
**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 SEPTEMBER 30, 2011.

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 or other jurisdiction of
incorporation or organization)

26-1630040
(I.R.S. Employer
Identification No.)

Cira Centre
2929 Arch Street, Suite 675
Philadelphia, Pennsylvania 19104
(Address of principal executive office)

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

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 the definitions of "large accelerated filer", "accelerated filer, and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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.

The issuer has 142,002,321 shares of common stock outstanding as of November 11, 2011.

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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)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Investments, at fair value (amortized cost—\$1,380,598 and \$715,514, respectively)	\$ 1,333,937	\$ 733,580
Cash	270,171	38,790
Due from counterparty	69,673	—
Receivable for investments sold and repaid	3,295	5,162
Interest receivable	14,050	3,632
Deferred financing costs	800	835
Receivable due on total return swap ⁽¹⁾	374	—
Prepaid expenses and other assets	22	6
Total assets	\$ 1,692,322	\$ 782,005
Liabilities		
Unrealized loss on total return swap ⁽¹⁾	\$ 7,600	\$ —
Payable for investments purchased	76,352	81,800
Credit facility payable	340,000	297,201
Repurchase agreement payable	109,286	—
Stockholder distributions payable	8,179	2,556
Management fee payable	7,421	3,298
Capital gains incentive fee payable ⁽²⁾	—	5,459
Administrative services expense payable	794	310
Reimbursements payable	—	641
Interest payable	1,724	883
Other accrued expenses and liabilities	1,690	625
Total liabilities	553,046	392,773
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, 124,608,814 and 41,332,661 shares issued and outstanding, respectively	125	41
Capital in excess of par value	1,176,534	374,637
Accumulated undistributed net realized gains on investments	21,620	1,290
Accumulated distributions in excess of net investment income ⁽³⁾	(4,742)	(4,802)
Net unrealized appreciation (depreciation) on investments and gain/loss on foreign currency	(54,261)	18,066
Total stockholders' equity	1,139,276	389,232
Total liabilities and stockholders' equity	\$ 1,692,322	\$ 782,005
Net asset value per common share at period end	\$ 9.14	\$ 9.42

(1) See Note 8 for a discussion of the Company's total return swap agreement.

(2) See Note 2 for a discussion of the methodology employed by the Company in calculating the capital gains incentive fee.

(3) See Note 5 for a discussion of the source 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Investment income				
Interest income	\$ 33,295	\$ 8,678	\$ 76,209	\$ 17,872
Operating expenses				
Management fees	7,432	2,318	18,216	4,605
Capital gains incentive fees ⁽¹⁾	(7,974)	373	(4,063)	373
Administrative services expenses	915	285	1,903	635
Stock transfer agent fees	448	226	1,138	598
Accounting and administrative fees	298	105	692	436
Interest expense	2,922	1,343	7,382	2,213
Other general and administrative expenses	945	469	2,309	1,203
Total operating expenses	<u>4,986</u>	<u>5,119</u>	<u>27,577</u>	<u>10,063</u>
Net investment income	<u>28,309</u>	<u>3,559</u>	<u>48,632</u>	<u>7,809</u>
Realized and unrealized gain/loss				
Net realized gain on investments	2,433	294	22,456	3,383
Net realized gain on total return swap ⁽²⁾	1,895	—	1,895	—
Net change in unrealized appreciation (depreciation) on investments	(63,164)	7,902	(64,728)	1,811
Net change in unrealized appreciation (depreciation) on total return swap ⁽²⁾	(8,887)	—	(7,600)	—
Net change in unrealized gain/loss on foreign currency	(72)	93	1	(3)
Total net realized and unrealized gain/loss on investments	<u>(67,795)</u>	<u>8,289</u>	<u>(47,976)</u>	<u>5,191</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ (39,486)</u>	<u>\$ 11,848</u>	<u>\$ 656</u>	<u>\$ 13,000</u>
Per share information—basic and diluted				
Net increase (decrease) in net assets resulting from operations	<u>\$ (0.37)</u>	<u>\$ 0.47</u>	<u>\$ 0.01</u>	<u>\$ 0.67</u>
Weighted average shares outstanding ⁽³⁾	<u>106,877,357</u>	<u>25,426,504</u>	<u>77,057,690</u>	<u>19,287,292</u>

(1) See Note 2 for a discussion of the methodology employed by the Company in calculating the capital gains incentive fee.

(2) See Note 8 for a discussion of the Company's total return swap agreement.

(3) As discussed in Note 5, between March 31, 2009 and January 31, 2010, the Company issued eight stock distributions. The weighted average shares used in the per share computation of the net increase (decrease) in net assets resulting from operations reflect these stock distributions on a retroactive basis.

See notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2011	2010
Operations		
Net investment income	\$ 48,632	\$ 7,809
Net realized gain on investments and total return swap ⁽¹⁾	24,351	3,383
Net change in unrealized appreciation (depreciation) on investments	(64,728)	1,811
Net change in unrealized appreciation (depreciation) on total return swap ⁽¹⁾	(7,600)	—
Net change in unrealized gain/loss on foreign currency	1	(3)
Net increase in net assets resulting from operations	<u>656</u>	<u>13,000</u>
Stockholder distributions⁽²⁾		
Distributions from net investment income	(48,572)	(7,872)
Distributions from net realized gain on investments	(4,021)	(2,923)
Net decrease in net assets resulting from stockholder distributions	<u>(52,593)</u>	<u>(10,795)</u>
Capital share transactions		
Issuance of common stock	787,570	166,456
Reinvestment of stockholder distributions	21,661	2,967
Repurchases of common stock	(3,253)	(1,123)
Offering costs	(3,997)	(629)
Reimbursement of investment adviser ⁽³⁾	—	(1,678)
Capital contributions of investment adviser	—	486
Net increase in net assets resulting from capital share transactions	<u>801,981</u>	<u>166,479</u>
Total increase in net assets	750,044	168,684
Net assets at beginning of period	389,232	93,197
Net assets at end of period	<u>\$ 1,139,276</u>	<u>\$ 261,881</u>

(1) See Note 8 for a discussion of the Company's total return swap agreement.

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

(3) See Note 4 for a discussion of reimbursements paid by the Company to its investment adviser.

See notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 656	\$ 13,000
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(1,416,863)	(501,690)
Paid-in-kind interest	(1,316)	(103)
Proceeds from sales and repayments of investments	783,196	130,063
Net change in unrealized appreciation (depreciation) on investments	64,728	(1,811)
Net change in unrealized appreciation (depreciation) on total return swap ⁽¹⁾	7,600	—
Net change in unrealized gain/loss on foreign currency	(1)	3
Net realized gain on investments	(22,456)	(3,383)
Accretion of discount	(7,645)	(3,366)
Amortization of deferred financing costs	653	331
Increase in due from counterparty	(69,673)	—
Decrease/increase in receivable for investments sold and repaid	1,867	(15,261)
Decrease/increase in payable for investments purchased	(5,448)	53,379
Increase in interest receivable	(10,418)	(3,058)
Increase in receivable due on total return swap ⁽¹⁾	(374)	—
Increase in prepaid expenses and other assets	(16)	(1)
Increase in management fee payable	4,123	1,879
Decrease/increase in capital gains incentive fee payable	(5,459)	200
Increase in interest payable	841	682
Increase in administrative services expense payable	484	139
Increase in other accrued expenses and liabilities	1,065	139
Net cash used in operating activities	<u>(674,456)</u>	<u>(328,858)</u>
Cash flows from financing activities		
Issuance of common stock	787,570	166,456
Reinvestment of stockholder distributions	21,661	2,967
Repurchases of common stock	(3,253)	(1,123)
Offering costs	(3,997)	(629)
Payments to investment adviser for offering and organization costs ⁽²⁾	(641)	(1,678)
Capital contributions of investment adviser	—	486
Stockholder distributions	(46,970)	(6,647)
Borrowings under credit facility	42,799	197,267
Borrowings under repurchase agreement	109,286	—
Deferred financing costs paid	(618)	(1,319)
Net cash provided by financing activities	<u>905,837</u>	<u>355,780</u>
Total increase in cash	231,381	26,922
Cash at beginning of period	38,790	9,035
Cash at end of period	<u>\$ 270,171</u>	<u>\$ 35,957</u>

(1) See Note 8 for a discussion of the Company's total return swap agreement.

(2) See Note 4 for a discussion of reimbursements paid by the Company to its investment adviser.

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Unaudited Consolidated Schedule of Investments
As of September 30, 2011
(in thousands, except share amounts)

Portfolio Company ^(a)	Industry	Principal Amount ^(b)	Amortized Cost	Fair Value ^(c)
Senior Secured Loans—First Lien—60.9%				
1-800 Contacts, Inc., L+395, 3.8% LIBOR Floor, 3/4/15 ^(e)	Healthcare	\$ 5,462	\$ 5,236	\$ 5,380
Academy, Ltd., L+450, 1.5% LIBOR Floor, 8/3/18 ^(d)	Consumer Discretionary	5,000	4,951	4,797
Advance Pierre Foods, Inc., L+525, 1.8% LIBOR Floor, 9/29/16 ^(d)	Consumer Staples	4,875	4,793	4,875
Airvana Network Solutions Inc., L+800, 2.0% LIBOR Floor, 3/18/15 ^(e)	Telecommunication Services	6,403	6,290	6,443
Altegrity, Inc., L+600, 1.8% LIBOR Floor, 2/21/15 ^(d)	Industrials	5,860	5,790	5,752
American Racing & Entertainment, LLC, 7.8%, 6/30/14 ^(e)	Consumer Discretionary	26,500	26,500	26,128
Amscan Holdings, Inc., L+525, 1.5% LIBOR Floor, 12/2/17 ^(d)	Consumer Discretionary	8,856	8,844	8,712
AmWINS Group, Inc., L+250, 6/8/13 ^(d)	Financials	941	833	899
Ardent Health Services LLC, L+500, 1.5% LIBOR Floor, 9/15/15 ^(d)	Healthcare	10,390	10,283	10,110
Aspect Software, Inc., L+450, 1.8% LIBOR Floor, 5/7/16 ^(d)	Information Technology	1,970	1,955	1,950
Attachmate Corp., L+500, 1.5% LIBOR Floor, 4/27/17 ^(d)	Information Technology	10,000	9,910	9,667
Avaya Inc., L+408, 10/24/14 ^(d)	Information Technology	10,861	9,760	9,396
Avis Budget Car Rental, LLC, L+500, 1.3% LIBOR Floor, 9/22/18 ^{(d)(f)(g)}	Consumer Discretionary	7,222	7,078	7,191
BJ's Wholesale Club, Inc., L+575, 1.3% LIBOR Floor, 9/29/18 ^{(d)(f)}	Consumer Discretionary	18,000	17,100	17,454
Blackboard Inc., L+600, 1.5% LIBOR Floor, 10/4/18 ^{(d)(e)(f)(g)}	Information Technology	40,385	37,154	37,638
Brock Holdings III, Inc., L+450, 1.5% LIBOR Floor, 3/14/17 ^(d)	Industrials	4,975	4,943	4,698
Canwest LP, L+500, 1.3% LIBOR Floor, 7/23/16 ^{(d)(g)}	Consumer Discretionary	8,384	8,424	8,230
Carestream Health, Inc., L+350, 1.5% LIBOR Floor, 2/25/17	Healthcare	9,950	9,904	8,387
CCC Information Services Inc., L+400, 1.5% LIBOR Floor, 11/11/15 ^(d)	Information Technology	1,570	1,557	1,542
Centeo Corp., L+475, 1.5% LIBOR Floor, 12/21/16 ^{(d)(g)}	Consumer Discretionary	6,617	6,559	6,449
Ceridian Corp., L+300, 11/9/14 ^(d)	Industrials	9,394	8,581	8,208
J. Crew Group, Inc., L+350, 1.3% LIBOR Floor, 3/7/18	Consumer Discretionary	2,000	1,738	1,785
Chrysler Group LLC, L+475, 1.3% LIBOR Floor, 5/17/18 ^(d)	Industrials	19,699	18,582	17,222
Citgo Petroleum Corp., L+700, 2.0% LIBOR Floor, 6/24/17 ^{(d)(e)(g)}	Energy	8,863	8,825	9,071
ConvaTec Inc., L+425, 1.5% LIBOR Floor, 12/22/16 ^(d)	Healthcare	2,297	2,287	2,200
Corel Corp., L+400, 5/2/12 ^{(e)(g)}	Information Technology	1,234	1,186	1,173
Custom Building Products, Inc., L+400, 1.8% LIBOR Floor, 3/1/15 ^(d)	Materials	2,432	2,415	2,300
Data Device Corp., L+550, 1.8% LIBOR Floor, 12/23/16 ^(e)	Industrials	8,731	8,616	8,414
Decision Resources LLC, L+550, 1.5% LIBOR Floor, 12/6/16 ^(d)	Healthcare	1,990	1,997	1,937
East Cameron Partners, LP, 18.0% PIK, 10/11/12	Energy	249	249	254
Equipower Resources Holdings, LLC, L+425, 1.5% LIBOR Floor, 1/26/18	Utilities	1,572	1,558	1,530
Fairway Group Acquisition Co., L+600, 1.5% LIBOR Floor, 3/3/17 ^{(d)(e)}	Consumer Discretionary	21,646	21,593	20,510
First Data Corp., L+367, 3/24/18 ^(d)	Information Technology	12,907	11,162	10,713
First Reserve Crestwood Holdings LLC, L+850, 2.0% LIBOR Floor, 10/3/16 ^(e)	Energy	6,185	6,174	6,324
Florida Gaming Centers, Inc., 15.8%, 4/25/16 ^(e)	Consumer Discretionary	13,000	12,763	12,285
Frac Tech International, LLC, L+475, 1.5% LIBOR Floor, 5/6/16 ^(d)	Energy	4,963	4,835	4,878
Freescale Semiconductor, Inc., L+425, 12/1/16 ^{(d)(g)}	Industrials	1,896	1,780	1,742
Global Tel Link Corp., L+400, 1.0% LIBOR Floor, 11/10/16 ^(d)	Telecommunication Services	6,252	6,214	6,072
Goodman Global, Inc., L+400, 1.8% LIBOR Floor, 10/28/16 ^(d)	Consumer Discretionary	1,692	1,678	1,680
Harbor Freight Tools USA, Inc., L+500, 1.5% LIBOR Floor, 12/22/17 ^(d)	Consumer Discretionary	9,778	9,690	9,680
Harland Clarke Holdings Corp., L+250, 6/30/14 ^{(d)(g)}	Industrials	4,423	3,804	3,742
HCR Manor Care, Inc., L+350, 1.5% LIBOR Floor, 4/6/18 ^(e)	Healthcare	3,164	3,127	2,735
iHealth Technologies, Inc., L+600, 1.8% LIBOR Floor, 12/28/16 ^(e)	Healthcare	3,500	3,438	3,487
Immunor, Inc., L+575, 1.5% LIBOR Floor, 8/19/18 ^(d)	Healthcare	7,843	7,534	7,751
INC Research, LLC, L+575, 1.3% LIBOR Floor, 7/12/18 ^(e)	Healthcare	11,970	11,617	11,441
Intelligrated, Inc., L+575, 1.8% LIBOR Floor, 2/18/17 ^(e)	Information Technology	4,813	4,769	4,704
Intralinks, Inc., L+425, 1.5% LIBOR Floor, 6/15/14 ^{(e)(g)}	Information Technology	1,047	884	1,016
inVentiv Health, Inc., L+525, 1.5% LIBOR Floor, 8/4/18 ^{(d)(f)}	Healthcare	5,098	5,049	4,886
Ipreo Holdings LLC, L+650, 1.5% LIBOR Floor, 8/7/17 ^(e)	Information Technology	14,679	14,330	13,871

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Unaudited Consolidated Schedule of Investments
As of September 30, 2011
(in thousands, except share amounts)

Portfolio Company ^(a)	Industry	Principal Amount ^(b)	Amortized Cost	Fair Value ^(c)
KIK Custom Products Inc., L+225, 5/31/14 ^{(d)(g)}	Consumer Staples	\$ 10,409	\$ 9,386	\$ 8,825
Klune Industries, Inc., L+700, 2.0% LIBOR Floor, 8/31/17 ^(e)	Industrials	59,000	57,585	58,858
La Paloma Generating Co., LLC, L+550, 1.5% LIBOR Floor, 8/25/17	Energy	5,799	5,514	5,506
Lantq Deutschland GmbH, L+700, 2.0% LIBOR Floor, 11/16/15 ^{(d)(e)(g)}	Information Technology	11,145	11,115	10,477
Maritime Telecommunications Network, Inc., L+600, 1.5% LIBOR Floor, 3/4/16 ^(e)	Telecommunication Services	7,406	7,307	7,374
MDA Info Products Ltd., L+550, 1.5% LIBOR Floor, 1/4/17	Information Technology	4,963	4,898	4,231
Mood Media Corp., L+550, 1.5% LIBOR Floor, 5/4/18 ^{(d)(g)}	Consumer Discretionary	3,667	3,633	3,413
Mosaic US Holdings Inc., L+275, 4/3/13 ^(e)	Consumer Discretionary	875	725	831
NCO Group Inc., L+500, 2.5% LIBOR Floor, 5/15/13 ^(d)	Information Technology	7,534	7,503	7,372
Norit Holding BV, L+525, 1.5% LIBOR Floor, 7/8/17 ^{(d)(g)}	Industrials	3,077	3,032	3,027
NSH Merger Sub, Inc., L+650, 1.8% LIBOR Floor, 2/3/17 ^{(e)(f)}	Healthcare	15,434	15,327	14,894
Ozburn Hesse Holding Co., LLC, L+550, 2.0% LIBOR Floor, 4/8/16 ^(d)	Industrials	3,952	3,952	3,524
Playboy Enterprises, Inc., L+650, 1.8% LIBOR Floor, 3/4/17	Consumer Discretionary	6,010	6,013	5,740
Presidio Inc., L+550, 1.8% LIBOR Floor, 3/31/17 ^(e)	Industrials	9,500	9,368	9,310
Protection One, Inc., L+425, 1.8% LIBOR Floor, 6/4/16 ^(d)	Consumer Discretionary	2,259	2,232	2,230
Remy International, Inc., L+450, 1.8% LIBOR Floor, 12/17/13 ^(d)	Consumer Discretionary	4,063	3,965	3,931
Res-Care, Inc., L+550, 1.8% LIBOR Floor, 12/22/16 ^(e)	Consumer Discretionary	4,963	4,876	4,814
Reynolds Group Holdings Inc., L+491, 1.2% LIBOR Floor, 7/31/18 ^{(d)(g)}	Consumer Discretionary	11,872	11,708	11,550
Sagittarius Restaurants LLC, L+550, 2.0% LIBOR Floor, 5/18/15 ^(e)	Consumer Discretionary	2,658	2,634	2,585
Sealed Air Corp., L+375, 1.0% LIBOR Floor, 10/3/18 ^(d)	Industrials	7,772	7,617	7,786
Sheridan Production Co., LLC, L+550, 2.0% LIBOR Floor, 4/20/17 ^(d)	Energy	10,342	10,259	10,126
Sitel, LLC, L+675, 1/30/17 ^(d)	Telecommunication Services	5,966	5,695	5,697
Smile Brands Group Inc., L+525, 1.8% LIBOR Floor, 12/21/17 ^(d)	Healthcare	5,921	5,842	5,729
Sophos Plc, L+563, 2.0% LIBOR Floor, 6/30/17 ^{(e)(g)}	Information Technology	4,676	4,653	4,571
Sorenson Communication, Inc., L+400, 2.0% LIBOR Floor, 8/16/13 ^(d)	Telecommunication Services	14,558	14,100	13,495
Spansion, LLC, L+550, 2.0% LIBOR Floor, 2/9/15 ^{(d)(g)}	Information Technology	10,845	10,724	10,583
Sports Authority, Inc., L+600, 1.5% LIBOR Floor, 11/16/17 ^(d)	Consumer Discretionary	9,935	9,684	9,397
SRA International, Inc., L+525, 1.3% LIBOR Floor, 7/20/18 ^{(d)(e)}	Industrials	18,144	17,257	16,829
Star West Generation LLC, L+450, 1.5% LIBOR Floor, 5/17/18 ^(d)	Energy	4,231	4,211	4,026
Styron Sarl, L+450, 1.5% LIBOR Floor, 6/14/16 ^(d)	Materials	4,100	4,100	3,712
Summit Entertainment, LLC, L+600, 1.5% LIBOR Floor, 8/28/16 ^(d)	Consumer Discretionary	13,887	13,708	13,609
Summit Materials Companies I, LLC, L+500, 1.5% LIBOR Floor, 12/31/15 ^(d)	Materials	3,970	3,897	3,844
Surgery Center Holdings, Inc., L+500, 1.5% LIBOR Floor, 2/4/17 ^(d)	Healthcare	995	1,008	940
Swift Transportation Co., Inc., L+450, 1.5% LIBOR Floor, 12/21/16 ^{(d)(g)}	Industrials	3,969	3,935	3,856
TASC, Inc., L+325, 1.3% LIBOR Floor, 12/18/15	Industrials	538	512	515
Telcordia Technologies Inc., L+500, 1.8% LIBOR Floor, 4/30/16 ^(d)	Telecommunication Services	8,748	8,767	8,719
Texas Competitive Electric Holdings Co. LLC, L+350, 10/10/14 ^(d)	Utilities	16,867	13,475	11,483
TNS, Inc., L+400, 2.0% LIBOR Floor, 11/18/15 ^{(d)(g)}	Telecommunication Services	1,247	1,247	1,246
Toys"R"Us, Inc., L+450, 1.5% LIBOR Floor, 8/17/16 ^(d)	Consumer Discretionary	6,683	6,650	6,428
Univar Inc., L+350, 1.5% LIBOR Floor, 4/28/17 ^{(d)(f)}	Materials	6,592	6,592	6,200
Univision Communications Inc., L+425, 9/29/14 ^(d)	Consumer Discretionary	10,000	8,613	8,440
Yell Group Plc, L+300, 7/31/14 ^(g)	Consumer Discretionary	785	688	257
Total Senior Secured Loans—First Lien			708,346	693,289
Senior Secured Loans—Second Lien—29.8%				
Advance Pierre Foods, Inc., L+950, 1.8% LIBOR Floor, 9/29/17 ^{(d)(e)}	Consumer Staples	12,000	12,048	12,000
Advantage Sales & Marketing Inc., L+775, 1.5% LIBOR Floor, 6/17/18 ^(d)	Industrials	19,244	19,304	18,575
Alkermes, Inc., L+800, 1.5% LIBOR Floor, 9/16/18 ^(g)	Healthcare	10,000	9,805	9,900
American Racing & Entertainment, LLC, 12.0%, 6/30/18	Consumer Discretionary	16,800	16,114	13,440
AMN Healthcare Services, Inc., L+1000, 1.8% LIBOR Floor, 9/1/16 ^{(e)(g)}	Healthcare	10,000	9,753	9,500

