectively. Cash flows related to such non-cash revenues may not occur for a number of reporting periods or years after such revenues are recognized.

During the six months ended June 30, 2016 and 2015, we generated \$195,440 and \$220,430, respectively, of interest income, which represented 91.6% and 86.0%, respectively, of total investment income. The level of interest income we receive is generally related to the balance of income-producing investments, multiplied by the weighted average yield of our investments.

During the six months ended June 30, 2016 and 2015, we generated \$17,610 and \$30,417, respectively, of fee income, which represented 8.3% and 11.9%, respectively, of total investment income. Fee income is transaction-based, and typically consists of prepayment fees, structuring fees, amendment and consent fees and other non-recurring fees. As such, fee income is generally dependent on new direct origination investments and the occurrence of prepayments and other events at existing portfolio companies resulting in such fees.

The decrease in interest and fee income in the aggregate is due primarily to decreased prepayment activity during the six months ended June 30, 2016.

During the six months ended June 30, 2016 and 2015, we generated \$224 and \$5,519, respectively, of dividend income. The decrease in dividend income was due primarily to a one-time dividend paid in respect of one of our investments during the six months ended June 30, 2015.

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Expenses

Our net expenses were \$106,496 and \$111,193 for the six months ended June 30, 2016 and 2015, respectively. Our operating expenses include base management fees attributed to FB Advisor of \$35,386 and \$38,141 for the six months ended June 30, 2016 and 2015, respectively. Our expenses also include administrative services expenses attributed to FB Advisor of \$2,096 and \$1,873 for the six months ended June 30, 2016 and 2015, respectively.

FB Advisor is eligible to receive incentive fees based on our performance. During the six months ended June 30, 2016, we accrued a subordinated incentive fee on income of \$26,695. As of June 30, 2016, a subordinated incentive fee on income of \$14,210 was payable to FB Advisor. During the six months ended June 30, 2015, we accrued a subordinated incentive fee on income of \$35,176. During the six months ended June 30, 2016, we accrued no capital gains incentive fees based on the performance of our portfolio. During the six months ended June 30, 2015, we reversed capital gains incentive fees of \$4,607 based on the performance of our portfolio. See “—Critical Accounting Policies—Capital Gains Incentive Fee” for additional information about how the incentive fees are calculated.

We recorded interest expense of \$36,958 and \$36,347 for the six months ended June 30, 2016 and 2015, respectively, in connection with our financing arrangements. The fees incurred with our fund administrator, which provides various accounting and administrative services to us, totaled \$463 and \$561 for the six months ended June 30, 2016 and 2015, respectively. Fees for our board of directors were \$503 and \$456 for the six months ended June 30, 2016 and 2015, respectively.

Our other general and administrative expenses totaled \$4,395 and \$3,246 for the six months ended June 30, 2016 and 2015, respectively, and consisted of the following:

	Six Months Ended June 30,	
	2016	2015
Expenses associated with our independent audit and related fees	\$ 244	\$ 259
Compensation of our chief compliance officer ⁽¹⁾	—	25
Legal fees	695	673
Printing fees	696	198
Stock transfer agent fees	119	110
Other	2,641	1,981
Total	\$ 4,395	\$ 3,246

(1) On April 1, 2015, James F. Volk was appointed as our chief compliance officer. Prior to that date, we had contracted with Vigilant Compliance, LLC to provide the services of Salvatore Faia as our chief compliance officer. Mr. Volk is employed by Franklin Square Holdings and will not receive any direct compensation from us in this capacity.

Other expenses during the six months ended June 30, 2016 include \$938 of breakage fees associated with the partial paydown of the JPM Facility.

During the six months ended June 30, 2016 and 2015, the ratio of our expenses to our average net assets was 4.89% and 4.67%, respectively. Our ratio of expenses to our average net assets during the six months ended June 30, 2016 and 2015 includes \$36,958 and \$36,347, respectively, related to interest expense and \$26,695 and \$30,569, respectively, related to accruals for incentive fees. Without such expenses, our ratio of expenses to average net assets would have been 1.96% and 1.86% for the six months ended June 30, 2016 and 2015, respectively. Incentive fees and interest expense, among other things, may increase or decrease our expense ratios relative to comparative periods depending on portfolio performance and changes in amounts outstanding

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under our financing arrangements and benchmark interest rates such as LIBOR, among other factors. The higher ratio of expenses to average net assets, excluding incentive fees and interest expense, during the six months ended June 30, 2016, compared to the six months ended June 30, 2015, can primarily be attributed to a decline in average net assets during the six months ended June 30, 2016.

Net Investment Income

Our net investment income totaled \$106,778 (\$0.44 per share) and \$145,173 (\$0.60 per share) for the six months ended June 30, 2016 and 2015, respectively. The decrease in net investment income can be attributed to the decrease in investment income for the six months ended June 30, 2016.

Net Realized Gains or Losses

We sold investments and received principal repayments of \$270,562 and \$311,605, respectively, during the six months ended June 30, 2016, from which we realized a net loss of \$21,427. We also realized a net gain of \$178 from settlements on foreign currency during the six months ended June 30, 2016. We sold investments and received principal repayments of \$339,533 and \$645,031, respectively, during the six months ended June 30, 2015, from which we realized a net loss of \$20,889. We also realized a net loss of \$897 from settlements on foreign currency during the six months ended June 30, 2015.

Net Change in Unrealized Appreciation (Depreciation) on Investments and Unrealized Gain (Loss) on Foreign Currency

For the six months ended June 30, 2016, the net change in unrealized appreciation (depreciation) on investments totaled \$42,843 and the net change in unrealized gain (loss) on foreign currency totaled \$(312). For the six months ended June 30, 2015, the net change in unrealized appreciation (depreciation) on investments totaled \$(4,317) and the net change in unrealized gain (loss) on foreign currency totaled \$3,062. The net change in unrealized appreciation (depreciation) on our investments during the six months ended June 30, 2016 was driven by improvement in the high yield markets, a general tightening of credit spreads and specific improvements with respect to certain of our energy investments.

Net Increase (Decrease) in Net Assets Resulting from Operations

For the six months ended June 30, 2016, the net increase in net assets resulting from operations was \$128,060 (\$0.53 per share), compared to a net increase in net assets resulting from operations of \$122,132 (\$0.51 per share) during the six months ended June 30, 2015.

Financial Condition, Liquidity and Capital Resources

Overview

As of June 30, 2016, we had \$44,170 in cash and foreign currency, which we or our wholly-owned financing subsidiaries held in custodial accounts, and \$242,146 in borrowings available under our financing arrangements, subject to borrowing base and other limitations. As of June 30, 2016, we also had broadly syndicated investments and opportunistic investments that could be sold to create additional liquidity. As of June 30, 2016, we had seventeen unfunded debt investments with aggregate unfunded commitments of \$161,101 and one unfunded equity investment with an unfunded commitment of \$217. We maintain sufficient cash on hand and available borrowings to fund such unfunded commitments should the need arise.

We currently generate cash primarily from cash flows from fees, interest and dividends earned from our investments, as well as principal repayments and proceeds from sales of our investments. To seek to enhance our returns, we also employ leverage as market conditions permit and at the discretion of FB Advisor, but in no event will leverage employed exceed 50% of the value of our assets, as required by the 1940 Act. See “—Financing Arrangements.”

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Prior to investing in securities of portfolio companies, we invest the cash received from fees, interest and dividends earned from our investments and principal repayments and proceeds from sales of our investments primarily in cash, cash equivalents, U.S. government securities, repurchase agreements and high-quality debt instruments maturing in one year or less from the time of investment, consistent with our BDC election and our election to be taxed as a RIC.

Financing Arrangements

The following table presents summary information with respect to our outstanding financing arrangements as of June 30, 2016:

<u>Arrangement</u>	<u>Type of Arrangement</u>	<u>Rate</u>	<u>Amount Outstanding</u>	<u>Amount Available</u>	<u>Maturity Date</u>
ING Credit Facility	Revolving Credit Facility	L+2.50%	\$ 57,854 ⁽¹⁾	\$ 242,146	April 3, 2018
JPM Facility	Repurchase Agreement	3.25%	\$ 650,000	\$ —	April 15, 2017
4.000% Notes due 2019	Unsecured Notes	4.00%	\$ 400,000	\$ —	July 15, 2019
4.250% Notes due 2020	Unsecured Notes	4.25%	\$ 325,000	\$ —	January 15, 2020
4.750% Notes due 2022	Unsecured Notes	4.75%	\$ 275,000	\$ —	May 15, 2022

(1) Amount includes borrowing in U.S. dollars and Euros. Euro balance outstanding of €43,350 has been converted to U.S. dollars at an exchange rate of €1.00 to \$1.10 as of June 30, 2016 to reflect total amount outstanding in U.S. dollars.

Our average borrowings and weighted average interest rate, including the effect of non-usage fees, for the six months ended June 30, 2016 were \$1,811,616 and 3.82%, respectively. As of June 30, 2016, our weighted average effective interest rate on borrowings, including the effect of non-usage fees, was 3.98%.

For additional information regarding our financing arrangements, see Note 8 to our unaudited consolidated financial statements included herein.

RIC Status and Distributions

We have elected to be subject to tax as a RIC under Subchapter M of the Code. In order to qualify for RIC tax treatment, we must, among other things, make distributions of an amount at least equal to 90% of our investment company taxable income, determined without regard to any deduction for distributions paid, each tax year. As long as the distributions are declared by the later of the fifteenth day of the ninth month following the close of a tax year or the due date of the tax return for such tax year, including extensions, distributions paid up to twelve months after the current tax year can be carried back to the prior tax year for determining the distributions paid in such tax year. We intend to make sufficient distributions to our stockholders to qualify for and maintain our RIC tax status each tax year. We are also subject to a 4% nondeductible federal excise taxes on certain undistributed income unless we make distributions in a timely manner to our stockholders generally of an amount at least equal to the sum of (1) 98% of our net ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income, which is the excess of capital gains in excess of capital losses, or "capital gain net income" (adjusted for certain ordinary losses), for the one-year period ending October 31 of that calendar year and (3) any net ordinary income and capital gain net income for the preceding years that were not distributed during such years and on which we paid no U.S. federal income tax. Any distribution declared by us during October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following calendar year, will be treated as if it had been paid by us, as well as received by our U.S. stockholders, on December 31 of the calendar year in which the distribution was declared. We can offer no assurance that we will achieve results that will permit us to pay any cash distributions. If we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

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Effective January 1, 2015 and subject to applicable legal restrictions and the sole discretion of our board of directors, we intend to authorize, declare and pay regular cash distributions on a quarterly basis. We will calculate each stockholder's specific distribution amount for the period using record and declaration dates and each stockholder's distributions will begin to accrue on the date that shares of our common stock are issued to such stockholder. From time to time, we may also pay special interim distributions in the form of cash or shares of our common stock at the discretion of our board of directors. The timing and amount of any future distributions to stockholders are subject to applicable legal restrictions and the sole discretion of our board of directors.

During certain periods, our distributions may exceed our earnings. As a result, it is possible that a portion of the distributions we make may represent a return of capital. A return of capital generally is a return of a stockholder's investment rather than a return of earnings or gains derived from our investment activities. Each year a statement on Form 1099-DIV identifying the sources of the distributions will be mailed to our stockholders. No portion of the distributions paid during the six months ended June 30, 2016 or 2015 represented a return of capital.

We intend to continue to make our regular distributions in the form of cash, out of assets legally available for distribution, except for those stockholders who receive their distributions in the form of shares of our common stock under the DRP. Any distributions reinvested under the plan will nevertheless remain taxable to a U.S. stockholder.

The following table reflects the cash distributions per share that we have declared on our common stock during the six months ended June 30, 2016 and 2015:

For the Three Months Ended	Distribution	
	Per Share	Amount
Fiscal 2015		
March 31, 2015	\$0.2228	\$53,706
June 30, 2015	\$0.2228	\$53,839
Fiscal 2016		
March 31, 2016	\$0.2228	\$54,093
June 30, 2016	\$0.2228	\$54,238

On August 2, 2016, our board of directors declared a regular quarterly cash distribution of \$0.22275 per share, which will be paid on or about October 4, 2016 to stockholders of record as of the close of business on September 21, 2016. The timing and amount of any future distributions to stockholders are subject to applicable legal restrictions and the sole discretion of our board of directors.

Pursuant to our DRP, we will reinvest all cash dividends or distributions declared by our board of directors on behalf of stockholders who do not elect to receive their distributions in cash. As a result, if our board of directors declares a distribution, then stockholders who have not elected to "opt out" of the DRP will have their distributions automatically reinvested in additional shares of our common stock.