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Portfolio Company ^(a)	Industry	Principal Amount ^(b)	Amortized Cost	Fair Value ^(c)
AmWINS Group, Inc., L+550, 6/8/14 ^(e)	Financials	\$ 1,992	\$ 1,736	\$ 1,819
Asurion Corp., L+750, 1.5% LIBOR Floor, 5/20/19 ^(d)	Financials	27,429	27,297	26,240
Attachmate Corp., L+800, 1.5% LIBOR Floor, 10/27/17 ^(d)	Information Technology	12,000	11,961	11,736
Autoparts Holdings Ltd., L+900, 1.5% LIBOR Floor, 1/29/18 ^(d)	Industrials	7,000	6,966	6,895
BNY ConvergEx Group, LLC, L+700, 1.8% LIBOR Floor, 12/17/17 ^(d)	Information Technology	9,000	9,026	9,000
Brock Holdings III, Inc., L+825, 1.8% LIBOR Floor, 3/16/18 ^(d)	Industrials	6,923	6,796	6,323
Central Parking Systems, Inc., L+450, 11/22/14 ^(e)	Industrials	3,500	2,293	2,503
Datatel, Inc., L+725, 1.5% LIBOR Floor, 2/18/18 ^(d)	Information Technology	10,783	10,757	10,722
Decision Resources LLC, L+850, 1.5% LIBOR Floor, 12/6/17 ^(e)	Healthcare	3,333	3,302	3,317
Deluxe Entertainment Services Group Inc., L+900, 2.0% LIBOR Floor, 5/11/13 ^(e)	Consumer Discretionary	9,500	9,111	9,314
DEI Sales, Inc., L+850, 1.5% LIBOR Floor, 1/15/18 ^(e)	Consumer Discretionary	46,800	45,898	45,396
FR Brand Acquisition Corp., L+623, 2/7/15 ^(d)	Industrials	13,000	11,913	9,998
Goodman Global, Inc., L+700, 2.0% LIBOR Floor, 10/27/17 ^(d)	Consumer Discretionary	7,000	6,878	7,058
Hubbard Radio, LLC, L+725, 1.5% LIBOR Floor, 4/29/18 ^(d)	Telecommunication Services	1,429	1,415	1,402
JHCI Holdings, Inc., L+550, 12/19/14 ^(d)	Industrials	6,000	5,548	5,094
JW Aluminum Co., L+675, 12/15/13 ^(e)	Materials	20,714	14,425	16,779
Kronos Inc., L+575, 6/11/15 ^(d)	Industrials	3,000	2,932	2,841
LabelCorp Holdings, Inc., L+1050, 1.0% PIK, 11/27/17 ^(e)	Industrials	12,028	11,857	12,449
Mood Media Corp., L+875, 1.5% LIBOR Floor, 11/6/18 ^(e)	Consumer Discretionary	15,000	14,942	13,925
Roundy's Supermarkets, Inc., L+800, 2.0% LIBOR Floor, 4/16/16 ^(d)	Consumer Staples	13,000	13,138	12,783
Sedgwick CMS Holdings, L+750, 1.5% LIBOR Floor, 5/30/17	Industrials	500	500	486
Sensus USA Inc., L+725, 1.3% LIBOR Floor, 5/9/18 ^(d)	Industrials	8,571	8,580	8,325
Southern Pacific Resource Co., L+850, 2.0% LIBOR Floor, 12/22/15 ^{(d)(e)(g)}	Energy	13,868	13,699	13,972
SRAM, LLC, L+750, 1.5% LIBOR Floor, 12/7/18	Consumer Discretionary	5,000	4,952	4,963
TPF Generation Holdings, LLC, L+425, 12/15/14 ^(d)	Energy	8,170	7,550	7,425
Vertafore, Inc., L+825, 1.5% LIBOR Floor, 10/29/17 ^(d)	Information Technology	12,000	11,910	11,550
Wm. Bolthouse Farms, Inc., L+750, 2.0% LIBOR Floor, 8/11/16 ^(d)	Consumer Staples	14,029	14,117	13,792
Total Senior Secured Loans—Second Lien			<u>346,523</u>	<u>339,522</u>
Senior Secured Bonds—10.6%				
Allen Systems Group, Inc., 10.5%, 11/15/16 ^(e)	Information Technology	8,723	8,805	8,330
Aspect Software, Inc., 10.6%, 5/15/17 ^(d)	Information Technology	4,000	4,000	4,047
Avaya Inc., 7.0%, 4/1/19 ^(d)	Information Technology	1,500	1,500	1,276
BakerCorp. International Inc., 8.3%, 6/1/19 ^(e)	Industrials	5,000	5,000	4,538
Connacher Oil & Gas Ltd., 8.5%, 8/1/19 ^{(e)(g)}	Energy	5,600	5,600	4,453
Eastman Kodak Co., 10.6%, 3/15/19 ^{(e)(g)}	Information Technology	7,500	7,408	5,325
Echostar Corp., 6.5%, 6/15/19 ^(d)	Telecommunication Services	2,000	2,000	1,947
First Data Corp., 8.9%, 8/15/20 ^{(d)(e)}	Information Technology	6,300	6,348	6,108
Grifols, SA, 8.3%, 2/1/18 ^{(d)(g)}	Healthcare	2,500	2,500	2,498
HOA Restaurant Group, LLC, 11.3%, 4/1/17 ^(e)	Consumer Discretionary	14,100	14,138	13,129
Kabel BW, 7.5%, 3/15/19 ^{(d)(g)}	Telecommunication Services	665	665	652
Nexstar Broadcasting Group, Inc., 8.9%, 4/15/17 ^{(d)(g)}	Telecommunication Services	5,000	4,973	4,996
Paetec Holding Corp., 8.9%, 6/30/17 ^{(d)(g)}	Telecommunication Services	4,680	4,804	5,068
Palace Entertainment Holdings, LLC, 8.9%, 4/15/17 ^(d)	Consumer Discretionary	2,400	2,400	2,262
Roofing Supply Group LLC, 8.6%, 12/1/17 ^(d)	Industrials	800	800	773
Speedy Cash Intermediate Holding Corp., 10.8%, 10/15/18 ^(e)	Financials	16,000	16,200	16,186
Symbion Corp., 8.0%, 6/15/16 ^{(d)(e)}	Healthcare	15,460	15,244	13,993
Texas Competitive Electric Holdings Co. LLC, 11.5%, 10/1/20 ^(e)	Utilities	10,000	9,908	8,038
Titlemax Finance Corp., 13.3%, 7/15/15 ^(e)	Industrials	14,500	15,474	15,660
United Refining, Co., 10.5%, 2/28/18 ^(e)	Energy	1,185	1,145	1,164
Total Senior Secured Bonds			<u>128,912</u>	<u>120,443</u>

See notes to unaudited consolidated financial statements.

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Portfolio Company ^(a)	Industry	Principal Amount ^(b)	Amortized Cost	Fair Value ^(c)
Subordinated Debt—8.5%				
Alpha Natural Resources, Inc., 6.3%, 6/1/21 ^(g)	Materials	\$ 4,000	\$ 4,000	\$ 3,774
AMC Networks Inc., 7.8%, 7/15/21	Consumer Discretionary	2,900	2,900	3,016
Aquilex Corp., 11.1%, 12/15/16 ^(e)	Energy	10,000	9,726	4,627
ATI Enterprises Inc., L+1100, 2.3% LIBOR Floor, 12/30/16 ^(e)	Consumer Discretionary	8,271	8,190	620
Aurora Diagnostics, LLC, 10.8%, 1/15/18	Healthcare	8,000	8,000	7,950
Bresnan Broadband Holdings LLC, 8.0%, 12/15/18 ^{(d)(g)}	Telecommunication Services	5,000	5,000	5,036
Burlington Coat Factory Holdings Inc., 10.0%, 2/15/19	Consumer Discretionary	2,334	2,187	2,010
Calumet Lubricants Co., LP, 9.4%, 5/1/19 ^(g)	Energy	5,800	5,800	5,655
J. Crew Group, Inc., 8.1%, 3/1/19	Consumer Discretionary	1,200	1,200	1,034
Cincinnati Bell Inc., 8.4%, 10/15/20 ^{(d)(g)}	Telecommunication Services	11,000	10,840	10,298
Commscope Inc., 8.3%, 1/15/19 ^(d)	Telecommunication Services	4,000	4,000	3,929
Cumulus Media Inc., 7.8%, 5/1/19	Consumer Discretionary	5,000	4,381	4,244
Del Monte Foods Co., 7.6%, 2/15/19 ^(d)	Consumer Staples	2,500	2,500	2,148
Echostar Corp., 7.6%, 6/15/21 ^{(d)(g)}	Telecommunication Services	1,310	1,310	1,274
Harland Clarke Holdings Corp., 9.5%, 5/15/15	Industrials	2,689	2,328	2,028
Ipreo Holdings LLC, 11.5%, 8/15/18 ^(e)	Information Technology	15,000	14,927	14,700
N.E.W. Customer Service Cos., Inc., L+750, 2.0% LIBOR Floor, 3/22/17 ^(d)	Industrials	7,000	6,875	6,921
NCO Group Inc., L+488, 11/15/13	Information Technology	2,000	1,789	1,875
R.R. Donnelley & Sons Co., 7.3%, 5/15/18 ^{(d)(g)}	Consumer Discretionary	4,375	4,375	3,988
Sealed Air Corp., 8.4%, 9/15/21 ^{(d)(f)(g)}	Industrials	2,667	2,667	2,703
Sensata Technologies, Inc., 6.5%, 5/15/19 ^(g)	Information Technology	2,000	2,000	1,875
Univar Inc., 12.0%, 6/30/18 ^(e)	Materials	3,000	2,946	2,970
WCA Waste Corp., 7.5%, 6/15/19	Industrials	3,930	3,930	3,911
Total Subordinated Debt			111,871	96,586
Collateralized Securities—6.1%				
Apidos CDO IV Class E, L+360, 10/27/18 ^(g)	Financials	2,000	1,104	1,253
Ares 2007 CLO 11A Class E, L+600, 10/11/21 ^(g)	Financials	4,775	3,087	3,234
Ares 2007 CLO 12X Class E, L+575, 11/25/20 ^(g)	Financials	2,252	1,767	1,620
Base CLO I Class E, EURIBOR+500, 10/17/18 ^(g)	Financials	€ 1,500	1,010	1,401
Blue Mountain CLO III Class E, L+355, 3/17/21 ^(g)	Financials	\$ 2,000	907	1,152
Carlyle Azure CLO Class Income, 15.9%, 5/27/20 ^(g)	Financials	28,000	17,583	16,287
Franklin CLO 6A Class E, L+425, 8/9/19 ^(g)	Financials	1,919	1,173	1,263
Galaxy VII CLO Class Subord., 17.3%, 10/13/18 ^(g)	Financials	2,000	1,463	1,508
Lightpoint CLO 2006 V Class D, L+365, 8/5/19 ^(g)	Financials	6,500	3,169	3,836
Lightpoint CLO 2007 VII Class D, L+400, 5/15/21 ^(g)	Financials	4,000	2,252	2,372
Mountain View CLO II Class Pref., 21.3%, 1/12/21 ^(g)	Financials	9,225	6,311	6,865
Octagon CDO 2007 1A Class Income, 38.9%, 8/25/21 ^(g)	Financials	4,000	2,567	3,899
Octagon CLO 2006 10A Class Income, 23.9%, 10/18/20 ^(g)	Financials	4,375	3,242	4,156
Rampart CLO 2007 1A Class Subord., 16.5%, 10/25/21 ^(g)	Financials	10,000	7,779	8,075
Stone Tower CLO VI Class Subord., 17.7%, 4/17/21 ^(g)	Financials	5,000	4,133	4,296
Trimaran CLO IV Ltd. Class Pref., 13.2%, 12/1/17 ^(g)	Financials	12,500	8,962	8,383
Total Collateralized Securities			66,509	69,600

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Portfolio Company ^(a)	Industry	Number of Shares	Cost	Fair Value ^(c)
Equity/Other—1.3%				
East Cameron Partners, LP, 8.5% Preferred Equity	Energy	887	\$ 100	\$ 37
East Cameron Partners, LP, Common Equity	Energy	14,757	600	—
Florida Gaming Centers, Inc., Strike: \$0.01, Warrants	Consumer Discretionary	71	—	530
Florida Gaming Corp., Strike: \$25.00, Warrants	Consumer Discretionary	226,635	—	—
Ipreo Holdings LLC, Common Equity	Information Technology	1,000,000	1,000	1,000
JW Aluminum Co., Common Equity	Materials	37,500	3,225	—
Klune Industries, Inc., Preferred Equity	Industrials	52,101	1,500	1,459
Milagro Holdings, LLC, Common Equity	Energy	648	25	—
Milagro Holdings, LLC, Common Equity	Energy	573	25	—
Milagro Holdings, LLC, Preferred Equity	Energy	283,947	11,962	11,471
Total Equity/Other			18,437	14,497
TOTAL INVESTMENTS—117.2%			\$ 1,380,598	1,333,937
LIABILITIES IN EXCESS OF OTHER ASSETS—(17.2%)				(194,661)
NET ASSETS—100.0%				\$ 1,139,276
Total Return Swap				
			Notional Amount	Unrealized Depreciation
Citibank TRS Facility (Note 8) ^(g)			\$ 297,281	\$ (7,600)

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

(b) Denominated in U.S. Dollars unless otherwise noted.

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

(d) Security or portion thereof held within Broad Street Funding LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Deutsche Bank AG, New York Branch (see Notes 10 and 11).

(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 12).

(f) Position or portion thereof unsettled as of September 30, 2011.

(g) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended, or the 1940 Act. 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.

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Portfolio Company ^(a)	Industry	Principal Amount ^(b)	Amortized Cost	Fair Value ^(c)
Senior Secured Loans—First Lien—124.4%				
1-800 Contacts, Inc., L+395, 3.8% LIBOR Floor, 3/4/15	Healthcare	\$ 5,508	\$ 5,233	\$ 5,494
Advance Pierre Foods, Inc., L+525, 1.8% LIBOR Floor, 9/29/16 ^(d)	Consumer Staples	4,924	4,829	4,934
Airvana Network Solutions Inc., L+900, 2.0% LIBOR Floor, 8/27/14	Telecommunication Services	2,367	2,356	2,378
Alaska Communications Systems Holdings, Inc., L+400, 1.5% LIBOR Floor, 10/21/16 ^(f)	Telecommunication Services	3,683	3,647	3,701
Alliant Holdings LLC, L+500, 1.8% LIBOR Floor, 8/16/14 ^{(d)(e)}	Financials	2,000	2,020	2,015
Altegrity, Inc., L+600, 1.8% LIBOR Floor, 2/21/15 ^(d)	Industrials	7,363	7,260	7,455
Amscan Holdings, Inc., L+525, 1.5% LIBOR Floor, 12/2/17 ^(d)	Consumer Discretionary	6,923	6,869	6,942
AmWINS Group, Inc., L+250, 6/8/13 ^(d)	Financials	949	797	902
Anchor Glass Container Corp., L+400, 2.0% LIBOR Floor, 3/1/16 ^(d)	Industrials	3,416	3,386	3,430
Ardent Health Services LLC, L+500, 1.5% LIBOR Floor, 9/15/15 ^(d)	Healthcare	7,302	7,229	7,321
Armstrong World Industries, Inc., L+350, 1.5% LIBOR Floor, 5/23/17 ^{(d)(f)}	Industrials	1,687	1,678	1,702
Aspect Software, Inc., L+450, 1.8% LIBOR Floor, 5/7/16 ^(d)	Information Technology	1,985	1,967	2,000
Atlantic Broadband Finance, LLC, L+350, 1.5% LIBOR Floor, 11/29/15 ^(d)	Telecommunication Services	1,338	1,331	1,350
Avaya Inc., L+350, 0.8% LIBOR Floor, 10/24/14 ^(d)	Information Technology	9,925	9,170	9,598
BBHI Acquisition LLC, L+300, 1.5% LIBOR Floor, 12/14/17 ^(d)	Telecommunication Services	2,064	2,043	2,078
Bentley Systems Inc., L+425, 1.5% LIBOR Floor, 11/24/16 ^(e)	Information Technology	1,789	1,771	1,804
Burger King Corp., L+450, 1.8% LIBOR Floor, 10/19/16 ^(d)	Consumer Staples	6,529	6,547	6,638
Calumet Lubricants Co., LP, L+400, 1/3/15 ^{(d)(f)}	Energy	2,819	2,630	2,727
Canwest LP, L+700, 2.0% LIBOR Floor, 7/23/16 ^{(d)(e)(f)}	Consumer Discretionary	7,828	7,754	7,960
CCC Information Services Inc., L+400, 1.5% LIBOR Floor, 11/11/15 ^(d)	Information Technology	1,578	1,562	1,593
CDW Corp., L+500, 7/10/17 ^(d)	Information Technology	5,584	4,978	5,551
Cedar Fair, LP, L+400, 1.5% LIBOR Floor, 12/15/16 ^{(d)(f)}	Consumer Discretionary	2,954	2,927	2,989
Cenveo Corp., L+475, 1.5% LIBOR Floor, 12/21/16 ^{(d)(f)}	Consumer Discretionary	6,667	6,600	6,728
Ceridian Corp., L+300, 11/9/14 ^(d)	Industrials	7,456	6,780	7,115
Citgo Petroleum Corp., L+700, 2.0% LIBOR Floor, 6/24/17 ^{(d)(f)}	Energy	6,965	6,878	7,289
Clopay Ames True Temper Holding Corp., L+600, 1.8% LIBOR Floor, 9/30/16 ^{(d)(e)(f)}	Consumer Discretionary	7,941	7,903	8,021
CMP Susquehanna Corp., L+200, 5/5/13 ^{(d)(e)}	Telecommunication Services	6,980	6,267	6,319
Contec LLC, L+475, 3.0% LIBOR Floor, 7/28/14 ^(d)	Telecommunication Services	1,942	1,656	1,767
ConvaTec Inc., L+425, 1.5% LIBOR Floor, 12/22/16 ^(d)	Healthcare	2,314	2,303	2,342
Corel Corp., L+400, 5/2/12 ^(f)	Information Technology	1,434	1,313	1,369
Cumulus Media Inc., L+375, 6/11/14 ^(d)	Telecommunication Services	4,060	3,748	3,787
Custom Building Products, Inc., L+400, 1.8% LIBOR Floor, 3/1/15 ^(d)	Materials	2,830	2,806	2,851
Data Device Corp., L+550, 1.8% LIBOR Floor, 12/23/16	Industrials	9,231	9,092	9,144
DEI Sales, Inc., L+550, 2.0% LIBOR Floor, 9/22/13	Consumer Discretionary	2,348	2,201	2,160
DineEquity, Inc., L+450, 1.5% LIBOR Floor, 10/7/17 ^{(d)(f)}	Consumer Staples	2,436	2,412	2,476
Dunkin' Brands, Inc., L+425, 1.5% LIBOR Floor, 11/23/17 ^(d)	Consumer Staples	2,500	2,488	2,534
Fairmount Minerals, Ltd., L+450, 1.8% LIBOR Floor, 8/5/16 ^(d)	Materials	6,759	6,701	6,885
Fifth Third Processing Solutions LLC, L+400, 1.5% LIBOR Floor, 11/3/16 ^(d)	Financials	3,731	3,695	3,769
First Data Corp., L+275, 9/24/14 ^(d)	Information Technology	7,621	6,622	7,063
First Reserve Crestwood Holdings LLC, L+850, 2.0% LIBOR Floor, 10/3/16	Energy	4,500	4,413	4,596
Freescal Semiconductor, Inc., L+425, 12/1/16 ^(d)	Industrials	7,437	7,076	7,224
General Chemical Corp., L+500, 1.8% LIBOR Floor, 10/6/15 ^{(d)(e)}	Materials	7,527	7,557	7,637
Getty Images, Inc., L+375, 1.5% LIBOR Floor, 11/7/16 ^(d)	Consumer Discretionary	2,441	2,418	2,466
Global Tel Link Corp., L+550, 1.8% LIBOR Floor, 11/10/16 ^(d)	Telecommunication Services	8,304	8,151	8,206
Goodman Global, Inc., L+400, 1.8% LIBOR Floor, 10/28/16 ^(d)	Consumer Discretionary	1,814	1,796	1,826
Green Mountain Coffee Roasters, Inc., L+400, 1.5% LIBOR Floor, 12/16/16 ^{(d)(f)}	Consumer Staples	1,754	1,737	1,757
Green Tree Credit Solutions LLC, L+575, 2.3% LIBOR Floor, 12/18/15 ^(d)	Financials	4,466	4,303	4,459
Grifols, SA, L+425, 1.8% LIBOR Floor, 6/4/16 ^{(d)(e)(f)}	Healthcare	4,336	4,295	4,392
Hanger Orthopedic Group, Inc., L+375, 1.5% LIBOR Floor, 12/1/16 ^{(d)(f)}	Healthcare	1,944	1,935	1,962

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Portfolio Company ^(a)	Industry	Principal Amount ^(b)	Amortized Cost	Fair Value ^(c)
Harbor Freight Tools USA, Inc., L+500, 1.5% LIBOR Floor, 12/22/17 ^(d)	Consumer Discretionary	\$ 9,929	\$ 9,830	\$ 9,931
HarbourVest Partners LP, L+475, 1.5% LIBOR Floor, 12/17/16 ^(d)	Financials	11,642	11,526	11,671
Harland Clarke Holdings Corp., L+250, 6/30/14 ^{(d)(f)}	Industrials	2,448	2,121	2,223
iHealth Technologies, Inc., L+600, 1.8% LIBOR Floor, 12/28/16 ^(e)	Healthcare	3,636	3,564	3,618
Infogroup, Inc., L+450, 1.8% LIBOR Floor, 7/1/16 ^(d)	Consumer Discretionary	4,647	4,563	4,695
Intelsat Jackson Holdings SA, L+375, 1.5% LIBOR Floor, 4/2/18 ^{(d)(e)(f)}	Telecommunication Services	5,638	5,609	5,702
Interactive Data Corp., L+500, 1.8% LIBOR Floor, 1/29/17 ^{(d)(e)(f)}	Financials	6,716	6,651	6,813
Intralinks, Inc., L+425, 1.5% LIBOR Floor, 6/15/14	Information Technology	1,451	1,169	1,437
KIK Custom Products Inc., L+225, 5/31/14 ^{(d)(f)}	Consumer Staples	4,949	4,394	4,248
Knology, Inc., L+400, 1.5% LIBOR Floor, 10/15/16 ^{(d)(f)}	Consumer Discretionary	1,950	1,931	1,964
Lantiq Deutschland GmbH, L+700, 2.0% LIBOR Floor, 11/16/15 ^{(d)(f)}	Information Technology	5,993	5,879	6,008
MDA Info Products Ltd., L+550, 1.5% LIBOR Floor, 1/4/17 ^(e)	Information Technology	5,000	4,925	4,950
MedAssets, Inc., L+375, 1.5% LIBOR Floor, 11/22/16 ^{(d)(f)}	Healthcare	1,667	1,650	1,677
Michael Foods Group, Inc., L+450, 1.8% LIBOR Floor, 6/29/16 ^(d)	Consumer Staples	2,536	2,490	2,575
Mosaic US Holdings Inc., L+275, 4/3/13	Consumer Discretionary	882	666	789
NBTY, Inc., L+450, 1.8% LIBOR Floor, 10/1/17 ^(d)	Consumer Staples	2,212	2,191	2,248
NCO Group, Inc., L+500, 2.5% LIBOR Floor, 5/15/13 ^(d)	Information Technology	3,303	3,283	3,270
New Development Holdings, LLC (Calpine), L+550, 1.5% LIBOR Floor, 7/3/17 ^{(d)(f)}	Utilities	5,558	5,486	5,622
OSI Restaurant Partners, LLC, L+225, 6/14/14 ^(d)	Consumer Discretionary	5,638	4,968	5,397
Ozburn Hesse Holding Co., LLC, L+550, 2.0% LIBOR Floor, 4/8/16 ^(d)	Industrials	6,230	6,198	6,316
Petco Animal Supplies, Inc., L+450, 1.5% LIBOR Floor, 11/24/17 ^(d)	Consumer Discretionary	2,930	2,901	2,958
Protection One, Inc., L+425, 1.8% LIBOR Floor, 6/4/16 ^(d)	Consumer Discretionary	4,402	4,375	4,424
RBS Worldpay, Inc., L+450, 1.8% LIBOR Floor, 10/15/17 ^(e)	Financials	1,538	1,523	1,551
Remy International, Inc., L+450, 1.8% LIBOR Floor, 12/17/13 ^{(d)(e)}	Consumer Discretionary	2,083	2,063	2,099
RepronStrickland, Inc., L+525, 3.3% LIBOR Floor, 2/19/13	Energy	3,925	3,595	3,572
Res-Care, Inc., L+550, 1.8% LIBOR Floor, 12/22/16 ^{(e)(f)}	Consumer Discretionary	5,000	4,900	4,925
Revlon Consumer Products Corp., L+400, 2.0% LIBOR Floor, 3/11/15 ^{(d)(f)}	Consumer Discretionary	6,357	6,263	6,393
Reynolds & Reynolds Co., L+350, 1.8% LIBOR Floor, 4/21/17 ^(d)	Information Technology	4,969	4,936	5,011
Reynolds Group Holdings Inc., L+446, 1.8% LIBOR Floor, 5/5/16 ^{(d)(f)}	Industrials	7,950	7,934	8,043
Rural/Metro Corp., L+425, 1.8% LIBOR Floor, 11/24/16 ^{(d)(f)}	Industrials	1,474	1,466	1,491
Sagittarius Restaurants LLC, L+550, 2.0% LIBOR Floor, 5/18/15	Consumer Discretionary	3,084	3,052	3,090
Savvis, Inc., L+500, 1.8% LIBOR Floor, 8/4/16 ^{(d)(f)}	Information Technology	7,382	7,230	7,513
SemGroup Corp., L+700, 1.5% LIBOR Floor, 11/30/12 ^{(d)(f)}	Energy	3,492	3,458	3,457
Sheridan Production Co., LLC, L+550, 2.0% LIBOR Floor, 4/20/17 ^(d)	Energy	7,948	7,824	8,021
Sitel, LLC, L+550, 1/30/14 ^(d)	Telecommunication Services	5,966	5,614	5,707
Six Flags Theme Parks, Inc., L+400, 1.5% LIBOR Floor, 6/30/16 ^{(d)(f)}	Consumer Discretionary	2,737	2,724	2,765
Smile Brands Group Inc., L+525, 1.8% LIBOR Floor, 12/21/17 ^{(d)(e)}	Healthcare	5,966	5,877	5,932
Smurfit-Stone Container Enterprises, Inc., L+475, 2.0% LIBOR Floor, 2/10/16 ^(f)	Industrials	6,965	6,905	7,093
Spansion, LLC, L+550, 2.0% LIBOR Floor, 2/9/15 ^{(d)(f)}	Information Technology	5,903	5,942	5,991
Sports Authority, Inc., L+600, 1.5% LIBOR Floor, 11/16/17 ^(d)	Consumer Discretionary	8,000	7,783	8,020
Styron Sarl, L+575, 1.8% LIBOR Floor, 6/14/16 ^(d)	Materials	7,897	7,812	8,027
Summit Materials Companies I, LLC, L+500, 1.5% LIBOR Floor, 12/31/15 ^(d)	Materials	4,000	4,000	4,002
Swift Transportation Co., Inc., L+450, 1.5% LIBOR Floor, 12/21/16 ^{(d)(e)(f)}	Industrials	4,545	4,500	4,568
Syniverse Holdings, Inc., L+375, 1.5% LIBOR Floor, 9/8/14 ^{(d)(e)(f)}	Telecommunication Services	2,029	2,009	2,055
Targus Information Corp., L+525, 1.8% LIBOR Floor, 12/28/16 ^(e)	Information Technology	5,000	4,900	4,950
Telcordia Technologies Inc., L+500, 1.8% LIBOR Floor, 4/30/16 ^(d)	Telecommunication Services	8,004	8,024	8,018
Texas Competitive Electric Holdings Co. LLC, L+350, 10/10/14 ^(d)	Utilities	9,384	7,737	7,278
The Gymboree Corp., L+400, 1.5% LIBOR Floor, 11/23/17 ^(d)	Consumer Discretionary	2,139	2,128	2,154
TNS, Inc., L+400, 2.0% LIBOR Floor, 11/18/15 ^{(d)(f)}	Telecommunication Services	1,317	1,317	1,324
Toys"R"Us, Inc., L+450, 1.5% LIBOR Floor, 8/17/16 ^(d)	Consumer Discretionary	6,733	6,696	6,806

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Consolidated Schedule of Investments
As of December 31, 2010
(in thousands)

Portfolio Company ^(a)	Industry	Principal Amount ^(b)	Amortized Cost	Fair Value ^(c)
Trident Exploration Corp., L+950, 3.0% LIBOR Floor, 6/10/14 ^{(d)(f)}	Energy	\$ 8,960	\$ 8,904	\$ 9,464
Univar Inc., L+450, 1.8% LIBOR Floor, 6/30/17 ^(d)	Materials	6,642	6,589	6,640
Universal Health Services, Inc., L+400, 1.5% LIBOR Floor, 11/15/16 ^(f)	Healthcare	5,000	4,930	5,079
Vertafore, Inc., L+500, 1.8% LIBOR Floor, 7/29/16 ^(d)	Information Technology	6,910	6,827	6,969
WCP Exposition Services Operating Co. LLC, L+600, 3.0% LIBOR Floor, 8/29/11	Consumer Discretionary	539	244	436
Yell Group Plc, L+300, 7/31/14 ^(f)	Consumer Discretionary	804	675	379
Total Senior Secured Loans—First Lien			473,881	484,105
Senior Secured Loans—Second Lien—34.9%				
Advance Pierre Foods, Inc., L+950, 1.8% LIBOR Floor, 9/29/17	Consumer Staples	5,000	4,864	5,072
Advantage Sales & Marketing Inc., L+775, 1.5% LIBOR Floor, 6/17/18 ^(d)	Industrials	10,000	9,850	10,083
AMN Healthcare Services, Inc., L+1000, 1.8% LIBOR Floor, 9/1/16	Healthcare	10,000	9,716	9,750
AmWINS Group, Inc., L+550, 6/8/14	Financials	1,992	1,672	1,712
Attachmate Corp., L+675, 10/13/13 ^(d)	Information Technology	5,000	4,358	4,951
Awesome Acquisition Co., L+500, 6/4/14	Consumer Discretionary	2,940	2,343	2,616
BNY ConvergeEx Group, LLC, L+700, 1.8% LIBOR Floor, 12/17/17 ^{(d)(e)}	Information Technology	6,000	5,925	6,158
Carestream Health, Inc., L+525, 10/30/13 ^(d)	Healthcare	8,000	7,723	7,892
Central Parking Systems, Inc., L+450, 11/22/14	Industrials	250	199	180
Datatel, Inc., L+825, 2.0% LIBOR Floor, 12/10/16	Information Technology	5,000	4,915	5,070
Dresser, Inc., L+575, 5/4/15 ^(d)	Energy	7,405	6,980	7,411
Edwards Ltd., L+575, 11/30/14 ^{(d)(f)}	Industrials	2,305	2,062	2,201
FR Brand Acquisition Corp., L+625, 2/7/15 ^(d)	Industrials	8,000	6,948	7,256
Goodman Global, Inc., L+700, 2.0% LIBOR Floor, 10/27/17 ^(d)	Consumer Discretionary	7,000	6,863	7,230
Kronos Inc., L+575, 6/11/15 ^(d)	Industrials	3,000	2,919	2,941
Roundy's Supermarkets, Inc., L+800, 2.0% LIBOR Floor, 4/16/16 ^(d)	Consumer Staples	10,000	10,106	10,169
Sedgwick CMS Holdings, L+750, 1.5% LIBOR Floor, 5/30/17	Industrials	500	500	500
Southern Pacific Resource Co., L+850, 2.0% LIBOR Floor, 12/22/15 ^{(e)(f)}	Energy	10,000	9,700	9,850
TPF Generation Holdings, LLC, L+425, 12/15/14 ^(d)	Energy	9,170	8,329	8,442
Vertafore, Inc., L+825, 1.5% LIBOR Floor, 10/19/17 ^(d)	Information Technology	10,000	9,902	10,131
Wm. Bolthouse Farms, Inc., L+750, 2.0% LIBOR Floor, 8/11/16 ^(d)	Consumer Staples	8,384	8,385	8,497
Xerium Technologies, Inc., L+625, 2.0% LIBOR Floor, 5/25/15 ^{(d)(e)}	Materials	7,960	7,701	7,850
Total Senior Secured Loans—Second Lien			131,960	135,962
Senior Secured Bonds—9.2%				
Allen Systems Group, Inc., 10.5%, 11/15/16	Information Technology	7,348	7,383	7,458
Aspect Software, Inc., 10.6%, 5/15/17 ^(d)	Information Technology	4,000	4,000	4,137
First Data Corp., 8.9%, 8/15/20 ^(d)	Information Technology	4,300	4,232	4,517
Logan's Roadhouse, Inc., 10.8%, 10/15/17	Consumer Discretionary	4,000	4,000	4,322
Nexstar Broadcasting Group, Inc., 8.9%, 4/15/17 ^(d)	Telecommunication Services	5,000	4,971	5,318
Paetec Holding Corp., 8.9%, 6/30/17 ^(d)	Telecommunication Services	4,680	4,809	5,008
Roofing Supply Group LLC, 8.6%, 12/1/17 ^(d)	Industrials	800	800	817
Stallion Oilfield Services Ltd., 10.5%, 2/15/15	Energy	4,000	4,070	4,219
Total Senior Secured Bonds			34,265	35,796
Subordinated Debt—13.1%				
ATI Enterprises Inc., L+1100, 2.3% LIBOR Floor, 12/30/16	Consumer Discretionary	8,000	7,908	7,253
Aurora Diagnostics, LLC, 10.8%, 1/15/18	Healthcare	8,000	8,000	8,001
Bresnan Broadband Holdings LLC, 8.0%, 12/15/18 ^{(d)(f)}	Telecommunication Services	5,000	5,000	5,175
Cincinnati Bell Inc., 8.4%, 10/15/20 ^{(d)(f)}	Telecommunication Services	8,000	8,000	7,682
Hughes Network Systems, LLC, 9.5%, 4/15/14 ^(f)	Telecommunication Services	2,000	2,072	2,070

See notes to unaudited consolidated financial statements.

FS Investment Corporation
Consolidated Schedule of Investments
As of December 31, 2010
(in thousands)

Portfolio Company ^(a)	Industry	Principal Amount ^(b)	Amortized Cost	Fair Value ^(c)
Mediacom Broadband LLC, 8.5%, 10/15/15 ^(f)	Consumer Discretionary	\$ 2,000	\$ 2,029	\$ 2,011
N.E.W. Customer Service Cos., Inc., L+750, 2.0% LIBOR Floor, 3/22/17 ^(d)	Industrials	7,000	6,867	6,980
NBTY, Inc., 9.0%, 10/1/18	Consumer Staples	4,700	4,700	5,036
Paetec Holding Corp., 9.9%, 12/1/18 ^(f)	Telecommunication Services	4,000	3,868	4,030
Univar Inc., 12.0%, 6/30/18	Materials	3,000	2,940	2,940
Total Subordinated Debt			<u>51,384</u>	<u>51,178</u>
Collateralized Securities—6.8%				
Apidos CDO IV Class E, L+360, 10/27/18 ^(f)	Financials	2,000	1,051	1,375
Ares 2007 CLO 11A Class E, L+600, 10/11/21 ^(f)	Financials	4,775	3,028	3,565
Ares 2007 CLO 12X Class E, L+575, 11/25/20 ^(f)	Financials	2,252	1,743	1,633
Base CLO I Class E, EURIBOR+500, 10/17/18 ^(f)	Financials	€ 1,500	960	1,207
Blue Mountain CLO III Class E, L+355, 3/17/21 ^(f)	Financials	\$ 2,000	869	1,195
Franklin CLO 6A Class E, L+425, 8/9/19 ^(f)	Financials	1,919	1,133	1,219
Lightpoint CLO 2006 V Class D, L+365, 8/5/19 ^(f)	Financials	6,500	3,012	3,920
Lightpoint CLO 2007 VII Class D, L+400, 5/15/21 ^(f)	Financials	4,000	2,182	2,390
Mountain View CLO II Class Pref, 17.4%, 1/12/21 ^{(e)(f)}	Financials	8,975	7,272	7,135
Octagon CDO 2007 1A Class Income, 38.1%, 8/25/21 ^(f)	Financials	4,000	2,774	2,900
Total Collateralized Securities			<u>24,024</u>	<u>26,539</u>
TOTAL INVESTMENTS—188.4%			<u>\$ 715,514</u>	<u>733,580</u>
LIABILITIES IN EXCESS OF OTHER ASSETS—(88.4%)				<u>(344,348)</u>
NET ASSETS—100.0%				<u>\$ 389,232</u>

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

(b) Denominated in U.S. Dollars unless otherwise noted.

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

(d) Security or portion thereof held within Broad Street Funding LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Deutsche Bank AG, New York Branch (see Notes 10 and 11).

(e) Position or portion thereof unsettled as of December 31, 2010.