With respect to each distribution pursuant to the DRP, we reserve the right to either issue new shares of common stock or purchase shares of common stock in the open market in connection with implementation of the DRP. Unless in our sole discretion, we otherwise direct the plan administrator, (A) if the per share market price (as defined in the DRP) is equal to or greater than the estimated net asset value per share (rounded up to the nearest whole cent) of our common stock on the payment date for the distribution, then we will issue shares of common stock at the greater of (i) net asset value per share of common stock or (ii) 95% of the market price; or (B) if the market price is less than the net asset value per share, then, in our sole discretion, (i) shares of common stock will be purchased in open market transactions for the accounts of participants to the extent practicable, or (ii) we will issue shares of common stock at net asset value per share. Pursuant to the terms of the DRP, the

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number of shares of common stock to be issued to a participant will be determined by dividing the total dollar amount of the distribution payable to a participant by the price per share at which we issue such shares; provided, however, that shares purchased in open market transactions by the plan administrator will be allocated to a participant based on the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased in the open market.

If a stockholder receives distributions in the form of common stock pursuant to the DRP, such stockholder generally will be subject to the same federal, state and local tax consequences as if it elected to receive distributions in cash. If our common stock is trading at or below net asset value, a stockholder receiving distributions in the form of additional common stock will be treated as receiving a distribution in the amount of cash that they would have received if they had elected to receive the distribution in cash. If our common stock is trading above net asset value, a stockholder receiving distributions in the form of additional common stock will be treated as receiving a distribution in the amount of the fair market value of our common stock. The stockholder's basis for determining gain or loss upon the sale of common stock received in a distribution will be equal to the total dollar amount of the distribution payable to the stockholder. Any stock received in a distribution will have a holding period for tax purposes commencing on the day following the day on which the shares of common stock are credited to the stockholder's account.

We may fund our cash distributions to stockholders from any sources of funds legally available to us, including proceeds from the sale of shares of our common stock, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets and dividends or other distributions paid to us on account of preferred and common equity investments in portfolio companies. We have not established limits on the amount of funds we may use from available sources to make distributions. There can be no assurance that we will be able to pay distributions at a specific rate or at all.

The following table reflects the sources of the cash distributions on a tax basis that we have paid on our common stock during the six months ended June 30, 2016 and 2015:

Source of Distribution	Six Months Ended June 30,			
	2016		2015	
	Distribution Amount	Percentage	Distribution Amount	Percentage
Offering proceeds	\$ —	—	\$ —	—
Borrowings	—	—	—	—
Net investment income ⁽¹⁾	108,331	100%	107,545	100%
Short-term capital gains proceeds from the sale of assets	—	—	—	—
Long-term capital gains proceeds from the sale of assets	—	—	—	—
Non-capital gains proceeds from the sale of assets	—	—	—	—
Distributions on account of preferred and common equity	—	—	—	—
Total	<u>\$ 108,331</u>	<u>100%</u>	<u>\$ 107,545</u>	<u>100%</u>

(1) During the six months ended June 30, 2016 and 2015, 90.7% and 93.7%, respectively, of our gross investment income was attributable to cash income earned, 2.1% and 2.1%, respectively, was attributable to non-cash accretion of discount and 7.2% and 4.2%, respectively, was attributable to PIK interest.

Our net investment income on a tax basis for the six months ended June 30, 2016 and 2015, was \$104,372 and \$113,037, respectively. As of June 30, 2016 and December 31, 2015, we had \$152,597 and \$156,556, respectively, of undistributed net investment income, and \$43,545 and \$29,888, respectively, of accumulated capital losses on a tax basis.

See Note 5 to our unaudited consolidated financial statements included herein for additional information regarding our distributions, including a reconciliation of our GAAP-basis net investment income to our tax-basis net investment income for the six months ended June 30, 2016 and 2015.

Critical Accounting Policies

Our financial statements are prepared in conformity with GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Critical accounting policies are those that require the application of management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. In preparing the financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In preparing the financial statements, management has utilized available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of companies in similar businesses. As we execute our operating plans, we will describe additional critical accounting policies in the notes to our future financial statements in addition to those discussed below.

Valuation of Portfolio Investments

We determine the net asset value of our investment portfolio each quarter. Securities are valued at fair value as determined in good faith by our board of directors. In connection with that determination, FB Advisor provides our board of directors with portfolio company valuations which are based on relevant inputs, including, but not limited to, indicative dealer quotes, values of like securities, recent portfolio company financial statements and forecasts, and valuations prepared by independent third-party valuation services.

Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosure*, or ASC Topic 820, issued by the FASB, clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. ASC Topic 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, which includes inputs such as quoted prices for similar securities in active markets and quoted prices for identical securities where there is little or no activity in the market; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

With respect to investments for which market quotations are not readily available, we undertake a multi-step valuation process each quarter, as described below:

- our quarterly fair valuation process begins with FB Advisor's management team reviewing and documenting valuations of each portfolio company or investment, which valuations may be obtained from an independent third-party valuation service, if applicable;
- FB Advisor's management team then provides the valuation committee with the preliminary valuations for each portfolio company or investment;
- preliminary valuations are then discussed with the valuation committee;
- our valuation committee reviews the preliminary valuations and FB Advisor's management team, together with our independent third-party valuation services, if applicable, supplement the preliminary valuations to reflect any comments provided by the valuation committee;
- following its review, the valuation committee will recommend that our board of directors approve our fair valuations; and

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- our board of directors discusses the valuations and determines the fair value of each such investment in our portfolio in good faith based on various statistical and other factors, including the input and recommendation of FB Advisor, the valuation committee and any independent third-party valuation services, if applicable.

Determination of fair value involves subjective judgments and estimates. Accordingly, the notes to our consolidated financial statements refer to the uncertainty with respect to the possible effect of such valuations and any change in such valuations on our consolidated financial statements. In making its determination of fair value, our board of directors may use any approved independent third-party pricing or valuation services. However, our board of directors is not required to determine fair value in accordance with the valuation provided by any single source, and may use any relevant data, including information obtained from FB Advisor or any approved independent third-party valuation or pricing service that our board of directors deems to be reliable in determining fair value under the circumstances. Below is a description of factors that FB Advisor's management team, any approved independent third-party valuation services and our board of directors may consider when determining the fair value of our investments.

Valuation of fixed income investments, such as loans and debt securities, depends upon a number of factors, including prevailing interest rates for like securities, expected volatility in future interest rates, call features, put features and other relevant terms of the debt. For investments without readily available market prices, we may incorporate these factors into discounted cash flow models to arrive at fair value. Other factors that may be considered include the borrower's ability to adequately service its debt, the fair market value of the borrower in relation to the face amount of its outstanding debt and the quality of collateral securing our debt investments.

For convertible debt securities, fair value generally approximates the fair value of the debt plus the fair value of an option to purchase the underlying security (i.e., the security into which the debt may convert) at the conversion price. To value such an option, a standard option pricing model may be used.

Our equity interests in portfolio companies for which there is no liquid public market are valued at fair value. Our board of directors, in its determination of fair value, may consider various factors, such as multiples of EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. All of these factors may be subject to adjustments based upon the particular circumstances of a portfolio company or our actual investment position. For example, adjustments to EBITDA may take into account compensation to previous owners or acquisition, recapitalization, restructuring or other related items.

FB Advisor's management team, any approved independent third-party valuation services and our board of directors may also consider private merger and acquisition statistics, public trading multiples discounted for illiquidity and other factors, valuations implied by third-party investments in the portfolio companies or industry practices in determining fair value. FB Advisor's management team, any approved independent third-party valuation services and our board of directors may also consider the size and scope of a portfolio company and its specific strengths and weaknesses, and may apply discounts or premiums, where and as appropriate, due to the higher (or lower) financial risk and/or the smaller size of portfolio companies relative to comparable firms, as well as such other factors as our board of directors, in consultation with FB Advisor's management team and any approved independent third-party valuation services, if applicable, may consider relevant in assessing fair value. Generally, the value of our equity interests in public companies for which market quotations are readily available is based upon the most recent closing public market price. Portfolio securities that carry certain restrictions on sale are typically valued at a discount from the public market value of the security.

When we receive warrants or other equity securities at nominal or no additional cost in connection with an investment in a debt security, the cost basis in the investment will be allocated between the debt securities and any such warrants or other equity securities received at the time of origination. Our board of directors subsequently values these warrants or other equity securities received at their fair value.

The fair values of our investments are determined in good faith 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

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faith pursuant to our valuation policy and consistently applied valuation process. Our board of directors has delegated day-to-day responsibility for implementing our valuation policy to FB Advisor's management team, and has authorized FB Advisor's management team to utilize independent third-party valuation and pricing services that have been approved by our board of directors. The valuation committee is responsible for overseeing FB Advisor's implementation of the valuation process.

Our investments as of June 30, 2016 consisted primarily of debt investments that were acquired directly from the issuer. Sixty-one senior secured loan investments, three senior secured bond investments, fifteen subordinated debt investments and one collateralized security, for which broker quotes were not available, were valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, the borrower's ability to adequately service its debt, prevailing interest rates for like investments, expected cash flows, call features and other relevant terms of the debt. Except as described below, all of our equity/other investments were also valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, contractual rights ascribed to such investments, as well as various income scenarios and multiples of EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. Two equity investments, which were traded on an active public market, were valued at their respective closing price as of June 30, 2016. One senior secured bond investment, which was newly issued and purchased near June 30, 2016, was valued at cost as the Company's board of directors determined that the cost of such investment was the best indication of its fair value. Except as described above, we valued our other investments by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by independent third-party pricing services and screened for validity by such services.

Our investments as of December 31, 2015 consisted primarily of debt investments that were acquired directly from the issuer. Sixty senior secured loan investments, three senior secured bond investments, fourteen subordinated debt investments and one collateralized security, for which broker quotes were not available, were valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, the borrower's ability to adequately service its debt, prevailing interest rates for like investments, expected cash flows, call features and other relevant terms of the debt. Except as described below, all of our equity/other investments were also valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, contractual rights ascribed to such investments, as well as various income scenarios and multiples of EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. One equity investment, which was traded on an active public market, was valued at its closing price as of December 31, 2015. Two senior secured loan investments, which were newly issued and purchased near December 31, 2015, were valued at cost as our board of directors determined that the cost of each such investment was the best indication of its fair value. Except as described above, we valued our other investments by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by independent third-party pricing services and screened for validity by such services.

We periodically benchmark the bid and ask prices we receive from the third-party pricing services and/or dealers, as applicable, against the actual prices at which we purchase and sell our investments. Based on the results of the benchmark analysis and the experience of our management in purchasing and selling these investments, we believe that these prices are reliable indicators of fair value. However, because of the private nature of this marketplace (meaning actual transactions are not publicly reported), we believe that these valuation inputs are classified as Level 3 within the fair value hierarchy. We may also use other methods, including the use of an independent valuation firm, to determine fair value for securities for which we cannot obtain prevailing bid and ask prices through third-party pricing services or independent dealers, or where our board of directors otherwise determines that the use of such other methods is appropriate. We periodically benchmark the valuations provided by the independent valuation firm against the actual prices at which we purchase and sell our investments. The valuation committee and board of directors reviewed and approved the valuation determinations made with respect to these investments in a manner consistent with our valuation policy.

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Revenue Recognition

Security transactions are accounted for on the trade date. We record interest income on an accrual basis to the extent that we expect to collect such amounts. We record dividend income on the ex-dividend date. We do not accrue as a receivable interest or dividends on loans and securities if we have reason to doubt our ability to collect such income. Our policy is to place investments on non-accrual status when there is reasonable doubt that interest income will be collected. We consider many factors relevant to an investment when placing it on or removing it from non-accrual status including, but not limited to, the delinquency status of the investment, economic and business conditions, the overall financial condition of the underlying investment, the value of the underlying collateral, bankruptcy status, if any, and any other facts or circumstances relevant to the investment. If there is reasonable doubt that we will receive any previously accrued interest, then the interest income will be written-off. Payments received on non-accrual investments may be recognized as income or applied to principal depending upon the collectability of the remaining principal and interest. Non-accrual investments may be restored to accrual status when principal and interest become current and are likely to remain current based on our judgment.

Loan origination fees, original issue discount and market discount are capitalized and we amortize such amounts as interest income over the respective term of the loan or security. Upon the prepayment of a loan or security, any unamortized loan origination fees and original issue discount are recorded as interest income. Structuring and other non-recurring upfront fees are recorded as fee income when earned. We record prepayment premiums on loans and securities as fee income when we receive such amounts.

Net Realized Gains or Losses, Net Change in Unrealized Appreciation or Depreciation and Net Change in Unrealized Gains or Losses on Foreign Currency

Gains or losses on the sale of investments are calculated by using the specific identification method. We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized fees. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized gains or losses when gains or losses are realized. Net change in unrealized gains or losses on foreign currency reflects the change in the value of receivables or accruals during the reporting period due to the impact of foreign currency fluctuations.