(f) The investment is not a qualifying asset under the 1940 Act. 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.

See notes to unaudited consolidated financial statements.

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

Note 1. Principal Business and Organization

FS Investment Corporation, or the Company, was incorporated under the general corporation laws of the State of Maryland on December 21, 2007 and formally commenced operations on January 2, 2009. The Company 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. The Company is an externally managed, non-diversified, closed-end management investment company that has elected to be treated for federal income tax purposes 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 September 30, 2011, the Company had four wholly-owned financing subsidiaries, Broad Street Funding LLC, or Broad Street, which was established on February 2, 2010, Arch Street Funding LLC, or Arch Street, which was established on March 1, 2011, Locust Street Funding LLC, or Locust Street, which was established on July 5, 2011, and Race Street Funding LLC, or Race Street, which was established on July 5, 2011. The consolidated financial statements include both the Company's accounts and the accounts of its wholly-owned financing subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Since commencing its initial public offering and through November 11, 2011, the Company has sold 142,553,249 shares (as adjusted for stock distributions) of common stock for gross proceeds of \$1,493,510. As of November 11, 2011, the Company had raised total gross proceeds of \$1,494,510 including approximately \$1,000 contributed by the principals of the Company's investment adviser in February 2008. During the nine months ended September 30, 2011 and 2010, the Company sold 83,613,294 and 18,117,485 shares for gross proceeds of \$890,497 and \$187,252 at an average price per share of \$10.65 and \$10.34, respectively. The gross proceeds received during the nine months ended September 30, 2011 and 2010 include reinvested stockholder distributions of \$21,661 and \$2,967, respectively. During the period from October 1, 2011 to November 11, 2011, the Company sold 17,514,596 shares of common stock for gross proceeds of \$185,129 at an average price per share of \$10.57.

The proceeds from the issuance of common stock as presented on the Company's consolidated statements of changes in net assets and consolidated statements of cash flows are presented net of selling commissions and dealer manager fees of \$81,266 and \$17,829 for the nine months ended September 30, 2011 and 2010, respectively.

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 financial statements as of and for the year ended December 31, 2010 included in the Company's annual report on Form 10-K. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The December 31, 2010 balance sheet and schedule of investments are derived from the 2010 audited financial statements. The Company has evaluated the impact of subsequent events through the date the consolidated financial statements were issued and filed with the Securities and Exchange Commission, or the SEC.

Use of Estimates: The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and

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

Note 2. Summary of Significant Accounting Policies (continued)

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 information.

Reclassifications: Certain amounts in the 2010 financial statements have been reclassified to conform to the classifications used to prepare the 2011 financial statements. These reclassifications had no material impact on the Company's consolidated financial position, results of operations or cash flows as previously reported.

Capital Gains Incentive Fee: Pursuant to the terms of the investment advisory and administrative services agreement the Company entered into with FB Income Advisor, LLC, or FB Advisor, the incentive fee on capital gains earned on liquidated investments of the Company's portfolio during operations prior to a liquidation of the Company is determined and payable in arrears as of the end of each calendar year. 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 each calendar year, 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 the investment advisory and administrative services agreement with FB Advisor neither includes nor contemplates the inclusion of unrealized gains in the calculation of the capital gains incentive fee, pursuant to an interpretation of an American Institute for 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 capital gains incentive fee payable. 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. During the year ended December 31, 2010, the Company accrued a capital gains incentive fee of \$5,459 based on the performance of its portfolio, of which \$1,396 was based on realized gains and was payable to FB Advisor as of December 31, 2010. During the nine months ended September 30, 2011, the Company reversed \$4,063 in capital gains incentive fees accrued by the Company during the year ended December 31, 2010 as a result of the unrealized losses incurred in the Company's portfolio during the nine months ended September 30, 2011.

Note 3. Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2010-06, which provides additional guidance to improve disclosures regarding fair value measurements. This guidance requires two new disclosures: (1) transfers in and out of Level 1 and 2 measurements and the reasons for the transfers and (2) a gross presentation of activity within the Level 3 roll forward. The guidance also includes clarifications to existing disclosure requirements on the level of disaggregation and disclosures regarding inputs and valuation techniques. The guidance applies to all entities required to make disclosures about recurring and nonrecurring fair value measurements. The effective date of this guidance is the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll forward information, which is required for annual reporting periods beginning after December 15, 2010 and for

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

Note 3. Recently Issued Accounting Standards (continued)

interim reporting periods within those years. The adoption of this guidance, including the gross presentation of Level 3 roll forward information, did not have a significant impact on the Company's consolidated financial statements or disclosures. See "Note 7. Fair Value of Financial Instruments" for a discussion of the three-level fair value hierarchy employed by the Company under existing accounting guidance.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This guidance represents the converged guidance of the FASB and the International Accounting Standards Boards, or collectively, the Accounting Boards, on fair value measurement. The collective efforts of the Accounting Boards reflected in this guidance have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value" and enhanced disclosure requirements for investments that do not have readily determinable fair values. The Accounting Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards. The amendments to the FASB codification in this guidance are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company is currently assessing the impact of this guidance on its consolidated financial statements.

Note 4. Related Party Transactions

The Company has entered into an investment advisory and administrative services agreement with FB Advisor. Pursuant to the investment advisory and administrative services agreement, FB Advisor is entitled to an annual base management fee of 2.0% of the average value of the Company's gross assets and an incentive fee based on the Company's performance. The incentive fee consists of three parts. The first part, which is referred to as the subordinated incentive fee on income, is calculated and payable quarterly in arrears and equals 20.0% of "pre-incentive fee net investment income" for the immediately preceding quarter and is subordinated to a preferred return on adjusted capital, as defined in the Company's investment advisory and administrative services agreement, equal to 2.0% per quarter, or an annualized rate of 8.0%. The second part of the incentive fee, which is referred to as the incentive fee on capital gains during operations, is an incentive fee on capital gains earned on liquidated investments from the Company's portfolio during operations prior to a liquidation of the Company and is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory and administrative services agreement). This fee equals 20.0% of the Company's incentive fee capital gains, which equals the Company's realized capital gains on a cumulative basis from inception, calculated as of the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The third part of the incentive fee, which is referred to as the subordinated liquidation incentive fee, equals 20.0% of the net proceeds from a liquidation of the Company in excess of adjusted capital, as calculated immediately prior to liquidation.

The Company commenced accruing fees under the investment advisory and administrative services agreement on January 2, 2009, upon the commencement of the Company's operations. During the three months ended September 30, 2011 and 2010, FB Advisor earned \$7,432 and \$2,318, respectively, in base management fees. During the nine months ended September 30, 2011 and 2010, FB Advisor earned \$18,216 and \$4,605, respectively, in base management fees. Management fees are paid on a quarterly basis in arrears. The Company paid \$14,093 and \$2,726, respectively, of these fees during the nine months ended September 30, 2011 and 2010.

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

Note 4. Related Party Transactions (continued)

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, under the terms of the investment advisory and administrative services agreement, 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. During the three months ended September 30, 2011, the Company reversed \$7,974 in capital gains incentive fees accrued by the Company as of June 30, 2011 as a result of the unrealized losses incurred in the Company's portfolio during the three months ended September 30, 2011. During each of the three and nine months ended September 30, 2010, the Company accrued \$373 in capital gains incentive fees. During the nine months ended September 30, 2011, the Company reversed \$4,063 in capital gains incentive fees accrued by the Company during the year ended December 31, 2010 as a result of the unrealized losses incurred in the Company's portfolio during the nine months ended September 30, 2011.

The Company also reimburses FB Advisor for expenses necessary for its performance of services related to administering and operating the Company, provided that such reimbursement is equal to the lower of FB Advisor's actual costs or the amount that the Company would be required to pay for comparable services in the same geographic location, and provided further that such costs are reasonably allocated to the Company on the basis of assets, revenues, time records or other reasonable methods. During the three months ended September 30, 2011 and 2010, the Company incurred administrative services charges of \$915 and \$285, respectively, attributable to FB Advisor. Of these charges, for the three months ended September 30, 2011 and 2010, \$566 and \$285, respectively, related to the allocation of costs of administrative personnel for services provided to the Company by employees of FB Advisor and the remainder related to other reimbursable expenses. The Company paid FB Advisor \$605 and \$132, respectively, for the services incurred under this arrangement during the three months ended September 30, 2011 and 2010. During the nine months ended September 30, 2011 and 2010, the Company incurred administrative services charges of \$1,903 and \$635, respectively, attributable to FB Advisor. Of these charges, for the nine months ended September 30, 2011 and 2010, \$1,366 and \$635, respectively, related to the allocation of costs of administrative personnel for services provided to the Company by employees of FB Advisor and the remainder related to other reimbursable expenses. The Company paid FB Advisor \$1,419 and \$496, respectively, for the services incurred under this arrangement during the nine months ended September 30, 2011 and 2010.

Franklin Square Holdings, L.P., or Franklin Square Holdings, the Company's sponsor and an affiliate of FB Advisor, funded offering costs and other expenses in the amount of \$486 for the nine months ended September 30, 2010. The offering costs and other expenses funded by Franklin Square Holdings during the nine months ended September 30, 2010 were recorded by the Company as a contribution to capital. The offering costs were offset against capital in excess of par on the financial statements and the other expenses were charged to expense as incurred by the Company. All offering costs for the nine months ended September 30, 2011 have been funded directly by the Company.

The dealer manager for the Company's public offering is FS² Capital Partners, LLC, or FS², which is one of the Company's affiliates. During the nine months ended September 30, 2011 and 2010, FS² retained \$15,622 and \$3,063, respectively, for selling commissions and dealer manager fees in connection with the sale of the Company's common stock.

Under the terms of the investment advisory and administrative services agreement, when the Company's Registration Statement was declared effective by the SEC and the Company was successful in raising gross

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

Note 4. Related Party Transactions (continued)

proceeds from unrelated outside investors of at least \$2,500, or the minimum offering requirement, FB Advisor became entitled to receive 1.5% of gross proceeds raised until all offering costs and organization costs funded by FB Advisor or its affiliates (including Franklin Square Holdings) have been recovered. On January 2, 2009, the Company exceeded the minimum offering requirement. The Company paid total reimbursements of \$641 and \$1,678 to FB Advisor and its affiliates during the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, no amounts were payable to FB Advisor and its affiliates under this arrangement. The reimbursements are recorded as a reduction of capital.

FB Advisor's senior management team is comprised of the same personnel as the senior management team of FS Investment Advisor, LLC, the investment adviser to Franklin Square Holdings' other affiliated BDC, FS Energy and Power Fund. As a result, such personnel provide investment advisory services to both the Company and FS Energy and Power Fund. While neither FB Advisor nor FS Investment Advisor, LLC is currently making private corporate debt investments for clients other than the Company and FS Energy and Power Fund, respectively, either one, or both, 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 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 rather than to the Company.

Beginning on February 26, 2009, Franklin Square Holdings agreed to reimburse the Company for expenses in an amount that is sufficient to ensure that, for tax purposes, the Company's net investment income and net capital gains are equal to or greater than the cumulative distributions paid to the Company's stockholders in each quarter. This arrangement is designed to ensure that no portion of the Company's distributions will represent a return of capital for the Company's stockholders. Franklin Square Holdings has no obligation to reimburse any portion of the Company's expenses. The specific amount of expenses reimbursed by Franklin Square Holdings, if any, will be determined at the end of each quarter. During the three and nine months ended September 30, 2011 and 2010, the Company received no reimbursements from Franklin Square Holdings. The Company does not expect that conditions will require Franklin Square Holdings to provide reimbursements in the future. To the extent reimbursements may be needed in the future, there can be no assurance that Franklin Square Holdings will provide any such reimbursements. Franklin Square Holdings is controlled by the Company's chairman, president and chief executive officer, Michael Forman, and its vice-chairman, David Adelman.

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

Note 5. Distributions

The following table reflects the cash distributions per share that the Company has declared and paid on its common stock during the nine months ended September 30, 2011 and 2010:

For the Three Months Ended	Distribution	
	Per Share	Amount
Fiscal 2010		
March 31, 2010 ⁽¹⁾	\$0.1860	\$ 2,443
June 30, 2010	\$0.1875	\$ 3,589
September 30, 2010	\$0.1875	\$ 4,763
Fiscal 2011		
March 31, 2011	\$0.1929	\$ 9,948
June 30, 2011	\$0.2787	\$20,529
September 30, 2011	\$0.2016	\$22,116

(1) The amount of the per share distributions during the three months ended March 31, 2010 has been retroactively adjusted to reflect the stock distribution declared in January 2010 as discussed below.

On October 14, 2011, the Company's board of directors declared two regular semi-monthly cash distributions of \$0.033594 per share each, which were paid on October 31, 2011 to stockholders of record on October 14, 2011 and October 28, 2011, respectively. On October 28, 2011, the Company's board of directors approved a special cash distribution of \$0.02 per share, which was paid on October 31, 2011 to stockholders of record on October 28, 2011. On November 8, 2011, the Company's board of directors declared two regular semi-monthly cash distributions of \$0.033594 per share each, which are expected to be paid on November 30, 2011 to stockholders of record on November 15, 2011 and November 29, 2011, respectively. 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.

The Company has adopted an "opt in" distribution reinvestment plan for its stockholders. As a result, if the Company makes a distribution, its stockholders will receive distributions in cash unless they specifically "opt in" to the distribution reinvestment plan so as to have their cash distributions reinvested in additional shares of the Company's common stock.

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

Note 5. Distributions (continued)

The Company may fund its cash distributions to stockholders from any sources of funds available to it, including offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets and expense reimbursements from Franklin Square Holdings. The Company has not established limits on the amount of funds it may use from available sources to make distributions. The following table reflects, for tax purposes, the sources of the cash distributions that the Company has paid on its common stock during the nine months ended September 30, 2011 and 2010:

Source of Distribution	Nine Months Ended September 30,			
	2011		2010	
	Distribution Amount	Percentage	Distribution Amount	Percentage
Offering proceeds	\$ —	—	\$ —	—
Borrowings	—	—	—	—
Net investment income ⁽¹⁾	48,572	92%	7,872	73%
Capital gains proceeds from the sale of assets	4,021	8%	2,923	27%
Non-capital gains proceeds from the sale of assets	—	—	—	—
Expense reimbursement from sponsor	—	—	—	—
Total	\$ 52,593	100%	\$ 10,795	100%

(1) During the nine months ended September 30, 2011 and 2010, 88% and 81%, respectively, of the Company's gross investment income was attributable to cash interest earned and 12% and 19%, respectively, was attributable to non-cash accretion of discount and paid-in-kind, or PIK, interest.

The aggregate cost of the Company's investments for federal income tax purposes totaled \$1,380,598 and \$715,695 as of September 30, 2011 and December 31, 2010, respectively. The aggregate net unrealized appreciation (depreciation) on a tax basis was \$(54,261) and \$17,885 as of September 30, 2011 and December 31, 2010, respectively. The Company's net investment income on a tax basis for the nine months ended September 30, 2011 and 2010 was \$48,572 and \$7,869, respectively. The Company distributed all of its net investment income earned as of September 30, 2011 and 2010.

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

Note 5. Distributions (continued)

The difference between the Company's GAAP-basis net investment income and its tax-basis net investment income is due to the tax-basis amortization of organization and start-up costs incurred prior to the commencement of the Company's operations, interest income earned on a tax basis due to the required accretion of discount on non-performing loans, and the required accrual for GAAP purposes of incentive fees on unrealized gains even though no such incentive fees on unrealized gains are payable by the Company. See "Note 2. Summary of Significant Accounting Policies—Capital Gains Incentive Fee." The following table sets forth a reconciliation between GAAP-basis net investment income and tax-basis net investment income during the nine months ended September 30, 2011 and 2010:

	Nine Months Ended September 30,	
	2011	2010
GAAP-basis net investment income	\$48,632	\$7,809
Amortization of organizational costs	(32)	(33)
Tax accretion of discount on investments	4,035	93
Reversal of incentive fee accrual on unrealized gains	(4,063)	—
Tax-basis net investment income	\$48,572	\$7,869

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 a Form 1099-DIV.

The following table reflects the stock distributions per share that the Company has declared on its common stock to date:

Date Declared	Record Date	Payment Date	Distribution Percentage	Shares Issued
Fiscal 2009				
March 31, 2009	March 31, 2009	March 31, 2009	1.4%	13,818
April 30, 2009	April 30, 2009	April 30, 2009	3.0%	42,661
May 29, 2009	May 29, 2009	May 29, 2009	3.7%	79,125
June 30, 2009	June 30, 2009	June 30, 2009	3.5%	96,976
July 30, 2009	July 31, 2009	July 31, 2009	3.1%	117,219
August 31, 2009	August 31, 2009	August 31, 2009	3.0%	148,072
December 31, 2009	December 31, 2009	December 31, 2009	0.5%	49,710
Fiscal 2010				
January 28, 2010	January 31, 2010	January 31, 2010	2.5%	283,068

The purpose of these special stock distributions was to maintain a net asset value per share that was below the then-current net offering price, as required by the 1940 Act, subject to certain limited exceptions. The Company's board of directors determined that its portfolio performance sufficiently warranted taking these actions.

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

Note 5. Distributions (continued)

The stock distributions increased the number of shares outstanding, thereby reducing the Company's net asset value per share. However, because the stock distributions were issued to all stockholders in proportion to their current holdings, the reduction in net asset value per share as a result of the stock distributions was offset exactly by the increase in the number of shares owned by each investor. As overall value to an investor was not reduced as a result of the special stock distributions, the Company's board of directors determined that these issuances would not be dilutive to existing stockholders. As the stock distributions did not change any stockholder's proportionate interest in the Company, they did not represent taxable distributions.

As of September 30, 2011 and December 31, 2010, the components of accumulated earnings on a tax basis were as follows:

	September 30, 2011	December 31, 2010
Distributable ordinary income	\$ 17,403	\$ 1,290
Incentive fee accrual on unrealized gains	—	(4,063)
Unamortized organizational costs	(525)	(558)
Unrealized appreciation (depreciation) on investments and total return swap ⁽¹⁾	(54,261)	17,885
	<u>\$ (37,383)</u>	<u>\$ 14,554</u>

(1) As of September 30, 2011 and December 31, 2010, the gross unrealized appreciation on the Company's investments was \$14,449 and \$20,136, respectively. As of September 30, 2011 and December 31, 2010, the gross unrealized depreciation on the Company's investments and total return swap was \$68,710 and \$2,251, respectively.

Note 6. Investment Portfolio

The following table summarizes the composition of the Company's investment portfolio at cost and fair value as of September 30, 2011 and December 31, 2010:

	September 30, 2011			December 31, 2010		
	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio
Senior Secured Loans—First Lien	\$ 708,346	\$ 693,289	52%	\$473,881	\$484,105	66%
Senior Secured Loans—Second Lien	346,523	339,522	26%	131,960	135,962	19%
Senior Secured Bonds	128,912	120,443	9%	34,265	35,796	4%
Subordinated Debt	111,871	96,586	7%	51,384	51,178	7%
Collateralized Securities	66,509	69,600	5%	24,024	26,539	4%
Equity/Other	18,437	14,497	1%	—	—	—
	<u>\$1,380,598</u>	<u>\$1,333,937</u>	<u>100%</u>	<u>\$715,514</u>	<u>\$733,580</u>	<u>100%</u>

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

The Company does not "control" and is not an "affiliate" of any of its portfolio companies, each 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 25% or more of its voting securities and would be an "affiliate" of a portfolio company if it owned 5% or more of its voting securities.

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

Note 6. Investment Portfolio (continued)

The Company's investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require the Company to provide funding when requested by portfolio companies in accordance with the terms of the underlying loan agreements. As of September 30, 2011, the Company had 3 such investments with an aggregate unfunded commitment of \$15,709.

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 September 30, 2011 and December 31, 2010:

Industry Classification	September 30, 2011		December 31, 2010	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Consumer Discretionary	\$ 323,055	24.2%	\$ 129,749	17.6%
Consumer Staples	54,423	4.1%	56,184	7.7%
Energy	88,989	6.7%	69,048	9.4%
Financials	114,744	8.6%	59,431	8.1%
Healthcare	127,035	9.5%	63,460	8.7%
Industrials	264,965	19.9%	96,762	13.2%
Information Technology	216,448	16.2%	117,499	16.0%
Materials	39,579	3.0%	46,832	6.4%
Telecommunication Services	83,648	6.4%	81,675	11.1%
Utilities	21,051	1.4%	12,940	1.8%
Total	\$1,333,937	100.0%	\$733,580	100.0%

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 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.