Capital Gains Incentive Fee

Pursuant to the terms of each of the 2008 investment advisory and administrative services agreement, the April 2014 investment advisory agreement and the July 2014 investment advisory agreement, the incentive fee on capital gains is determined and payable in arrears as of the end of each calendar year (or upon termination of such agreement). Such fee will equal 20.0% of our incentive fee capital gains (i.e., our realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, net of all realized capital losses and unrealized capital depreciation on a cumulative basis), less the aggregate amount of any previously paid capital gains incentive fees. On a quarterly basis, we accrue for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

While none of the 2008 investment advisory and administrative services agreement, the April 2014 investment advisory agreement or the July 2014 investment advisory agreement include or contemplate the inclusion of unrealized gains in the calculation of the capital gains incentive fee, pursuant to an interpretation of an AICPA Technical Practice Aid for investment companies, commencing during the quarter ended December 31, 2010, we changed our methodology for accruing for this incentive fee to include unrealized gains in the calculation of the capital gains incentive fee expense and related accrued capital gains incentive fee. This accrual reflects the incentive fees that would be payable to FB Advisor if our entire portfolio was liquidated at its fair value as of the balance sheet date even though FB Advisor is not entitled to an incentive fee with respect to unrealized gains unless and until such gains are actually realized.

Subordinated Income Incentive Fee

Pursuant to the terms of each of the 2008 investment advisory and administrative services agreement, the April 2014 investment advisory agreement and the July 2014 investment advisory agreement, FB Advisor may also be entitled to receive a subordinated incentive fee on income. The subordinated incentive fee on income under the 2008 investment advisory and administrative services agreement, which was calculated and payable quarterly in arrears, equaled 20.0% of our “pre-incentive fee net investment income” for the immediately preceding quarter and was subject to a hurdle rate, expressed as a rate of return on adjusted capital, as defined in the 2008 investment advisory and administrative services agreement, equal to 2.0% per quarter, or an annualized hurdle rate of 8.0%. As a result, FB Advisor did not earn this incentive fee for any quarter until our pre-incentive fee net investment income for such quarter exceeded the hurdle rate of 2.0%. Once our pre-incentive fee net investment income in any quarter exceeded the hurdle rate, FB Advisor was entitled to a “catch-up” fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until our pre-incentive fee net investment income for such quarter equaled 2.5%, or 10.0% annually, of adjusted capital. Thereafter, FB Advisor received 20.0% of pre-incentive fee net investment income. Under the April 2014 investment advisory agreement, the subordinated incentive fee on income was calculated in the same manner, except that the hurdle rate used to compute the subordinated incentive fee on income was based on the value of our net assets rather than adjusted capital.

Under the July 2014 investment advisory agreement, the hurdle rate, expressed as a rate of return on the value of our net assets, was reduced from 2.0% to 1.875% per quarter, or an annualized hurdle rate of 7.5%. As a result, FB Advisor will not earn this incentive fee for any quarter until our pre-incentive fee net investment income for such quarter exceeds the hurdle rate of 1.875%. Once our pre-incentive fee net investment income in any quarter exceeds the hurdle rate, FB Advisor will be entitled to a “catch-up” fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until our pre-incentive fee net investment income for such quarter equals 2.34375%, or 9.375% annually, of net assets. Thereafter, FB Advisor will be entitled to receive 20.0% of pre-incentive fee net investment income.

Under both the April 2014 investment advisory agreement and the July 2014 investment advisory agreement, the subordinated incentive fee on income is subject to a total return requirement, which provides that no incentive fee in respect of our pre-incentive fee net investment income will be payable except to the extent that 20.0% of the cumulative net increase in net assets resulting from operations over the then-current and eleven preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the eleven preceding calendar quarters. Accordingly, any subordinated incentive fee on income that is payable in a calendar quarter will be limited to the lesser of (i) 20.0% of the amount by which our pre-incentive fee net investment income for such calendar quarter exceeds the applicable quarterly hurdle rate, subject to the “catch-up” provision, and (ii) (x) 20.0% of the cumulative net increase in net assets resulting from operations for the then-current and eleven preceding calendar quarters minus (y) the cumulative incentive fees accrued and/or paid for the eleven preceding calendar quarters. For the foregoing purpose, the “cumulative net increase in net assets resulting from operations” is the sum of our pre-incentive fee net investment income, base management fees, realized gains and losses and unrealized appreciation and depreciation for the then-current and eleven preceding calendar quarters. There will be no accumulation of amounts on the hurdle rate from quarter to quarter and, accordingly, there will be no clawback of amounts previously paid if subsequent quarters are below the applicable quarterly hurdle rate and there will be no delay of payment if prior quarters are below the applicable quarterly hurdle rate.

Uncertainty in Income Taxes

We evaluate our tax positions to determine if the tax positions taken meet the minimum recognition threshold in connection with accounting for uncertainties in income tax positions taken or expected to be taken for the purposes of measuring and recognizing tax benefits or liabilities in our consolidated financial statements. Recognition of a tax benefit or liability with respect to an uncertain tax position is required only when the position is “more likely than not” to be sustained assuming examination by taxing authorities. We recognize

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interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in our consolidated statements of operations. During the six months ended June 30, 2016 and 2015, we did not incur any interest or penalties.

Contractual Obligations

We have entered into agreements with FB Advisor to provide us with investment advisory and administrative services. Payments for investment advisory services under the July 2014 investment advisory agreement are equal to (a) an annual base management fee based on the average value of our gross assets and (b) an incentive fee based on our performance. FB Advisor, and to the extent it is required to provide such services, GDFM, are reimbursed for administrative expenses incurred on our behalf. See Note 4 to our unaudited consolidated financial statements included herein and “—Related Party Transactions— Compensation of the Investment Adviser” for a discussion of these agreements and for the amount of fees and expenses accrued under these agreements during the six months ended June 30, 2016 and 2015.

A summary of our significant contractual payment obligations for the repayment of outstanding indebtedness at June 30, 2016 is as follows:

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
ING Credit Facility ⁽¹⁾	\$ 57,854	—	\$57,854	—	—
JPM Facility ⁽²⁾	\$650,000	\$ 650,000	—	—	—
4.000% Notes due 2019 ⁽³⁾	\$400,000	—	—	\$400,000	—
4.250% Notes due 2020 ⁽⁴⁾	\$325,000	—	—	\$325,000	—
4.750% Notes due 2022 ⁽⁵⁾	\$275,000	—	—	—	\$ 275,000

- (1) At June 30, 2016, \$242,146 remained unused under the ING credit facility. Amounts outstanding under the ING credit facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on April 3, 2018. Amount includes borrowing in U.S. dollars and Euros. Euro balance outstanding of €43,350 has been converted to U.S. dollars at an exchange rate of €1.00 to \$1.10 as of June 30, 2016 to reflect total amount outstanding in U.S. dollars.
- (2) At June 30, 2016, no amounts remained unused under the JPM Facility. Race Street will, on a quarterly basis, repurchase the Class A Notes sold to JPM under the JPM Facility and subsequently resell such Class A Notes to JPM. As of June 30, 2016, the final repurchase transaction was scheduled to occur no later than April 15, 2017.
- (3) All amounts will mature, and all accrued and unpaid interest thereunder will be due and payable, on July 15, 2019.
- (4) All amounts will mature, and all accrued and unpaid interest thereunder will be due and payable, on January 15, 2020.
- (5) All amounts will mature, and all accrued and unpaid interest thereunder will be due and payable, on May 15, 2022.

Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements, including any risk management of commodity pricing or other hedging practices.

Related Party Transactions

Compensation of the Investment Adviser

Pursuant to the 2008 investment advisory and administrative services agreement, the April 2014 investment advisory agreement and the July 2014 investment advisory agreement, FB Advisor is entitled to an annual base management fee based on the average value of our gross assets and an incentive fee based on our performance.

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The investment sub-advisory agreement provides that GDFM will receive 50% of all management and incentive fees payable to FB Advisor under the July 2014 investment advisory agreement with respect to each year. Pursuant to the administration agreement, we also reimburse FB Advisor and GDFM for expenses necessary to perform services related to our administration and operations, including FB Advisor's allocable portion of the compensation and related expenses of certain personnel of Franklin Square Holdings providing administrative services to us on behalf of FB Advisor.

The following table describes the fees and expenses we accrued under the July 2014 investment advisory agreement and the administration agreement, as applicable, during the three and six months ended June 30, 2016 and 2015:

Related Party	Source Agreement	Description	Three Months Ended June 30,		Six Months Ended June 30,	
			2016	2015	2016	2015
FB Advisor	July 2014 Investment Advisory Agreement	Base Management Fee ⁽¹⁾	\$ 17,574	\$ 19,103	\$ 35,386	\$ 38,141
FB Advisor	July 2014 Investment Advisory Agreement	Capital Gains Incentive Fee ⁽²⁾	—	\$ (8,355)	—	\$ (4,607)
FB Advisor	July 2014 Investment Advisory Agreement	Subordinated Incentive Fee on Income ⁽³⁾	\$ 14,210	\$ 21,271	\$ 26,695	\$ 35,176
FB Advisor	Administration Agreement	Administrative Services Expenses ⁽⁴⁾	\$ 900	\$ 882	\$ 2,096	\$ 1,873

- (1) During the six months ended June 30, 2016 and 2015, \$36,227 and \$38,620, respectively, in base management fees were paid to FB Advisor. As of June 30, 2016, \$17,574 in base management fees were payable to FB Advisor.
- (2) During the six months ended June 30, 2015, we reversed capital gains incentive fees of \$4,607 based on the performance of our portfolio. We paid FB Advisor no capital gains incentive fees during the six months ended June 30, 2016. As of June 30, 2016, no capital gains incentive fees were accrued.
- (3) During the six months ended June 30, 2016 and 2015, \$25,859 and \$26,994, respectively, of subordinated incentive fees on income were paid to FB Advisor. As of June 30, 2016, a subordinated incentive fee on income of \$14,210 was payable to FB Advisor.
- (4) During the six months ended June 30, 2016 and 2015, \$1,944 and \$1,471, respectively, of administrative services expenses related to the allocation of costs of administrative personnel for services rendered to us by FB Advisor and the remainder related to other reimbursable expenses. We paid \$2,144 and \$2,518, respectively, in administrative services expenses to FB Advisor during the six months ended June 30, 2016 and 2015.

See Note 4 to our unaudited consolidated financial statements included herein for additional information regarding our agreements with FB Advisor and our other related party transactions and relationships, including our potential conflicts of interest, exemptive relief order and our trademark license agreement with Franklin Square Holdings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are subject to financial market risks, including changes in interest rates. As of June 30, 2016, 65.5% of our portfolio investments (based on fair value) paid variable interest rates, 20.6% paid fixed interest rates, 3.7% were income producing equity or other investments, and the remaining 10.2% consisted of non-income producing equity or other investments. A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to any variable rate investments we hold and to declines in the value of any fixed rate investments we hold. However, many of our variable rate investments provide for an interest rate floor, which may prevent our interest income from increasing until benchmark interest rates increase beyond a threshold amount. To the extent that a substantial portion of our investments may be in variable rate investments, an increase in interest rates beyond this threshold would make it easier for us to meet or exceed the hurdle rate applicable to the subordinated incentive fee on income, and may result in a substantial increase in our net investment income and to the amount of incentive fees payable to FB Advisor with respect to our increased pre-incentive fee net investment income.

Pursuant to the terms of the ING credit facility, we borrow at a floating rate based on a benchmark interest rate. Under the terms of the agreements governing the terms of the JPM Facility, Race Street pays interest to JPM at a fixed rate. Under the indenture governing the 4.000% notes, the 4.250% notes and the 4.750% notes, we pay interest to the holders of such notes at a fixed rate. To the extent that any present or future credit facilities or other financing arrangements that we or any of our subsidiaries enter into are based on a floating interest rate, we will be subject to risks relating to changes in market interest rates. In periods of rising interest rates when we or our subsidiaries have such debt outstanding, or financing arrangements in effect, our interest expense would increase, which could reduce our net investment income, especially to the extent we hold fixed rate investments.

The following table shows the effect over a twelve month period of changes in interest rates on our interest income, interest expense and net interest income, assuming no changes in the composition of our investment portfolio, including the accrual status of our investments, and our financing arrangements in effect as of June 30, 2016 (dollar amounts are presented in thousands):

<u>Basis Point Change in Interest Rates</u>	<u>Increase (Decrease) in Interest Income⁽¹⁾</u>	<u>Increase (Decrease) in Interest Expense</u>	<u>Increase (Decrease) in Net Interest Income</u>	<u>Percentage Change in Net Interest Income</u>
Down 65 basis points	\$ (1,389)	\$ (371)	\$ (1,018)	(0.3)%
No change	—	—	—	—
Up 100 basis points	13,567	570	12,997	4.2%
Up 300 basis points	65,521	1,711	63,810	20.8%
Up 500 basis points	118,035	2,852	115,183	37.6%

(1) Assumes no defaults or prepayments by portfolio companies over the next twelve months.

We expect that our long-term investments will be financed primarily with equity and debt. If deemed prudent, we may use interest rate risk management techniques in an effort to minimize our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. During the six months ended June 30, 2016 and 2015, we did not engage in interest rate hedging activities.

In addition, we may have risk regarding portfolio valuation. See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Valuation of Portfolio Investments.”

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2016.

Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that we would meet our disclosure obligations.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the three month period ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION**Item 1. Legal Proceedings.**

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us. From time to time, we may be party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of any legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material adverse effect upon our financial condition or results of operations.