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

Note 7. Fair Value of Financial Instruments (continued)

As of September 30, 2011 and December 31, 2010, the Company's investments were categorized as follows in the fair value hierarchy:

Valuation Inputs	September 30, 2011		December 31, 2010
	Investments	Total Return Swap	Investments
Level 1—Price quotations in active markets	\$ —	\$ —	\$ —
Level 2—Significant other observable inputs	—	—	—
Level 3—Significant unobservable inputs	1,333,937	(7,600)	733,580
	<u>\$1,333,937</u>	<u>\$ (7,600)</u>	<u>\$ 733,580</u>

The Company's investments as of September 30, 2011 consisted primarily of debt securities that are traded on a private over-the-counter market for institutional investors. Except as described below, the Company valued its collateralized loan obligations, or CLOs, collateralize debt obligations, or CDOs, and its subordinated debt investments by obtaining bid and ask prices from independent dealers and the Company valued all of its other debt investments, including its senior secured bond investments, by using an independent third-party pricing service, which provided prevailing bid and ask prices that were screened for validity by the service from dealers on the date of the relevant period end. Seven senior secured loan investments and two subordinated debt investments, for which broker quotes were not available, were valued by an independent valuation firm, which determined the value of such investments by considering the borrower's ability to adequately service its debt, prevailing interest rates for like investments, call features and other relevant terms of the debt. All of the Company's equity investments were valued by the same independent valuation firm, which determined the value of such investments by considering various factors, such as 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. The Company valued its total return swap, or TRS, for a portfolio of senior secured floating rate loans in accordance with the agreements governing such arrangement. Pursuant to those agreements, the loans underlying the TRS are valued based on quotes received from third-party dealers. The value of the TRS is based on the increase or decrease in the value of the loans underlying the TRS, together with accrued interest income, interest expense and certain other expenses incurred under the TRS.

The Company's investments as of December 31, 2010 consisted primarily of debt securities that traded on a private over-the-counter market for institutional investors. The Company valued its CLOs and CDOs and its subordinated debt investments by obtaining bid and ask prices from independent dealers. The Company valued all of its other investments, including its senior secured bond investments, by using an independent third-party pricing service, which provided prevailing bid and ask prices that were screened for validity by the service from dealers on the date of the relevant period end.

The Company periodically benchmarks the bid and ask prices received from its third-party pricing service against the actual prices at which it purchases and sells its investments. Based on the results of the benchmark analysis and the Company's experience 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 to determine fair value for securities for which it cannot obtain prevailing bid and ask prices through its third-party pricing service or independent dealers, including the use of an independent valuation firm. The Company's valuation committee and board of directors reviewed and approved the valuation determinations made with respect to these investments in a manner consistent with the Company's valuation process.

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

Note 7. Fair Value of Financial Instruments (continued)

The following is a reconciliation for the nine months ended September 30, 2011 and 2010 of investments for which significant unobservable inputs (Level 3) were used in determining fair value:

	For the Nine Months Ended September 30, 2011						
	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	\$ 484,105	\$ 135,962	\$ 35,796	\$ 51,178	\$ 26,539	\$ —	\$ 733,580
Accretion of discount (Amortization of premium)	4,361	2,113	(29)	115	496	589	7,645
Net realized gain/loss	9,015	12,645	1,535	419	342	(1,500)	22,456
Net change in unrealized appreciation (depreciation)	(25,281)	(11,003)	(10,000)	(15,079)	576	(3,940)	(64,727)
Purchases	864,197	262,708	130,156	84,557	54,662	20,583	1,416,863
Paid-in-kind interest	232	28	—	1,056	—	—	1,316
Sales and redemptions	(643,340)	(62,931)	(37,015)	(25,660)	(13,015)	(1,235)	(783,196)
Net transfers in or out of Level 3	—	—	—	—	—	—	—
Fair value at end of period	<u>\$ 693,289</u>	<u>\$ 339,522</u>	<u>\$ 120,443</u>	<u>\$ 96,586</u>	<u>\$ 69,600</u>	<u>\$ 14,497</u>	<u>\$ 1,333,937</u>
The amount of total gains/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>\$ (25,723)</u>	<u>\$ (7,816)</u>	<u>\$ (8,940)</u>	<u>\$ (15,954)</u>	<u>\$ 3,091</u>	<u>\$ (3,447)</u>	<u>\$ (58,789)</u>

	For the Nine Months Ended September 30, 2010						
	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	\$ 45,780	\$ 45,521	\$ —	\$ 9,291	\$ —	\$ —	\$ 100,592
Accretion of discount	2,020	1,252	1	19	74	—	3,366
Net realized gain/loss	1,729	2,226	(1,106)	534	—	—	3,383
Net change in unrealized appreciation (depreciation)	1,575	(1,265)	885	(68)	681	—	1,808
Purchases	324,637	82,839	54,865	23,695	15,654	—	501,690
Paid-in-kind interest	—	61	—	42	—	—	103
Sales and redemptions	(69,798)	(24,773)	(25,651)	(9,841)	—	—	(130,063)
Net transfers in or out of Level 3	—	—	—	—	—	—	—
Fair value at end of period	<u>\$ 305,943</u>	<u>\$ 105,861</u>	<u>\$ 28,994</u>	<u>\$ 23,672</u>	<u>\$ 16,409</u>	<u>\$ —</u>	<u>\$ 480,879</u>
The amount of total gains/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>\$ 2,245</u>	<u>\$ 755</u>	<u>\$ 885</u>	<u>\$ (68)</u>	<u>\$ 681</u>	<u>\$ —</u>	<u>\$ 4,498</u>

Note 8. Total Return Swap

On March 18, 2011, Arch Street entered into a TRS for senior secured floating rate loans with Citibank, N.A., or Citibank. On June 9, 2011, Arch Street entered into an amendment to the TRS to increase the maximum market value of the portfolio of loans subject to the TRS.

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

Note 8. Total Return Swap (continued)

A TRS is a contract in which one party agrees to make periodic payments to another party based on the change in the market value of the assets underlying the TRS, which may include a specified security, basket of securities or securities indices during the specified period, in return for periodic payments based on a fixed or variable interest rate. A TRS effectively adds leverage to a portfolio by providing investment exposure to a security or market without owning or taking physical custody of such security or investing directly in such market. Because of the unique structure of a TRS, a TRS often offers lower financing costs than are offered through more traditional borrowing arrangements.

The TRS with Citibank enables the Company, through its ownership of Arch Street, to obtain the economic benefit of owning the loans subject to the TRS, without actually owning them, in return for an interest-type payment to Citibank. As such, the TRS is analogous to Arch Street borrowing funds to acquire loans and incurring interest expense to a lender.

The obligations of Arch Street under the TRS are non-recourse to the Company and the Company's exposure under the TRS is limited to the value of the Company's investment in Arch Street, which generally will equal the value of cash collateral provided by Arch Street under the TRS. Pursuant to the terms of the TRS, Arch Street may select a portfolio of loans with a maximum aggregate market value (determined at the time each such loan becomes subject to the TRS) of \$300,000. Arch Street is required to initially cash collateralize a specified percentage of each loan (generally between 20% and 25% of the market value of such loan) included under the TRS in accordance with margin requirements described in the agreements governing the TRS. Under the terms of the TRS, Arch Street has agreed not to draw upon, or post as collateral, such cash collateral in respect of other financings or operating requirements prior to the termination of the TRS. Neither the cash collateral required to be posted with Citibank nor any other assets of Arch Street are available to pay the debts of the Company.

Pursuant to the terms of an investment management agreement that the Company has entered into with Arch Street, the Company acts as the manager of the rights and obligations of Arch Street under the TRS, including selecting the specific loans to be included in the portfolio of loans subject to the TRS. Accordingly, the loans selected by Arch Street for purposes of the TRS are selected by the Company in accordance with its investment objectives and strategy to generate current income and, to a lesser extent, long-term capital appreciation. In addition, pursuant to the terms of the TRS, Arch Street may select any loan or obligation available in the market to be included in the portfolio of loans that meets the obligation criteria set forth in the agreements between Arch Street and Citibank which collectively establish the TRS and are collectively referred to herein as the TRS Agreement.

Each individual loan, and the portfolio of loans taken as a whole, must meet criteria described in the TRS Agreement. Under the terms of the TRS, Citibank, as calculation agent, determines whether there has been a failure to satisfy the portfolio criteria in the TRS. If such failure continues for 30 days following the delivery of notice thereof, then Citibank has the right, but not the obligation, to terminate the TRS. Arch Street receives from Citibank all interest and fees payable in respect of the loans included in the portfolio. Arch Street pays to Citibank interest at a rate equal to one-month LIBOR + 1.25% per annum. In addition, upon the termination or repayment of any loan subject to the TRS, Arch Street will either receive from Citibank the appreciation in the value of such loan, or pay to Citibank any depreciation in the value of such loan.

Under the terms of the TRS, Arch Street may be required to post additional cash collateral, on a dollar-for-dollar basis, in the event of depreciation in the value of the underlying loans after such value decreases below a specified amount. The limit on the additional collateral that Arch Street may be required to post pursuant to the TRS is equal to the difference between the full notional amount of the loans underlying the TRS and the

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

Note 8. Total Return Swap (continued)

amount of cash collateral already posted by Arch Street. The amount of collateral required to be posted by Arch Street is determined primarily on the basis of the aggregate value of the underlying loans.

The Company has no contractual obligation to post any such additional collateral or to make any interest payments to Citibank. The Company may, but is not obligated to, increase its equity investment in Arch Street for the purpose of funding any additional collateral or payment obligations for which Arch Street may become obligated during the term of the TRS. If the Company does not make any such additional investment in Arch Street and Arch Street fails to meet its obligations under the TRS, then Citibank will have the right to terminate the TRS and seize the cash collateral posted by Arch Street under the TRS. In the event of an early termination of the TRS, Arch Street would be required to pay an early termination fee.

Citibank may terminate the TRS on or after March 18, 2013, the second anniversary of the effectiveness of the TRS. Arch Street may terminate the TRS at any time upon providing no more than 30 days, and no less than 10 days, prior notice to Citibank. Any termination prior to the second anniversary of the effectiveness of the TRS will result in payment of an early termination fee to Citibank based on the maximum notional amount of the TRS. Under the terms of the TRS, the early termination fee will equal the present value of a stream of monthly payments which would be owed by Arch Street to Citibank for the period from the termination date through and including the earlier of (i) the one year anniversary of the termination date and (ii) March 18, 2013. Such monthly payments will equal the product of (x) 90%, multiplied by (y) the aggregate notional amount of the TRS (\$300,000), multiplied by (z) 1.25% per annum. If the TRS had been terminated as of September 30, 2011, Arch Street would have been required to pay an early termination fee of approximately \$3,422. Arch Street is required to pay a minimum usage fee in connection with the TRS. Arch Street will also pay Citibank customary fees in connection with the establishment and maintenance of the TRS.

The value of the TRS is based primarily on the valuation of the underlying portfolio of loans subject to the TRS. Pursuant to the terms of the TRS, on each business day, Citibank values each underlying loan in good faith on a mark-to-market basis by determining how much Citibank would receive on such date if it sold the loan in the open market. Citibank reports the mark-to-market values of the underlying loans to Arch Street. Each of the loans underlying the TRS is required to be rated by Moody's and S&P and quoted by a nationally-recognized pricing service. As of September 30, 2011, the fair value of the TRS was \$(7,600). The fair value of the TRS is reflected as an unrealized loss on total return swap on the consolidated balance sheet. The change in value of the TRS is reflected in the statement of operations as net change in unrealized appreciation (depreciation) on total return swap. As of September 30, 2011, Arch Street had selected 65 underlying loans with a total notional amount of \$297,281 and posted \$69,673 in cash collateral held by Citibank (of which only \$61,221 was required to be posted), which is reflected in due from counterparty on the consolidated balance sheet.

For purposes of the asset coverage ratio test applicable to the Company as a BDC, the Company has agreed with the staff of the SEC to treat the outstanding notional amount of the TRS, less the initial amount of any cash collateral required to be posted by Arch Street under the TRS, as a senior security for the life of that instrument. The Company may, however, accord different treatment to the TRS in the future in accordance with any applicable new rules or interpretations adopted by the staff of the SEC.

Further, for purposes of Section 55(a) under the 1940 Act, the Company has agreed with the staff of the SEC to treat each loan underlying the TRS as a qualifying asset if the obligor on such loan is an eligible portfolio company and as a non-qualifying asset if the obligor is not an eligible portfolio company. The Company may, however, accord different treatment to the TRS in the future in accordance with any applicable new rules or interpretations adopted by the staff of the SEC.

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

Note 8. Total Return Swap (continued)

The following is a summary of the underlying loans subject to the TRS as of September 30, 2011:

<u>Underlying Loan⁽¹⁾</u>	<u>Industry</u>	<u>Notional Amount</u>	<u>Market Value</u>	<u>Unrealized Appreciation/ (Depreciation)</u>
Academy, Ltd., L+450, 1.5% LIBOR Floor, 8/3/18	Consumer Discretionary	\$ 4,792	\$ 4,720	\$ (72)
Alliant Holdings LLC, L+500, 1.8% LIBOR Floor, 8/16/14	Financials	1,949	1,922	(27)
Ardent Health Services LLC, L+500, 1.5% LIBOR Floor, 9/15/15	Healthcare	3,096	3,033	(63)
Asurion, LLC, L+400, 1.5% LIBOR Floor, 5/20/18	Financials	4,849	4,604	(245)
Atlantic Broadband Finance, LLC, L+350, 1.5% LIBOR Floor, 11/29/15	Consumer Discretionary	3,785	3,790	5
Avis Budget Car Rental, LLC, L+500, 1.3% LIBOR Floor, 9/22/18 ⁽²⁾	Consumer Discretionary	5,444	5,519	75
Axcan Intermediate Holdings Inc., L+400, 1.5% LIBOR Floor, 2/11/17	Healthcare	9,896	8,791	(1,105)
Bass Pro Group, LLC, L+400, 1.3% LIBOR Floor, 6/10/17	Consumer Discretionary	6,818	6,721	(97)
Bentley Systems Inc., L+425, 1.5% LIBOR Floor, 11/24/16	Information Technology	1,766	1,704	(62)
BJ's Wholesale Club, Inc., L+575, 1.3% LIBOR Floor, 9/29/18	Consumer Discretionary	4,275	4,347	72
Blackboard Inc., L+600, 1.5% LIBOR Floor, 10/4/18 ⁽²⁾	Information Technology	4,128	4,162	34
Capsugel Holdings Inc., L+400, 1.3% LIBOR Floor, 7/31/18	Healthcare	3,618	3,571	(47)
Carestream Health, Inc., L+350, 1.5% LIBOR Floor, 2/25/17	Healthcare	4,818	4,161	(657)
Chrysler Group LLC, L+475, 1.3% LIBOR Floor, 5/17/18	Industrials	7,494	6,619	(875)
Clement Pappas & Co., Inc., L+525, 1.3% LIBOR Floor, 7/31/17	Consumer Discretionary	2,970	2,929	(41)
CPG International I Inc., L+450, 1.5% LIBOR Floor, 2/18/17	Industrials	1,854	1,760	(94)
Del Monte Foods Co., L+300, 1.5% LIBOR Floor, 3/8/18	Consumer Staples	2,833	2,760	(73)
Dole Food Co., L+375, 1.3% LIBOR Floor, 7/8/18 ⁽²⁾	Consumer Staples	1,910	1,966	56
Emergency Medical Services Corp., L+375, 1.5% LIBOR Floor, 5/25/18	Healthcare	6,755	6,424	(331)
Fairmount Minerals, Ltd., L+400, 1.3% LIBOR Floor, 3/11/17	Materials	7,380	7,266	(114)
Frac Tech International, LLC, L+475, 1.5% LIBOR Floor, 5/6/16	Energy	6,039	6,012	(27)
Gemini Holdings Inc., L+450, 1.5% LIBOR Floor, 6/16/17	Consumer Discretionary	3,667	3,618	(49)
Gibson Energy ULC, L+450, 1.3% LIBOR Floor, 6/15/18 ⁽²⁾	Energy	7,150	7,060	(90)
Golden Living (Drumm Investors LLC), L+375, 1.3% LIBOR Floor, 3/15/18	Healthcare	7,920	6,980	(940)
Grifols, SA, L+425, 1.8% LIBOR Floor, 6/4/16	Healthcare	4,355	4,249	(106)
HarbourVest Partners LP, L+475, 1.5% LIBOR Floor, 12/17/16	Financials	10,600	10,442	(158)
Hubbard Radio, LLC, L+725, 1.5% LIBOR Floor, 4/29/18	Telecommunication Services	1,382	1,333	(49)
Hyland Software, Inc., L+425, 1.5% LIBOR Floor, 12/19/16	Information Technology	3,980	3,834	(146)
IASIS Healthcare LLC, L+375, 1.3% LIBOR Floor, 5/3/18	Healthcare	7,513	7,053	(460)
Immucor, Inc., L+575, 1.5% LIBOR Floor, 8/19/18	Healthcare	3,765	3,858	93
INC Research, LLC, L+575, 1.3% LIBOR Floor, 7/12/18	Healthcare	4,850	4,733	(117)
Infogroup, Inc., L+425, 1.5% LIBOR Floor, 5/25/17	Consumer Discretionary	4,197	4,144	(53)
Intelsat Jackson Holdings SA, L+375, 1.5% LIBOR Floor, 4/2/18 ⁽²⁾	Telecommunication Services	3,005	2,865	(140)
inVentiv Health, Inc., L+525, 1.5% LIBOR Floor, 8/4/18	Industrials	2,530	2,438	(92)
Kar Holdings, Inc., L+375, 1.3% LIBOR Floor, 5/20/17	Industrials	4,933	4,874	(59)
LabelCorp Holdings, Inc., L+475, 1.5% LIBOR Floor, 5/27/17	Industrials	5,775	5,746	(29)
MedAssets, Inc., L+375, 1.5% LIBOR Floor, 11/22/16 ⁽²⁾	Healthcare	1,532	1,491	(41)
Mondrian Investment Partners Ltd., L+425, 1.3% LIBOR Floor, 7/5/18	Financials	4,486	4,498	12
Mood Media Corp., L+550, 1.5% LIBOR Floor, 5/4/18 ⁽²⁾	Consumer Discretionary	5,096	4,739	(357)
NBTY, Inc., L+325, 1.0% LIBOR Floor, 10/1/17	Consumer Staples	3,775	3,868	93
Norit Holding BV, L+525, 1.5% LIBOR Floor, 7/8/17 ⁽²⁾	Industrials	3,834	3,835	1
NuSil Technology LLC, L+400, 1.3% LIBOR Floor, 3/28/17	Materials	3,924	3,761	(163)
OpenLink Financial Inc., L+400, 1.3% LIBOR Floor, 4/27/18	Information Technology	5,627	5,556	(71)
Protection One, Inc., L+425, 1.8% LIBOR Floor, 6/4/16	Consumer Discretionary	1,762	1,710	(52)
Ranpak Corp., L+350, 1.3% LIBOR Floor, 4/20/17	Industrials	2,539	2,424	(115)
RBS Holding Co. LLC, L+500, 1.5% LIBOR Floor, 3/21/17	Consumer Discretionary	9,776	8,878	(898)
RBS Worldpay, Inc., L+450, 1.8% LIBOR Floor, 10/15/17	Financials	1,542	1,474	(68)

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

Note 8. Total Return Swap (continued)

Underlying Loan ⁽¹⁾	Industry	Notional Amount	Market Value	Unrealized Appreciation/ (Depreciation)
Reynolds Group Holdings Inc., L+460, 1.2% LIBOR Floor, 7/31/18 ⁽²⁾	Consumer Discretionary	\$ 7,079	\$ 7,109	\$ 30
Sealed Air Corp., L+375, 1.0% LIBOR Floor, 10/3/18 ⁽²⁾	Industrials	3,808	3,884	76
SemGroup Corp., L+450, 1.3% LIBOR Floor, 6/17/18 ⁽²⁾	Energy	5,281	5,281	—
Sensus USA Inc., L+350, 1.3% LIBOR Floor, 5/9/17	Industrials	4,943	4,814	(129)
Smile Brands Group Inc., L+525, 1.8% LIBOR Floor, 12/21/17	Healthcare	1,213	1,200	(13)
Sprouts Farmers Markets, LLC, L+475, 1.3% LIBOR Floor, 4/15/17	Consumer Discretionary	4,798	4,596	(202)
SRA International, Inc., L+525, 1.3% LIBOR Floor, 7/20/18	Industrials	6,268	6,081	(187)
Star West Generation LLC, L+450, 1.5% LIBOR Floor, 5/17/18	Energy	5,893	5,578	(315)
Surgery Center Holdings, Inc., L+500, 1.5% LIBOR Floor, 2/4/17	Healthcare	7,684	7,240	(444)
SymphonyIRI Group Inc., L+375, 1.3% LIBOR Floor, 12/1/17	Information Technology	2,095	2,040	(55)
Terex Corp., L+400, 1.5% LIBOR Floor, 4/28/17 ⁽²⁾	Industrials	1,856	1,838	(18)
Totes Isotoner Corp., L+575, 1.5% LIBOR Floor, 7/8/17	Consumer Discretionary	3,259	3,184	(75)
TravelCLICK Holdings, Inc., L+450, 1.5% LIBOR Floor, 2/11/17	Industrials	7,876	7,637	(239)
US Security Associates, Inc., L+475, 1.5% LIBOR Floor, 7/26/17	Consumer Discretionary	2,475	2,419	(56)
Verint Systems, Inc., L+325, 1.3% LIBOR Floor, 10/6/17 ⁽²⁾	Information Technology	2,719	2,654	(65)
Vision Solutions, Inc., L+450, 1.5% LIBOR Floor, 9/20/16	Information Technology	7,722	7,410	(312)
Wall Street Systems Inc., L+400, 1.5% LIBOR Floor, 2/2/17	Information Technology	2,573	2,509	(64)
Waste Industries USA, Inc., L+350, 1.3% LIBOR Floor, 3/18/17	Industrials	3,755	3,750	(5)
TOTAL		<u>\$297,281</u>	<u>\$287,466</u>	<u>(9,815)</u>
	Total TRS Accrued Income and Liabilities:			2,215
	Total TRS Market Value:			<u><u>\$ (7,600)</u></u>

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

(2) The investment is not a qualifying asset under the 1940 Act. A BDC 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.