Item 1A. Risk Factors.

There have been no material changes from the risk factors set forth in our annual report on Form 10-K for the year ended December 31, 2015.

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

The table below provides information concerning purchases of our shares of common stock by or on behalf of the Company or any “affiliated purchaser,” as defined by Rule 10b-18(a)(3) promulgated under the Exchange Act during the quarterly period ended June 30, 2016. Dollar amounts in the table below and the related notes are presented in thousands, except for share and per share amounts.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
April 1 to April 30, 2016	—	—	—	\$ 1,500
May 1 to May 31, 2016	—	—	—	\$ 1,500
June 1 to June 30, 2016	—	—	—	\$ 1,500
	—	—	—	

- (1) On March 31, 2016 and May 17, 2016, Franklin Square Holdings entered into written trading plans in accordance with Rule 10b5-1 and Rule 10b-18 promulgated under the Exchange Act, or the FSH Trading Plans, to facilitate the purchase of shares of our common stock pursuant to the terms and conditions of such plan. Each of the FSH Trading Plans provided for the purchase of up to \$1,500 worth of shares of our common stock, subject to the limitations provided therein. The March 31, 2016 FSH Trading Plan expired with the commencement of the May 17, 2016 FSH Trading Plan.
- (2) The approximate dollar value of shares that could be purchased under the FSH Trading Plan during the applicable period does not reflect any brokerage commissions associated with shares that have not yet been purchased.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

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Item 6. Exhibits

- 3.1 Second Articles of Amendment and Restatement of FS Investment Corporation. *(Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 16, 2014.)*
- 3.2 Second Amended and Restated Bylaws of FS Investment Corporation. *(Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on April 16, 2014.)*
- 4.1 Distribution Reinvestment Plan, effective as of June 2, 2014. *(Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 23, 2014.)*
- 4.2 Indenture, dated as of July 14, 2014, by and between the Company and U.S. Bank National Association, as trustee. *(Incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 filed on August 14, 2014.)*
- 4.3 First Supplemental Indenture, dated as of July 14, 2014, relating to the 4.000% Notes due 2019, by and between the Company and U.S. Bank National Association, as trustee. *(Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on July 15, 2014.)*
- 4.4 Form of 4.000% Notes due 2019. *(Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on July 15, 2014.)*
- 4.5 Second Supplemental Indenture, dated as of December 3, 2014, relating to the 4.250% Notes due 2020, by and between the Company and U.S. Bank National Association, as trustee. *(Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 3, 2014.)*
- 4.6 Form of 4.250% Notes due 2020. *(Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on December 3, 2014.)*
- 4.7 Third Supplemental Indenture, dated as of April 30, 2015, relating to the 4.750% Notes due 2022, by and between the Company and U.S. Bank National Association, as trustee. *(Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on April 30, 2015.)*
- 4.8 Form of 4.750% Notes due 2022. *(Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on April 30, 2015.)*
- 10.1 Amended and Restated Investment Advisory Agreement, dated as of April 16, 2014, by and between FS Investment Corporation and FB Income Advisor, LLC. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 16, 2014.)*
- 10.2 Amended and Restated Investment Advisory Agreement, dated as of July 17, 2014, by and between FS Investment Corporation and FB Income Advisor, LLC. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 22, 2014.)*
- 10.3 Administration Agreement, dated as of April 16, 2014, by and between FS Investment Corporation and FB Income Advisor, LLC. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 16, 2014.)*
- 10.4 Investment Sub-advisory Agreement, dated as of April 3, 2008, by and between FB Income Advisor, LLC and GSO / Blackstone Debt Funds Management LLC. *(Incorporated by reference to Exhibit (g)(2) filed with Amendment No. 2 to the Company's registration statement on Form N-2 (File No. 333-149374) filed on June 19, 2008.)*
- 10.5 Investment Advisory and Administrative Services Agreement, dated as of February 12, 2008, by and between the Company and FB Income Advisor, LLC. *(Incorporated by reference to Exhibit (g) filed with the Company's registration statement on Form N-2 (File No. 333-149374) filed on February 25, 2008.)*

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- 10.6 Custodian Agreement, dated as of November 14, 2011, by and between the Company and State Street Bank and Trust Company. *(Incorporated by reference to Exhibit 10.9 filed with the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 filed on November 14, 2011.)*
- 10.7 Amended and Restated Credit Agreement, dated as of January 28, 2011, by and between Broad Street Funding LLC and Deutsche Bank AG, New York Branch. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 1, 2011.)*
- 10.8 Fourth Amendment to Credit Agreement, dated as of March 23, 2012, by and between Broad Street Funding LLC and Deutsche Bank AG, New York Branch. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 27, 2012.)*
- 10.9 Fifth Amendment to Credit Agreement, dated as of March 22, 2013, by and between Broad Street Funding LLC and Deutsche Bank AG, New York Branch. *(Incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 28, 2013.)*
- 10.10 Sixth Amendment to Credit Agreement, dated as of December 20, 2013, by and between Broad Street Funding LLC and Deutsche Bank AG, New York Branch. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 24, 2013.)*
- 10.11 Seventh Amendment to Credit Agreement, dated as of December 18, 2014, by and between Broad Street Funding LLC and Deutsche Bank AG, New York Branch. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 18, 2014.)*
- 10.12 Tenth Amendment to Credit Agreement, dated as of December 15, 2015 by and between Broad Street Funding LLC and Deutsche Bank AG, New York Branch, as administrative agent and a lender. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 16, 2015.)*
- 10.13 Asset Contribution Agreement, dated as of March 10, 2010, by and between the Company and Broad Street Funding LLC. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 16, 2010.)*
- 10.14 First Amendment to Asset Contribution Agreement, dated as of June 17, 2010, by and between the Company and Broad Street Funding LLC. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 19, 2010.)*
- 10.15 Investment Management Agreement, dated as of March 10, 2010, by and between the Company and Broad Street Funding LLC. *(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 16, 2010.)*
- 10.16 Amended and Restated Security Agreement, dated as of January 28, 2011, by and between Broad Street Funding LLC and Deutsche Bank AG, New York Branch. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 1, 2011.)*
- 10.17 Amended and Restated Investment Management Agreement, dated as of August 29, 2012, by and between the Company and Arch Street Funding LLC. *(Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on August 31, 2012.)*
- 10.18 Amended and Restated Asset Transfer Agreement, dated as of September 26, 2012, by and between the Company and Locust Street Funding LLC. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 1, 2012.)*
- 10.19 Loan Agreement, dated as of August 29, 2012 and amended as of March 31, 2014, by and between Arch Street Funding LLC, the financial institutions and other lenders from time to time party thereto and Citibank, N.A., as administrative agent. *(Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 4, 2014.)*

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- 10.20 Account Control Agreement, dated as of August 29, 2012, by and between Arch Street Funding LLC, Citibank, N.A. and Virtus Group, LP. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 31, 2012.)*
- 10.21 Security Agreement, dated as of August 29, 2012, by and between Arch Street Funding LLC and Citibank, N.A. *(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on August 31, 2012.)*
- 10.22 Agreement and Plan of Merger, dated as of August 29, 2012, by and among Arch Street Funding LLC, Benjamin Loan Funding LLC, Benjamin 2 Loan Funding LLC, Citibank, N.A. and Citibank Financial Products Inc. *(Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on August 31, 2012.)*
- 10.23 Amended and Restated Indenture, dated as of September 26, 2012, by and between Locust Street Funding LLC and Citibank, N.A., as trustee. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 1, 2012.)*
- 10.24 Supplemental Indenture No. 1, dated as of April 23, 2013, by and between Locust Street Funding LLC and Citibank, N.A., as trustee. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 26, 2013.)*
- 10.25 Locust Street Funding LLC Class A Floating Rate Secured Note, due 2021. *(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 21, 2012.)*
- 10.26 Locust Street Funding LLC Class A Floating Rate Secured Note, due 2023. *(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 1, 2012.)*
- 10.27 Locust Street Funding LLC Class A Floating Rate Secured Note, due 2024. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 26, 2013.)*
- 10.28 TBMA/ISMA 2000 Amended and Restated Global Master Repurchase Agreement by and between JPMorgan Chase Bank, N.A., London Branch and Race Street Funding LLC, together with the related Annex and Amended and Restated Confirmation thereto, each dated as of September 26, 2012. *(Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on October 1, 2012.)*
- 10.29 TBMA/ISMA 2000 Amended and Restated Global Master Repurchase Agreement, by and between JPMorgan Chase Bank, N.A., London Branch and Race Street Funding LLC, together with the related Annex and Amended and Restated Confirmation thereto, each dated as of April 23, 2013. *(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 26, 2013.)*
- 10.30 Amended and Restated Confirmation, dated as of February 15, 2012, by and between Race Street Funding LLC and JPMorgan Chase Bank, N.A., London Branch. *(Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on February 21, 2012.)*
- 10.31 Revolving Credit Agreement, dated as of July 21, 2011, by and between the Company and Race Street Funding LLC. *(Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on July 27, 2011.)*
- 10.32 Amendment to Credit Agreement, dated as of September 26, 2012, by and between Race Street Funding LLC and the Company. *(Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on October 1, 2012.)*
- 10.33 Asset Transfer Amendment, dated as of September 26, 2012, by and between the Company and Race Street Funding LLC. *(Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on October 1, 2012.)*

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- 10.34 Amendment Agreement, dated as of October 24, 2013, by and between JPMorgan Chase Bank, N.A., London Branch and Race Street Funding LLC. *(Incorporated by references to Exhibit 10.1 to the Company's Current Report in Form 8-K filed on October 28, 2013.)*
- 10.35 Amended and Restated Collateral Management Agreement, dated as of September 26, 2012, by and between Locust Street Funding LLC and the Company. *(Incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed on October 1, 2012.)*
- 10.36 Amended and Restated Collateral Administration Agreement, dated as of September 26, 2012, by and among Locust Street Funding LLC, the Company and Virtus Group, LP. *(Incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed on October 1, 2012.)*
- 10.37 Collateral Management Agreement, dated as of September 26, 2012, by and between Race Street Funding LLC and the Company. *(Incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed on October 1, 2012.)*
- 10.38 Loan and Servicing Agreement, dated as of May 17, 2012, by and among Walnut Street Funding LLC, Wells Fargo Securities, LLC, Wells Fargo Bank, National Association, and the other lender parties thereto. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 18, 2012.)*
- 10.39 Amendment No. 1 to Loan and Servicing Agreement, dated as of March 11, 2014, by and among Walnut Street Funding LLC, Wells Fargo Securities, LLC and Wells Fargo Bank, National Association. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 12, 2014.)*
- 10.40 Purchase and Sale Agreement, dated as of May 17, 2012, by and between the Company and Walnut Street Funding LLC. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 18, 2012.)*
- 10.41 Collateral Management Agreement, dated as of May 17, 2012, by and between the Company and Walnut Street Funding LLC. *(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 18, 2012.)*
- 10.42 Securities Account Control Agreement, dated as of May 17, 2012, by and between Walnut Street Funding LLC and Wells Fargo Bank, National Association. *(Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on May 18, 2012.)*
- 10.43 Senior Secured Revolving Credit Agreement, dated as of April 3, 2014, by and among FS Investment Corporation, ING Capital LLC, as administrative agent, and the lenders party thereto. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 4, 2014.)*
- 10.44 Guarantee, Pledge and Security Agreement, dated as of April 3, 2014, by and among FS Investment Corporation, ING Capital LLC, as revolving administrative agent and collateral agent, the subsidiary guarantors party thereto and each financing agent and designated indebtedness holder party thereto. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 4, 2014.)*
- 10.45 Second Amended and Restated Control Agreement, dated as of April 8, 2016, by and among FS Investment Corporation, ING Capital LLC, as collateral agent, and State Street Bank and Trust Company. *(Incorporated by reference to Exhibit 10.45 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 filed on May 9, 2016.)*
- 10.46 Trademark License Agreement, dated as of April 16, 2014, by and between FS Investment Corporation and Franklin Square Holdings, L.P. *(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 16, 2014.)*

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- 31.1* Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 31.2* Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 32.1* Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized on August 9, 2016.

FS INVESTMENT CORPORATION

By: _____ /s/ Michael C. Forman

Michael C. Forman
Chief Executive Officer
(Principal Executive Officer)

By: _____ /s/ William Goebel

William Goebel
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION

I, Michael C. Forman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FS Investment Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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.

Date: August 9, 2016

/s/ Michael C. Forman

Michael C. Forman
Chief Executive Officer

CERTIFICATION

I, William Goebel certify that:

1. I have reviewed this quarterly report on Form 10-Q of FS Investment Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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.

Date: August 9, 2016

/s/ William Goebel

William Goebel
Chief Financial Officer

**CERTIFICATION of CEO and CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of FS Investment Corporation (the "Company") for the six months ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), Michael C. Forman, as Chief Executive Officer of the Company, and William Goebel, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Form 10-Q of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2016

/s/ Michael C. Forman

Michael C. Forman
Chief Executive Officer

/s/ William Goebel

William Goebel
Chief Financial Officer