Note 9. Share Repurchase Program

The Company intends to conduct quarterly tender offers pursuant to its share repurchase program. The Company's board of directors will consider the following factors, among others, in making its determination regarding whether to cause the Company to offer to repurchase shares and under what terms:

- the effect of such repurchases on the Company's qualification as a RIC (including the consequences of any necessary asset sales);
- the liquidity of its assets (including fees and costs associated with disposing of assets);
- the Company's investment plans and working capital requirements;
- the relative economies of scale with respect to the Company's size;

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

Note 9. Share Repurchase Program (continued)

- the Company's history in repurchasing shares or portions thereof; and
- the condition of the securities markets.

The Company currently intends to limit the number of shares to be repurchased during any calendar year to the number of shares it can repurchase with the proceeds it receives from the sale of shares under its distribution reinvestment plan. At the discretion of the Company's board of directors, the Company may also use cash on hand, cash available from borrowings and cash from liquidation of securities investments as of the end of the applicable period to repurchase shares. In addition, the Company will not repurchase shares in any calendar year in excess of 10% of the weighted average number of shares outstanding in the prior calendar year, or 2.5% in each quarter. The Company will offer to repurchase such shares on each date of repurchase at a price equal to 90% of the current offering price in effect on each date of repurchase. The Company's board of directors may amend, suspend or terminate the repurchase program at any time upon 30 days' notice. The first such tender offer commenced in March 2010, and the repurchase occurred in connection with the Company's April 1, 2010 closing. On such date, 11,142 shares were repurchased at a price per share of \$9.36 for aggregate consideration of approximately \$104. During the nine months ended September 30, 2011, the Company repurchased 337,141 shares at \$9.65 per share for aggregate consideration totaling \$3,253. On October 3, 2011, the Company repurchased 121,089 shares at \$9.585 per share for aggregate consideration totaling \$1,161.

Note 10. Revolving Credit Facility

On January 28, 2011, Broad Street and Deutsche Bank AG, New York Branch, or Deutsche Bank, entered into an amended and restated multi-lender, syndicated revolving credit facility, or the credit facility, which amended and restated the revolving credit facility Broad Street originally entered into with Deutsche Bank on March 10, 2010 and the amendments thereto, or the original credit facility. Deutsche Bank is a lender and serves as administrative agent under the credit facility.

The credit facility provides for borrowings in an aggregate amount up to \$340,000. Pursuant to the terms of the credit facility, borrowings thereunder may be designated as Tranche A borrowings in an amount up to \$240,000 (referred to herein as the Tranche A Commitment) or as Tranche C borrowings in an amount up to \$100,000 (referred to herein as the Tranche C Commitment). The credit facility also provides for Tranche B borrowings in an amount up to \$100,000 (referred to herein as the Tranche B Commitment), but there are currently no Tranche B Commitments outstanding. All Tranche A Commitments bear interest at the rate of LIBOR + 2.23% per annum and will mature and be due and payable on March 10, 2012. All Tranche C Commitments bear interest at the rate of LIBOR + 1.85% per annum and will mature and be due and payable on March 10, 2012. In connection with the amendment and restatement of the original credit facility, a \$100,000 Tranche B Commitment that was provided under the original credit facility by Deutsche Bank to Broad Street on an uncommitted basis was converted into a \$100,000 Tranche C Commitment provided by a new lender on a committed basis.

In connection with entering into the original credit facility, and from time to time thereafter, the Company has transferred debt securities to Broad Street as a contribution to capital and retains a residual interest in the contributed debt securities through the Company's ownership of Broad Street. The Company may contribute additional debt securities to Broad Street from time to time and Broad Street may purchase additional debt securities from various sources. Broad Street has appointed the Company to manage its portfolio of debt

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

Note 10. Revolving Credit Facility (continued)

securities pursuant to the terms of an investment management agreement. Broad Street's obligations to the lenders under the credit facility are secured by a first priority security interest in substantially all of the assets of Broad Street, including its portfolio of debt securities. The obligations of Broad Street under the credit facility are non-recourse to the Company and the Company's exposure under the credit facility is limited to the value of the Company's investment in Broad Street.

As of September 30, 2011, \$340,000 was outstanding under the credit facility. The carrying amount of the amount outstanding under the credit facility approximates its fair value. The Company incurred costs of \$1,554 in connection with obtaining and amending the credit facility, which the Company has recorded as deferred financing costs on its consolidated balance sheet and amortizes to interest expense over the life of the credit facility. As of September 30, 2011, \$396 of such deferred financing costs have yet to be amortized to interest expense.

The effective interest rate under the credit facility was 2.43% as of September 30, 2011. Interest is paid quarterly in arrears and commenced August 20, 2010. The Company recorded interest expense of \$2,293 and \$1,343 for the three months ended September 30, 2011 and 2010, respectively, of which \$225 and \$170 related to the amortization of deferred financing costs. The Company recorded interest expense of \$6,753 and \$2,213 for the nine months ended September 30, 2011 and 2010, respectively, of which \$653 and \$331 related to the amortization of deferred financing costs. The Company paid \$5,867 in interest expense for the nine months ended September 30, 2011. The average borrowings under the credit facility for the nine months ended September 30, 2011 and 2010 were \$337,793 and \$130,931, with a weighted average interest rate of 2.41% and 2.78%, respectively.

Borrowings under the credit facility are subject to compliance with a borrowing base, pursuant to which the amount of funds advanced to Broad Street varies depending upon the types of assets in Broad Street's portfolio. The occurrence of certain events described as "Super-Collateralization Events" in the credit agreement that governs the credit facility, or a decline in the Company's net asset value below a specified threshold, results in a lowering of the amount of funds that will be advanced against such assets. Super-Collateralization Events include, without limitation, (i) certain key employees ceasing to be directors, principals, officers or investment managers of GSO / Blackstone Debt Funds Management LLC, or GDFM, the sub-advisor to FB Advisor; (ii) the bankruptcy or insolvency of GDFM or FB Advisor; (iii) GDFM ceasing to act as the Company's sub-advisor or FB Advisor ceasing to act as the Company's investment adviser; (iv) the Company ceasing to act as Broad Street's investment manager, becoming bankrupt or insolvent, defaulting on certain material agreements or failing to maintain a net asset value at least equal to \$50,000; and (v) the Company or GDFM or FB Advisor committing fraud or other illicit acts in its or their investment advisory capacities.

In connection with the credit facility, Broad Street has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. In addition to customary events of default included in financing transactions, the credit facility contains the following events of default: (a) the failure to make principal payments when due or interest payments within three business days of when due; (b) borrowings under the credit facility exceeding the applicable advance rates; (c) the purchase by Broad Street of certain ineligible assets; (d) the insolvency or bankruptcy of Broad Street or the Company; (e) the Company ceases to act as investment manager of Broad Street's assets; (f) the decline of the Company's net asset value below \$50,000; and (g) fraud or other illicit acts by the Company, FB Advisor or GDFM in its or their investment advisory capacities. During the continuation of an event of default, Broad Street must pay interest at a default rate.

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

Note 10. Revolving Credit Facility (continued)

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

Note 11. Broad Street Funding LLC

The financial statements of Broad Street are maintained separately from those of the Company. The assets of Broad Street are pledged as collateral supporting the amounts outstanding under the credit facility and as such are not available to pay the debts of the Company. The following is the balance sheet of Broad Street as of September 30, 2011 and December 31, 2010:

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Investments, at fair value (amortized cost—\$611,138 and \$527,964, respectively)	\$ 592,531	\$ 540,186
Cash	29,576	9,534
Receivable for investments sold and repaid	2,885	5,162
Interest receivable	3,897	2,360
Deferred financing costs	396	835
Total assets	\$ 629,285	\$ 558,077
Liabilities		
Payable for investments purchased	\$ 26,076	\$ 48,947
Credit facility payable	340,000	297,201
Due to FS Investment Corporation	924	992
Interest payable	1,116	883
Accrued expenses	32	43
Total liabilities	368,148	348,066
Member's equity	261,137	210,011
Total liabilities and member's equity	\$ 629,285	\$ 558,077

Note 12. Repurchase Transaction

On July 21, 2011, the Company entered into a conventional debt financing arrangement with JPMorgan Chase Bank, N.A., London Branch, or JPM, through two wholly-owned subsidiaries, pursuant to which up to \$300,000 will be made available to the Company to fund investments in new securities and for other general corporate purposes. Pricing under the facility is based on three-month LIBOR plus a spread of 3.25% per annum for the relevant period. 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.

Pursuant to the financing transaction, loans in the Company's portfolio having an aggregate market value of up to \$600,000 may be sold by the Company from time to time to Locust Street, a newly-formed, special-purpose bankruptcy-remote subsidiary of the Company, pursuant to an asset transfer agreement the Company entered into with Locust Street on July 21, 2011, or the Asset Transfer Agreement. Under the Asset Transfer Agreement, on July 21, 2011, the Company sold loans to Locust Street for a purchase price of approximately \$365,396, all of which consisted of equity interests in Locust Street that Locust Street issued to the Company. The Company owns all of the equity in Locust Street.

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

Note 12. Repurchase Transaction (continued)

The loans purchased by Locust Street will secure the obligations of Locust Street under Class A Floating Rate Notes, or the Class A Notes, to be issued by Locust Street from time to time to Race Street, another newly-formed, special-purpose bankruptcy-remote subsidiary of the Company, pursuant to an indenture dated as of July 21, 2011 with Citibank, N.A., as trustee, or the Indenture. The Class A Notes may be issued in an aggregate principal amount of up to \$420,000 and mature on July 15, 2021. Race Street will purchase the issued Class A Notes from time to time at a purchase price equal to their par value and intends to purchase \$420,000 in aggregate principal amount of such Class A Notes within 180 days of July 21, 2011. The Company owns all of the equity in Race Street.

Race Street, in turn, has entered into a repurchase transaction with JPM pursuant to the terms of a master repurchase agreement and the related annex and confirmation to such agreement, each dated as of July 21, 2011, or collectively, the JPM Facility. Pursuant to the JPM Facility, JPM has agreed to purchase from time to time Class A Notes held by Race Street for an aggregate purchase price equal to approximately 71% of the principal amount of Class A Notes purchased. Subject to certain conditions, the maximum principal amount of Class A Notes that may be purchased under the JPM Facility is \$420,000. Accordingly, the maximum amount payable at any time to Race Street under the JPM Facility will not exceed \$300,000. 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 such Class A Notes to JPM. The final repurchase transaction must occur no later than July 15, 2015. The repurchase price paid by Race Street to JPM for each repurchase of the Class A Notes will be equal to the purchase price paid by JPM for such Class A Notes, plus interest thereon accrued at the applicable pricing rate under the JPM Facility, as described below.

As of September 30, 2011, Class A Notes in the aggregate principal amount of \$153,000 had been purchased by Race Street from Locust Street and subsequently sold to JPM under the JPM Facility for aggregate proceeds of \$109,286. On October 3, 2011, an additional Class A Note in the principal amount of \$70,000 was purchased by Race Street from Locust Street and subsequently sold to JPM for proceeds of \$50,000. The Company funded each purchase of Class A Notes by Race Street through a capital contribution to Race Street. As of September 30, 2011, the amount accrued upon maturity under the repurchase agreement was \$109,286, plus \$608 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.

If at any time during the term of the JPM Facility the market value of the underlying loans held by Locust Street securing the Class A Notes declines by an amount greater than 27% of their initial aggregate purchase price, or the Margin Threshold, Race Street will be required to post cash collateral with JPM in an amount at least equal to the amount by which the market value of such loans at such time is less than the Margin Threshold. In such event, in order to satisfy these margin-posting requirements, Race Street intends to borrow funds from the Company pursuant to a revolving credit agreement the Company entered into, as lender, with Race Street, as borrower, on July 21, 2011, or the Revolving Credit Agreement. The Company may, in its sole discretion, make such loans from time to time to Race Street pursuant to the terms of the Revolving Credit Agreement. Borrowings under the Revolving Credit Agreement will accrue interest at a rate equal to one-month LIBOR plus a spread of 0.75% per annum.

Pricing under the JPM Facility is based on three-month LIBOR plus a spread of 3.25% per annum for the relevant period. Commencing January 2013, Race Street is permitted to reduce (based on certain thresholds) the aggregate principal amount of Class A Notes subject to the JPM Facility. Such reductions will be subject to breakage fees calculated as the present value of 1.25% per annum over the remaining term of the JPM Facility applied to the amount of such reduction.

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

Note 12. Repurchase Transaction (continued)

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 sheet and amortizes to interest expense over the life of the JPM Facility. As of September 30, 2011, \$404 of such deferred financing costs had yet to be amortized to interest expense.

The effective interest rate on the borrowings under the JPM Facility was 3.50% as of September 30, 2011. The Company recorded interest expense of \$629 for the three and nine months ended September 30, 2011, of which \$21 related to the amortization of deferred financing costs. The average borrowings under the JPM Facility for the nine months ended September 30, 2011 were \$86,650 with a weighted average interest rate of 3.50%.

Interest on the Class A Notes will accrue at three-month LIBOR plus a spread of 4.00% per annum. Principal on the Class A Notes will be due and payable on the stated maturity date of July 15, 2021. Pursuant to the Indenture, Locust Street has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar transactions. In addition to customary events of default included in similar transactions, the Indenture contains the following events of default: (a) the failure to make principal payments on the Class A Notes at their stated maturity or redemption date, or to make interest payments on the Class A Notes within five business days of when due; (b) the failure of the aggregate outstanding principal balance (subject to certain reductions) of the loans securing the Class A Notes to be at least 130% of the outstanding principal amount of the Class A Notes; and (c) GDFM ceasing to be the sub-advisor to FB Advisor.

In connection with the Class A Notes and the Indenture, Locust Street also entered into (i) a collateral management agreement with the Company, as collateral manager, dated as of July 21, 2011, pursuant to which the Company will manage the assets of Locust Street, and (ii) a collateral administration agreement with Virtus Group, LP, or Virtus, as collateral administrator, dated as of July 21, 2011, pursuant to which Virtus will perform certain administrative services with respect to the assets of Locust Street.

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

Note 13. Financial Highlights

The following is a schedule of financial highlights of the Company for the nine months ended September 30, 2011 and the year ended December 31, 2010:

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Per Share Data⁽¹⁾:		
Net asset value, beginning of period	\$ 9.42	\$ 9.10
Results of operations⁽²⁾		
Net investment income	0.63	0.40
Net realized and unrealized appreciation (depreciation) on investments, total return swap and foreign currency	(0.62)	0.81
Net increase in net assets resulting from operations	0.01	1.21
Stockholder distributions⁽³⁾		
Distributions from net investment income	(0.62)	(0.55)
Distributions from net realized gain on investments	(0.05)	(0.32)
Net decrease in net assets resulting from stockholder distributions	(0.67)	(0.87)
Capital share transactions		
Issuance of common stock ⁽⁴⁾	0.43	0.10
Offering costs ⁽²⁾	(0.05)	(0.07)
Reimbursement to investment adviser ⁽²⁾	—	(0.10)
Capital contributions of investment adviser ⁽²⁾	—	0.05
Net increase (decrease) in net assets resulting from capital share transactions	0.38	(0.02)
Net asset value, end of period	\$ 9.14	\$ 9.42
Shares outstanding, end of period	124,608,814	41,332,661
Total return ⁽⁵⁾	4.14%	13.08%
Ratio/Supplemental Data:		
Net assets, end of period	\$ 1,139,276	\$ 389,232
Ratio of net investment income to average net assets ⁽⁶⁾	6.61%	4.37%
Ratio of operating expenses to average net assets ⁽⁶⁾	3.75%	9.89%
Portfolio turnover ⁽⁶⁾	75.58%	67.48%

- (1) The share information utilized to determine per share data has been retroactively adjusted to reflect the stock distributions discussed in Note 5.
- (2) The per share data was derived by using the weighted average shares outstanding during the period.
- (3) The per share data for distributions reflects the actual amount of distributions paid per share during the 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 in the Company's continuous offering.
- (5) The total return for the nine months ended September 30, 2011 was calculated by taking the net asset value per share as of September 30, 2011, adding the cash distributions per share which were declared during the period and dividing the total by the net asset value per share on December 31, 2010. The 2010 total return was calculated by taking the net asset value per share as of December 31, 2010, adding the cash distributions per share which were declared during the calendar year and dividing the total by the net asset value per share on December 31, 2009. The total return does not consider the effect of the sales load from the sale of the Company's common stock.
- (6) Weighted average net assets are used for this calculation. Ratios and portfolio turnover are not annualized.

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

Forward-Looking Statements

The following discussion should be read in conjunction with our unaudited consolidated financial statements and the notes thereto included elsewhere in this quarterly report on Form 10-Q.

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

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of the investments that we expect to make;
- the ability of our portfolio companies to achieve their objectives;
- our current and expected financings and investments;
- the adequacy of our cash resources, financing sources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies.
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with FB Advisor or GDFM or either of their affiliates;
- the dependence of our future success on the general economy and its effect on the industries in which we invest;
- the use of borrowed money to finance a portion of our investments;
- 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 qualify and 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 and the rules and regulations issued thereunder; and
- the effect of changes to tax legislation and our tax position.

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; and
- future changes in laws or regulations and conditions in our operating areas.

We have based the forward-looking statements included in this quarterly report on Form 10-Q on information available to us on the date of this quarterly report on Form 10-Q, and we assume no obligation to update any such forward-looking statements. Except as required by the federal securities laws, we undertake no

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obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the 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 Securities Exchange Act of 1934, as amended, or the Exchange Act.

Overview

We were incorporated under the general corporation laws of the State of Maryland on December 21, 2007 and commenced operations on January 2, 2009 upon raising gross proceeds in excess of \$2,500 from persons who are not affiliated with us or FB Advisor. We are an externally managed, non-diversified, closed-end management investment company that has elected to be treated as a BDC under the 1940 Act and has elected to be treated for federal income tax purposes as a RIC under the Code.

Our investment objectives are to generate current income and, to a lesser extent, long-term capital appreciation. Our portfolio is comprised primarily of investments in senior secured loans, second lien secured loans and, to a lesser extent, subordinated loans of private U.S. companies. We may purchase interests in loans through secondary market transactions in the “over-the-counter” market for institutional loans or directly from our target companies. 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 minority interests in the form of common or preferred equity in our target companies, either in conjunction with one of our debt investments or through a co-investment with a financial sponsor. In addition, a portion of our portfolio may be comprised of corporate bonds and other debt securities. However, such investments are not expected to comprise a significant portion of our portfolio.

The senior secured and second lien secured loans in which we invest generally have stated terms of three to seven years and any subordinated debt investments that we make generally will 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. The loans that we invest in are often rated by a nationally recognized statistical ratings organization (NRSRO), and generally will carry a rating below investment grade (rated lower than “Baa3” by Moody’s Investors Service or lower than “BBB-” by Standard & Poor’s Corporation). However, we may 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, net unrealized appreciation and depreciation and net unrealized gains and losses on foreign currency. Net investment income is the difference between our income from interest, dividends, fees and other investment income and our operating expenses. Net realized gain on investments is the difference between the proceeds received from dispositions of portfolio investments and their stated cost. Net unrealized appreciation and depreciation on investments is the net change in the fair value of our investment portfolio. Net unrealized appreciation and depreciation on total return swap is the net change in fair value of our total return swap. Net unrealized gains and losses on foreign currency is the net change in the fair value of our investments due to the impact of foreign currency fluctuations.

We expect the dollar amount of interest and any dividend income that we earn to increase as the size of our investment portfolio increases. We also generate revenues in the form of dividends on the equity or other securities we hold.

In addition, we may generate revenues in the form of commitment, closing, origination, structuring or diligence fees, monitoring fees, fees for providing managerial assistance, consulting fees and performance-based

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fees. Any such fees generated in connection with our investments will be recognized as earned. No such fees were earned during the three and nine months ended September 30, 2011 or 2010.

Expenses

Our primary operating expenses include the payment of advisory fees and other expenses under the investment advisory and administrative services agreement, interest expense from financing facilities and other expenses necessary for our operations. Our investment advisory fee compensates 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.

We also reimburse FB Advisor for its performance of services related to our administration and operation, provided that such reimbursement must be the lower of FB Advisor's actual costs or the amount that we would be required to pay for comparable administrative services in the same geographic location, and provided further that such costs are reasonably allocated to us on the basis of assets, revenues, time records or other reasonable methods. We do not reimburse FB Advisor for any services for which it receives a separate fee, or for rent, depreciation, utilities, capital equipment or other administrative items allocated to a controlling person of FB Advisor. We bear all other expenses of our operations and transactions, including (without limitation) fees and expenses relating to:

- corporate and organizational expenses relating to offerings of our common stock, subject to limitations included in the investment advisory and administrative services agreement;
- the cost of calculating our net asset value, including the cost of any third-party pricing or valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- investment advisory fees;
- fees payable to third parties relating to, or associated with, making investments and valuing investments, including fees and expenses associated with performing due diligence reviews of prospective investments;
- interest payments on our debt or related obligations;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees;
- federal, state and local taxes;
- independent directors' fees and expenses;
- costs of proxy statements, stockholders' reports and notices;
- fidelity bond, directors and officers/errors and omissions liability insurance and other insurance premiums;
- direct costs such as printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits and outside legal costs, including compliance with the Sarbanes-Oxley Act of 2002;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws;
- brokerage commissions for the purchase and sale of our investments; and

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- all other expenses incurred by FB Advisor, our sub-advisor or us in connection with administering our business, including expenses incurred by FB Advisor or our sub-advisor in performing administrative services for us, and the reimbursement of the compensation of our chief compliance officer and other administrative personnel paid by FB Advisor, to the extent they are not controlling persons of FB Advisor or any of its affiliates, subject to the limitations included in the investment advisory and administrative services agreement.

As the size of our asset base and number of investors have grown, our general and administrative expenses have increased accordingly. Printing fees have increased as the number of filings has increased and the volume of each printing has increased in conjunction with an increase in the number of stockholders. In addition, the fees payable to our directors who do not also serve in an executive officer capacity for us or FB Advisor are determined by reference to a sliding scale based on our net asset value.

Over the next several quarters, we expect our operating expenses related to our ongoing operations to continue to increase because of the anticipated growth in the size of our asset base.

Portfolio Investment Activity For The Nine Months Ended September 30, 2011 and for the year ended December 31, 2010

During the nine months ended September 30, 2011, we made investments in portfolio companies totaling \$1,416,863. During the same period we sold investments totaling \$413,694 and received principal repayments of \$369,502.

As of September 30, 2011 and December 31, 2010, our investment portfolio consisted of interests in 164 and 144 portfolio companies, respectively, for a total fair value of \$1,333,937 and \$733,580, respectively. The following table summarizes the composition of our investment portfolio at cost and fair value as of September 30, 2011 and December 31, 2010:

	September 30, 2011 (Unaudited)			December 31, 2010		
	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio
Senior Secured Loans—First Lien	\$ 708,346	\$ 693,289	52%	\$473,881	\$484,105	66%
Senior Secured Loans—Second Lien	346,523	339,522	26%	131,960	135,962	19%
Senior Secured Bonds	128,912	120,443	9%	34,265	35,796	4%
Subordinated Debt	111,871	96,586	7%	51,384	51,178	7%
Collateralized Securities	66,509	69,600	5%	24,024	26,539	4%
Equity/Other	18,437	14,497	1%	—	—	—
	<u>\$1,380,598</u>	<u>\$1,333,937</u>	<u>100%</u>	<u>\$715,514</u>	<u>\$733,580</u>	<u>100%</u>

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

As of September 30, 2011, the portfolio companies that comprised our portfolio had an average annual EBITDA of approximately \$413,000. The investments in our portfolio were purchased at an average price of 94.0% of par or stated value, as applicable, the weighted average credit rating of our portfolio was B3 based upon the Moody's scale and our estimated gross annual portfolio yield, prior to leverage, was 10.7% based upon the purchase price of our investments.

We do not "control" and are not an "affiliate" of any of our portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, we would be presumed to "control" a portfolio company if we owned 25% or more of its voting securities and would be an "affiliate" of a portfolio company if we owned 5% or more of its voting securities.

Our investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require us to provide funding when requested by portfolio companies in accordance with the

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terms of the underlying loan agreements. As of September 30, 2011, we held 3 such investments with an aggregate unfunded commitment of \$15,709. We maintain sufficient cash on hand to fund such unfunded loan commitments should the need arise.

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 September 30, 2011 and December 31, 2010:

Industry Classification	September 30, 2011 (Unaudited)		December 31, 2010	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Consumer Discretionary	\$ 323,055	24.2%	\$ 129,749	17.6%
Consumer Staples	54,423	4.1%	56,184	7.7%
Energy	88,989	6.7%	69,048	9.4%
Financials	114,744	8.6%	59,431	8.1%
Healthcare	127,035	9.5%	63,460	8.7%
Industrials	264,965	19.9%	96,762	13.2%
Information Technology	216,448	16.2%	117,499	16.0%
Materials	39,579	3.0%	46,832	6.4%
Telecommunication Services	83,648	6.4%	81,675	11.1%
Utilities	21,051	1.4%	12,940	1.8%
Total	\$1,333,937	100.0%	\$733,580	100.0%

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 expected, but still expecting a positive return on investment.
5	Underperforming investment with expected loss of interest and some principal.

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

Investment Rating	September 30, 2011 (Unaudited)		December 31, 2010	
	Investments at Fair Value	Percentage of Portfolio	Investments at Fair Value	Percentage of Portfolio
1	\$ —	—	\$ 38,899	5%
2	1,282,142	96%	682,861	93%
3	46,291	4%	11,384	2%
4	4,884	—	436	—
5	620	—	—	—
	\$ 1,333,937	100%	\$ 733,580	100%

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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 September 30, 2011 and September 30, 2010

Revenues

We generated investment income of \$33,295 and \$8,678 for the three months ended September 30, 2011 and 2010, respectively, in the form of interest earned on senior secured loans, subordinated debt, CLOs, CDOs and corporate bonds in our portfolio and dividends earned on preferred equity securities. Such revenues represent \$28,187 and \$7,318 of cash interest earned as well as \$5,108 and \$1,360 in non-cash portions relating to accretion of discount and PIK interest for the three months ended September 30, 2011 and 2010, 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. The increase in investment income is due to the growth of our portfolio since commencing operations in 2009. The level of interest income we receive is directly related to the balance of interest-bearing investments multiplied by the weighted average yield of our investments.

Expenses

Our total operating expenses were \$4,986 and \$5,119 for the three months ended September 30, 2011 and 2010, respectively. Our operating expenses include base management fees attributed to FB Advisor of \$7,432 and \$2,318 for the three months ended September 30, 2011 and 2010, respectively. Our operating expenses also include administrative services expenses attributed to FB Advisor of \$915 and \$285 for the three months ended September 30, 2011 and 2010, respectively.

FB Advisor is eligible to receive incentive fees based on performance. During the three months ended September 30, 2011, we reversed \$7,974 in capital gains incentive fees accrued by us as of June 30, 2011 as a result of the unrealized losses incurred in our portfolio during the three months ended September 30, 2011. During the three months ended September 30, 2010, we accrued \$373 in capital gains incentive fees.

We recorded interest expense of \$2,922 and \$1,343 for the three months ended September 30, 2011 and 2010, respectively, in connection with our credit facility and the JPM Facility. Fees incurred with BNY Mellon Asset Servicing (formerly PNC Global Investment Services), which provides various accounting and administrative services to us, totaled \$298 and \$105 for the three months ended September 30, 2011 and 2010, respectively. We incurred expenses with our stock transfer agent of \$448 and \$226 for the three months ended September 30, 2011 and 2010, respectively.

Our other general and administrative expenses totaled \$945 and \$469 for the three months ended September 30, 2011 and 2010, respectively, and consisted of the following:

	Three Months Ended September 30,	
	2011	2010
Expenses associated with our independent audit and related fees	\$ 150	\$ 75
Compensation of our chief financial officer and our chief compliance officer ⁽¹⁾	21	40
Legal fees	86	62
Printing fees	146	110
Fees paid to our independent directors	215	50
Other	327	132
Total	<u>\$ 945</u>	<u>\$ 469</u>

(1) On March 14, 2011, William Goebel was appointed as our chief financial officer. Mr. Goebel is employed by Franklin Square Holdings and will not receive any direct compensation from us in this capacity. As a result, for periods after March 31, 2011, this line item will not include compensation paid to our chief financial officer and will only represent compensation paid to our chief compliance officer.

During the three months ended September 30, 2011 and 2010, the ratio of our operating expenses to our average net assets was 0.49% and 2.21%, respectively. We generally expect our operating expenses to decline as a percentage of our total assets during periods of asset growth and increase as a percentage of our total assets during periods of asset declines. Incentive fees, interest expense and costs relating to our continuous offering, among other things, may also increase or decrease our operating expenses in relation to our expense ratios relative to comparative periods depending on portfolio performance, changes in benchmark interest rates such as LIBOR and offerings of our securities, among other factors. The lower ratio of operating expenses to average net assets during the three months ended September 30, 2011 compared to the three months ended September 30, 2010 can primarily be attributed to (i) the spreading of our operating expenses over a larger asset base and (ii) the reversal during the quarter of capital gains incentive fees that had been accrued as of June 30, 2011. Without such reversal, our ratio of operating expenses to our average net assets would have been 1.28% during the three months ended September 30, 2011.

Expense Reimbursement

Beginning on February 26, 2009, our affiliate and sponsor, Franklin Square Holdings, agreed to reimburse us for expenses in an amount that is sufficient to ensure that, for tax purposes, our net investment income and net capital gains are equal to or greater than the cumulative distributions paid to our stockholders in each quarter. This arrangement is designed to ensure that no portion of our distributions will represent a return of capital for our stockholders. Franklin Square Holdings has no obligation to reimburse any portion of our expenses. The specific amount of expenses reimbursed by Franklin Square Holdings, if any, will be determined at the end of each quarter. During each of the three months ended September 30, 2011 and 2010, we received no reimbursements from Franklin Square Holdings. We do not expect that conditions will require Franklin Square Holdings to provide reimbursements in the future. To the extent reimbursements may be needed in the future, there can be no assurance that Franklin Square Holdings will provide any such reimbursements. Franklin Square Holdings is controlled by our chairman, president and chief executive officer, Michael Forman, and our vice-chairman, David Adelman.

Net Investment Income

Our net investment income totaled \$28,309 (\$0.26 per share) and \$3,559 (\$0.14 per share) for the three months ended September 30, 2011 and 2010, respectively.

Net Realized Gains or Losses

We sold investments and received principal repayments of \$29,582 and \$144,409, respectively, during the three months ended September 30, 2011, from which we realized net gains of \$2,433. We also realized a net gain on our TRS of \$1,895 during the three months ended September 30, 2011. We sold investments and received principal repayments of \$53,128 and \$16,616, respectively, during the three months ended September 30, 2010, from which we realized net gains of \$294.

Net Change in Unrealized Appreciation (Depreciation) on Investments and Total Return Swap and Unrealized Gain/Loss on Foreign Currency

For the three months ended September 30, 2011, the net change in unrealized appreciation (depreciation) on investments totaled \$(63,164) and the net change in unrealized gain/loss on foreign currency totaled \$(72). The

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change in unrealized appreciation (depreciation) on our TRS was \$(8,887) during this period. For the three months ended September 30, 2010, the net change in unrealized appreciation (depreciation) on investments totaled \$7,902 and the net change in unrealized gain/loss on foreign currency totaled \$93. The change in unrealized appreciation (depreciation) on our investments and our TRS during the three months ended September 30, 2011 was primarily driven by a general widening of credit spreads during such period resulting from, among other things, uncertainty surrounding European sovereign debt. The change in unrealized appreciation (depreciation) on our investments during the three months ended September 30, 2010 was primarily driven by a general strengthening in the credit markets during the third quarter of 2010.

Net Increase (Decrease) in Net Assets Resulting from Operations

For the three months ended September 30, 2011, the net decrease in net assets resulting from operations was \$39,486 (\$0.37 per share) compared to a net increase in net assets resulting from operations of \$11,848 (\$0.47 per share) during the three months ended September 30, 2010.

Comparison of the nine months ended September 30, 2011 and September 30, 2010

Revenues

We generated investment income of \$76,209 and \$17,872 for the nine months ended September 30, 2011 and 2010, respectively, in the form of interest earned on senior secured loans, subordinated debt, CLOs, CDOs and corporate bonds in our portfolio and dividends earned on preferred equity securities. Such revenues represent \$67,248 and \$14,403 of cash interest earned as well as \$8,961 and \$3,469 in non-cash portions relating to accretion of discount and PIK interest for the nine months ended September 30, 2011 and 2010, 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. The increase in investment income is due to the growth of our portfolio since commencing operations in 2009. The level of interest income we receive is directly related to the balance of interest-bearing investments multiplied by the weighted average yield of our investments.

Expenses

Our total operating expenses were \$27,577 and \$10,063 for the nine months ended September 30, 2011 and 2010, respectively. Our operating expenses include base management fees attributed to FB Advisor of \$18,216 and \$4,605 for the nine months ended September 30, 2011 and 2010, respectively. Our operating expenses also include administrative services expenses attributed to FB Advisor of \$1,903 and \$635 for the nine months ended September 30, 2011 and 2010, respectively.

FB Advisor is eligible to receive incentive fees based on performance. During the nine months ended September 30, 2011, we reversed \$4,063 in capital gains incentive fees accrued by us during the year ended December 31, 2010 as a result of the unrealized losses incurred in our portfolio during the nine months ended September 30, 2011. During the nine months ended September 30, 2010, we accrued \$373 in capital gains incentive fees.

We recorded interest expense of \$7,382 and \$2,213 for the nine months ended September 30, 2011 and 2010, respectively, in connection with our credit facility and the JPM Facility. Fees incurred with BNY Mellon Asset Servicing (formerly PNC Global Investment Services), which provides various accounting and administrative services to us, totaled \$692 and \$436 for the nine months ended September 30, 2011 and 2010, respectively. We incurred expenses with our stock transfer agent of \$1,138 and \$598 for the nine months ended September 30, 2011 and 2010, respectively.

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Our other general and administrative expenses totaled \$2,309 and \$1,203 for the nine months ended September 30, 2011 and 2010, respectively, and consisted of the following:

	Nine Months Ended September 30,	
	2011	2010
Expenses associated with our independent audit and related fees	\$ 390	\$ 230
Compensation of our chief financial officer and our chief compliance officer ⁽¹⁾	74	117
Legal fees	192	251
Printing fees	363	219
Fees paid to our independent directors	479	141
Other	811	245
Total	\$ 2,309	\$ 1,203

(1) On March 14, 2011, William Goebel was appointed as our chief financial officer. Mr. Goebel is employed by Franklin Square Holdings and will not receive any direct compensation from us in this capacity. As a result, for periods after March 31, 2011, this line item will not include compensation paid to our chief financial officer and will only represent compensation paid to our chief compliance officer.

During the nine months ended September 30, 2011 and 2010, the ratio of our operating expenses to our average net assets was 3.75% and 5.71%, respectively. We generally expect our operating expenses to decline as a percentage of our total assets during periods of asset growth and increase as a percentage of our total assets during periods of asset declines. Incentive fees, interest expense and costs relating to our continuous offering, among other things, may also increase or decrease our operating expenses in relation to our expense ratios relative to comparative periods depending on portfolio performance, changes in benchmark interest rates such as LIBOR and offerings of our securities, among other factors. The lower ratio of operating expenses to average net assets during the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 can primarily be attributed to (i) the spreading of our operating expenses over a larger asset base and (ii) the reversal during the period of capital gains incentive fees that had been accrued as of December 31, 2010. Without such reversal, our ratio of operating expenses to our average net assets would have been 4.30% during the nine months ended September 30, 2011.

Expense Reimbursement

Beginning on February 26, 2009, our affiliate and sponsor, Franklin Square Holdings, agreed to reimburse us for expenses in an amount that is sufficient to ensure that, for tax purposes, our net investment income and net capital gains are equal to or greater than the cumulative distributions paid to our stockholders in each quarter. This arrangement is designed to ensure that no portion of our distributions will represent a return of capital for our stockholders. Franklin Square Holdings has no obligation to reimburse any portion of our expenses. The specific amount of expenses reimbursed by Franklin Square Holdings, if any, will be determined at the end of each quarter. During each of the nine months ended September 30, 2011 and 2010, we received no reimbursements from Franklin Square Holdings. We do not expect that conditions will require Franklin Square Holdings to provide reimbursements in the future. To the extent reimbursements may be needed in the future, there can be no assurance that Franklin Square Holdings will provide any such reimbursements. Franklin Square Holdings is controlled by our chairman, president and chief executive officer, Michael Forman, and our vice-chairman, David Adelman.

Net Investment Income

Our net investment income totaled \$48,632 (\$0.63 per share) and \$7,809 (\$0.40 per share) for the nine months ended September 30, 2011 and 2010, respectively.

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Net Realized Gains or Losses

We sold investments and received principal repayments of \$413,694 and \$369,502, respectively, during the nine months ended September 30, 2011, from which we realized net gains of \$22,456. We also realized a net gain on our TRS of \$1,895 during the nine months ended September 30, 2011. We sold investments and received principal repayments of \$81,958 and \$48,105, respectively, during the nine months ended September 30, 2010, from which we realized net gains of \$3,383.

Net Change in Unrealized Appreciation (Depreciation) on Investments and Total Return Swap and Unrealized Gain/Loss on Foreign Currency

For the nine months ended September 30, 2011, the net change in unrealized appreciation (depreciation) on investments totaled \$(64,728) and the net change in unrealized gain/loss on foreign currency totaled \$1. The change in unrealized appreciation (depreciation) on our TRS was \$(7,600) during this period. For the nine months ended September 30, 2010, the net change in unrealized appreciation (depreciation) on investments totaled \$1,811 and the net change in unrealized gain/loss on foreign currency totaled \$(3). The change in unrealized appreciation (depreciation) on our investments and our TRS during the nine months ended September 30, 2011 was primarily driven by a general widening of credit spreads during the third quarter of 2011 resulting from, among other things, uncertainty surrounding European sovereign debt. The change in unrealized appreciation (depreciation) on our investments during the nine months ended September 30, 2010 was primarily driven by a general strengthening in the credit markets during the third quarter of 2010.

Net Increase in Net Assets Resulting from Operations

For the nine months ended September 30, 2011, the net increase in net assets resulting from operations was \$656 (\$0.01 per share) compared to a net increase in net assets resulting from operations of \$13,000 (\$0.67 per share) during the nine months ended September 30, 2010.

Financial Condition, Liquidity and Capital Resources

During the nine months ended September 30, 2011, we sold 83,613,294 shares of our common stock for gross proceeds of \$890,497. The gross proceeds received during the nine months ended September 30, 2011 include reinvested stockholder distributions of \$21,661. During the nine months ended September 30, 2011, we also incurred offering costs of \$3,997 in connection with the sale of our common stock, which consisted primarily of legal, due diligence and printing fees. The offering costs were offset against capital in excess of par in our consolidated financial statements. The sales commissions and dealer manager fees related to the sale of our common stock were \$81,266 for the nine months ended September 30, 2011. These sales commissions and fees include \$15,622 retained by the dealer manager, FS², which is one of our affiliates.

As of November 11, 2011, we have sold 142,553,249 shares (as adjusted for stock distributions) of our common stock for gross proceeds of \$1,493,510 since commencing our continuous public offering. Including the seed capital contributed by Messrs. Forman and Adelman, we have raised gross proceeds of \$1,494,510 as of November 11, 2011.

We generate cash primarily from the net proceeds of our ongoing continuous public offering and from cash flows from fees, interest and dividends earned from our investments as well as principal repayments and proceeds from sales of our investments. We are engaged in a continuous offering of shares of our common stock. We accept subscriptions on a continuous basis and issue shares at semi-monthly closings at prices that, after deducting selling commissions and dealer manager fees, must be above our net asset value per share.

Prior to investing in securities of portfolio companies, we invest the net proceeds from our continuous offering 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.

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As of September 30, 2011, we had \$270,171 in cash, which we have invested in interest bearing accounts, and \$69,673 in cash held as collateral by Citibank under the terms of the TRS.

To provide our stockholders with limited liquidity, we conduct quarterly tender offers pursuant to our share repurchase program. The following table reflects certain information regarding the quarterly tender offers that we have conducted since December 31, 2010:

<u>For the Three Months Ended</u>	<u>Repurchase Date</u>	<u>Shares Repurchased</u>	<u>Repurchase Price Per Share</u>	<u>Aggregate Consideration for Repurchased Shares (in thousands)</u>
December 31, 2010	January 3, 2011	99,633	\$ 9.585	\$ 955
March 31, 2011	April 1, 2011	158,258	9.675	1,531
June 30, 2011	July 1, 2011	79,250	9.675	767
September 30, 2011	October 3, 2011	121,089	9.585	1,161

Revolving Credit Facility

On January 28, 2011, Broad Street and Deutsche Bank entered into an amended and restated multi-lender, syndicated revolving credit facility, or the credit facility, which amended and restated the revolving credit facility Broad Street originally entered into with Deutsche Bank on March 10, 2010 and the amendments thereto, or the original credit facility. Deutsche Bank is a lender and serves as administrative agent under the credit facility.

The credit facility provides for borrowings in an aggregate amount up to \$340,000. Pursuant to the terms of the credit facility, borrowings thereunder may be designated as Tranche A borrowings in an amount up to \$240,000 (referred to herein as the Tranche A Commitment) or as Tranche C borrowings in an amount up to \$100,000 (referred to herein as the Tranche C Commitment). The credit facility also provides for Tranche B borrowings in an amount up to \$100,000 (referred to herein as the Tranche B Commitment), but there are currently no Tranche B Commitments outstanding. All Tranche A Commitments bear interest at the rate of LIBOR + 2.23% per annum and will mature and be due and payable on March 10, 2012. All Tranche C Commitments bear interest at the rate of LIBOR + 1.85% per annum and will mature and be due and payable on March 10, 2012. In connection with the amendment and restatement of the original credit facility, a \$100,000 Tranche B Commitment that was provided under the original credit facility by Deutsche Bank to Broad Street on an uncommitted basis was converted into a \$100,000 Tranche C Commitment provided by a new lender on a committed basis.

In connection with entering into the original credit facility, and from time to time thereafter, we transferred debt securities to Broad Street as a contribution to capital and retain a residual interest in the contributed debt securities through our ownership of Broad Street. We may contribute additional debt securities to Broad Street from time to time and Broad Street may purchase additional debt securities from various sources. Broad Street has appointed us to manage its portfolio of debt securities pursuant to the terms of an investment management agreement. Broad Street's obligations to the lenders under the credit facility are secured by a first priority security interest in substantially all of the assets of Broad Street, including its portfolio of debt securities. The obligations of Broad Street under the credit facility are non-recourse to us and our exposure under the credit facility is limited to the value of our investment in Broad Street.

As of September 30, 2011, \$340,000 was outstanding under the credit facility. The carrying amount of the amount outstanding under the credit facility approximates its fair value. We incurred costs of \$1,554 in connection with obtaining and amending the credit facility, which we recorded as deferred financing costs on our consolidated balance sheet and amortize to interest expense over the life of the credit facility. As of September 30, 2011, \$396 of such deferred financing costs have yet to be amortized to interest expense.

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The effective interest rate under the credit facility was 2.43% as of September 30, 2011. Interest is paid quarterly in arrears and commenced August 20, 2010. We recorded interest expense of \$6,753 and \$2,213 for the nine months ended September 30, 2011 and 2010, respectively, of which \$653 and \$331 related to the amortization of deferred financing costs. We paid \$5,867 in interest expense for the nine months ended September 30, 2011. The average borrowings under the credit facility for the nine months ended September 30, 2011 and 2010 were \$337,793 and \$130,931, respectively, with a weighted average interest rate of 2.41% and 2.78%, respectively.

Borrowings under the credit facility are subject to compliance with a borrowing base, pursuant to which the amount of funds advanced to Broad Street varies depending upon the types of assets in Broad Street's portfolio. The occurrence of certain events described as "Super-Collateralization Events" in the credit agreement that governs the credit facility, or a decline in our net asset value below a specified threshold, results in a lowering of the amount of funds that will be advanced against such assets. Super-Collateralization Events include, without limitation, (i) certain key employees ceasing to be directors, principals, officers or investment managers of GDFM, the sub-adviser to FB Advisor; (ii) the bankruptcy or insolvency of GDFM or FB Advisor; (iii) GDFM ceasing to act as our sub-adviser or FB Advisor ceasing to act as our investment adviser; (iv) our ceasing to act as Broad Street's investment manager, becoming bankrupt or insolvent, defaulting on certain material agreements or failing to maintain a net asset value at least equal to \$50,000; and (v) us, GDFM or FB Advisor committing fraud or other illicit acts in our or their investment advisory capacities.

In connection with the credit facility, Broad Street has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. In addition to customary events of default included in financing transactions, the credit facility contains the following events of default: (a) the failure to make principal payments when due or interest payments within three business days of when due; (b) borrowings under the credit facility exceeding the applicable advance rates; (c) the purchase by Broad Street of certain ineligible assets; (d) the insolvency or bankruptcy of Broad Street or us; (e) we cease to act as investment manager of Broad Street's assets; (f) the decline of our net asset value below \$50,000; and (g) fraud or other illicit acts by us, FB Advisor or GDFM in our or their investment advisory capacities. During the continuation of an event of default, Broad Street must pay interest at a default rate. Broad Street was in compliance with the terms of the credit facility as of September 30, 2011.

Borrowings of Broad Street will be considered borrowings by us for purposes of complying with the asset coverage requirements under the 1940 Act applicable to BDCs.

Total Return Swap

On March 18, 2011, Arch Street entered into a TRS for senior secured floating rate loans with Citibank. On June 9, 2011, Arch Street entered into an amendment to the TRS to increase the maximum market value of the portfolio of loans subject to the TRS.

The TRS with Citibank enables us, through our ownership of Arch Street, to obtain the economic benefit of owning the loans subject to the TRS, without actually owning them, in return for an interest-type payment to Citibank. As such, the TRS is analogous to Arch Street borrowing funds to acquire loans and incurring interest expense to a lender.

The obligations of Arch Street under the TRS are non-recourse to us and our exposure under the TRS is limited to the value of our investment in Arch Street, which generally will equal the value of cash collateral provided by Arch Street under the TRS. Pursuant to the terms of the TRS, Arch Street may select a portfolio of loans with a maximum aggregate market value (determined at the time each such loan becomes subject to the TRS) of \$300,000. Arch Street is required to initially cash collateralize a specified percentage of each loan (generally between 20% and 25% of the market value of such loan) included under the TRS in accordance with margin requirements described in the agreements governing the TRS. Under the terms of the TRS, Arch Street

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has agreed not to draw upon, or post as collateral, such cash collateral in respect of other financings or operating requirements prior to the termination of the TRS. Neither the cash collateral required to be posted with Citibank nor any other assets of Arch Street are available to pay our debts.

Pursuant to the terms of an investment management agreement that we have entered into with Arch Street, we act as the manager of the rights and obligations of Arch Street under the TRS, including selecting the specific loans to be included in the portfolio of loans subject to the TRS. Accordingly, the loans selected by Arch Street for purposes of the TRS are selected by us in accordance with our investment objectives and strategy to generate current income and, to a lesser extent, long-term capital appreciation. In addition, pursuant to the terms of the TRS, Arch Street may select any loan or obligation available in the market to be included in the portfolio of loans that meets the obligation criteria set forth in the TRS Agreement.

Each individual loan, and the portfolio of loans taken as a whole, must meet criteria described in the TRS Agreement. Under the terms of the TRS, Citibank, as calculation agent, determines whether there has been a failure to satisfy the portfolio criteria in the TRS. If such failure continues for 30 days following the delivery of notice thereof, then Citibank has the right, but not the obligation, to terminate the TRS. Arch Street receives from Citibank all interest and fees payable in respect of the loans included in the portfolio. Arch Street pays to Citibank interest at a rate equal to one-month LIBOR + 1.25% per annum. In addition, upon the termination or repayment of any loan subject to the TRS, Arch Street will either receive from Citibank the appreciation in the value of such loan, or pay to Citibank any depreciation in the value of such loan.

Under the terms of the TRS, Arch Street may be required to post additional cash collateral, on a dollar-for-dollar basis, in the event of depreciation in the value of the underlying loans after such value decreases below a specified amount. The limit on the additional collateral that Arch Street may be required to post pursuant to the TRS is equal to the difference between the full notional amount of the loans underlying the TRS and the amount of cash collateral already posted by Arch Street. The amount of collateral required to be posted by Arch Street is determined primarily on the basis of the aggregate value of the underlying loans.

We have no contractual obligation to post any such additional collateral or to make any interest payments to Citibank. We may, but are not obligated to, increase our equity investment in Arch Street for the purpose of funding any additional collateral or payment obligations for which Arch Street may become obligated during the term of the TRS. If we do not make any such additional investment in Arch Street and Arch Street fails to meet its obligations under the TRS, then Citibank will have the right to terminate the TRS and seize the cash collateral posted by Arch Street under the TRS. In the event of an early termination of the TRS, Arch Street would be required to pay an early termination fee.

Citibank may terminate the TRS on or after March 18, 2013, the second anniversary of the effectiveness of the TRS. Arch Street may terminate the TRS at any time upon providing no more than 30 days, and no less than 10 days, prior notice to Citibank. Any termination prior to the second anniversary of the effectiveness of the TRS will result in payment of an early termination fee to Citibank. In the event of an early termination of the TRS, Arch Street would be required to pay an early termination fee based on the maximum notional amount of the TRS. Under the terms of the TRS, the early termination fee will equal the present value of a stream of monthly payments which would be owed by Arch Street to Citibank for the period from the termination date through and including the earlier of (i) the one year anniversary of the termination date and (ii) March 18, 2013. Such monthly payments will equal the product of (x) 90%, multiplied by (y) the aggregate notional amount of the TRS (\$300,000), multiplied by (z) 1.25% per annum. If the TRS had been terminated as of September 30, 2011, Arch Street would have been required to pay an early termination fee of approximately \$3,422. Arch Street is required to pay a minimum usage fee in connection with the TRS. Arch Street will also pay Citibank customary fees in connection with the establishment and maintenance of the TRS.

The value of the TRS is based primarily on the valuation of the underlying portfolio of loans subject to the TRS. Pursuant to the terms of the TRS, on each business day, Citibank values each underlying loan in good faith on a mark-to-market basis by determining how much Citibank would receive on such date if it sold the loan in

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the open market. Citibank reports the mark-to-market values of the underlying loans to Arch Street. Each of the loans underlying the TRS is required to be rated by Moody's and S&P and quoted by a nationally-recognized pricing service. As of September 30, 2011, the fair value of the TRS was \$(7,600). The fair value of the TRS is reflected as an unrealized loss on total return swap on our consolidated balance sheet. The change in value of the TRS is reflected in our statement of operations as net change in unrealized appreciation (depreciation) on total return swap. As of September 30, 2011, Arch Street had selected 65 underlying loans with a total notional amount of \$297,281 and posted \$69,673 in cash collateral held by Citibank (of which only \$61,221 was required to be posted), which is reflected in due from counterparty on our consolidated balance sheet.

For purposes of the asset coverage ratio test applicable to us as a BDC, we have agreed with the staff of the SEC to treat the outstanding notional amount of the TRS, less the initial amount of any cash collateral required to be posted by Arch Street under the TRS, as a senior security for the life of that instrument. We may, however, accord different treatment to the TRS in the future in accordance with any applicable new rules or interpretations adopted by the staff of the SEC.

Further, for purposes of Section 55(a) under the 1940 Act, we have agreed with the staff of the SEC to treat each loan underlying the TRS as a qualifying asset if the obligor on such loan is an eligible portfolio company and as a non-qualifying asset if the obligor is not an eligible portfolio company. We may, however, accord different treatment to the TRS in the future in accordance with any applicable new rules or interpretations adopted by the staff of the SEC.

JPM Financing

On July 21, 2011, we entered into a conventional debt financing arrangement with JPM, through two wholly-owned subsidiaries, pursuant to which up to \$300,000 will be made available to us to fund investments in new securities and for other general corporate purposes. Pricing under the facility is based on three-month LIBOR plus a spread of 3.25% per annum for the relevant period. We 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.

Pursuant to the financing transaction, loans in our portfolio having an aggregate market value of up to \$600,000 may be sold by us from time to time to Locust Street, a newly-formed, special-purpose bankruptcy-remote subsidiary of ours, pursuant to the Asset Transfer Agreement. Under the Asset Transfer Agreement, on July 21, 2011, we sold loans to Locust Street for a purchase price of approximately \$365,396, all of which consisted of equity interests in Locust Street that Locust Street issued to us. We own all of the equity in Locust Street.

The loans purchased by Locust Street will secure the obligations of Locust Street under the Class A Notes to be issued by Locust Street from time to time to Race Street, another newly-formed, special-purpose bankruptcy-remote subsidiary of ours, pursuant to the Indenture. The Class A Notes may be issued in an aggregate principal amount of up to \$420,000 and mature on July 15, 2021. Race Street will purchase the issued Class A Notes from time to time at a purchase price equal to their par value and intends to purchase \$420,000 in aggregate principal amount of such Class A Notes within 180 days of July 21, 2011. We own all of the equity in Race Street.

Race Street, in turn, has entered into a repurchase transaction with JPM pursuant to the terms of the JPM Facility. Pursuant to the JPM Facility, JPM has agreed to purchase from time to time Class A Notes held by Race Street for an aggregate purchase price equal to approximately 71% of the principal amount of Class A Notes purchased. Subject to certain conditions, the maximum principal amount of Class A Notes that may be purchased under the JPM Facility is \$420,000. Accordingly, the maximum amount payable at any time to Race Street under the JPM Facility will not exceed \$300,000. 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 such Class A Notes to

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JPM. The final repurchase transaction must occur no later than July 15, 2015. The repurchase price paid by Race Street to JPM for each repurchase of the Class A Notes will be equal to the purchase price paid by JPM for such Class A Notes, plus interest thereon accrued at the applicable pricing rate under the JPM Facility, as described below.

As of September 30, 2011, Class A Notes in the aggregate principal amount of \$153,000 had been purchased by Race Street from Locust Street and subsequently sold to JPM under the JPM Facility for aggregate proceeds of \$109,286. On October 3, 2011, an additional Class A Note in the principal amount of \$70,000 was purchased by Race Street from Locust Street and subsequently sold to JPM for proceeds of \$50,000. We funded each purchase of Class A Notes by Race Street through a capital contribution to Race Street. As of September 30, 2011, the amount accrued upon maturity under the repurchase agreement was \$109,286, plus \$608 of accrued interest expense. The Class A Notes issued by Locust Street and purchased by Race Street eliminate in consolidation on our financial statements.

If at any time during the term of the JPM Facility the market value of the underlying loans held by Locust Street securing the Class A Notes declines by an amount greater than the Margin Threshold, Race Street will be required to post cash collateral with JPM in an amount at least equal to the amount by which the market value of such loans at such time is less than the Margin Threshold. In such event, in order to satisfy these margin-posting requirements, Race Street intends to borrow funds from us pursuant to the Revolving Credit Agreement. We may, in our sole discretion, make such loans from time to time to Race Street pursuant to the terms of the Revolving Credit Agreement. Borrowings under the Revolving Credit Agreement will accrue interest at a rate equal to one-month LIBOR plus a spread of 0.75% per annum.

Pricing under the JPM Facility is based on three-month LIBOR plus a spread of 3.25% per annum for the relevant period. Commencing January 2013, Race Street is permitted to reduce (based on certain thresholds) the aggregate principal amount of Class A Notes subject to the JPM Facility. Such reductions will be subject to breakage fees calculated as the present value of 1.25% per annum over the remaining term of the JPM Facility applied to the amount of such reduction.

We incurred costs of \$425 in connection with obtaining the JPM Facility, which we have recorded as deferred financing costs on our consolidated balance sheet and amortize to interest expense over the life of the JPM Facility. As of September 30, 2011 \$404 of such deferred financing costs had yet to be amortized to interest expense.

The effective interest rate on the borrowings under the JPM Facility is 3.50% as of September 30, 2011. We recorded interest expense of \$629 for the three and nine months ended September 30, 2011, of which \$21 related to the amortization of deferred financing costs. The average borrowings under the JPM Facility for the nine months ended September 30, 2011 were \$86,650 with a weighted average interest rate of 3.50%.

Interest on the Class A Notes will accrue at three-month LIBOR plus a spread of 4.00% per annum. Principal on the Class A Notes will be due and payable on the stated maturity date of July 15, 2021. Pursuant to the Indenture, Locust Street has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar transactions. In addition to customary events of default included in similar transactions, the Indenture contains the following events of default: (a) the failure to make principal payments on the Class A Notes at their stated maturity or redemption date, or to make interest payments on the Class A Notes within five business days of when due; (b) the failure of the aggregate outstanding principal balance (subject to certain reductions) of the loans securing the Class A Notes to be at least 130% of the outstanding principal amount of the Class A Notes; and (c) GDFM ceasing to be the sub-advisor to FB Advisor.

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In connection with the Class A Notes and the Indenture, Locust Street also entered into (i) a collateral management agreement with us, as collateral manager, dated as of July 21, 2011, pursuant to which we will manage the assets of Locust Street, and (ii) a collateral administration agreement with Virtus, as collateral administrator, dated as of July 21, 2011, pursuant to which Virtus will perform certain administrative services with respect to the assets of Locust Street.

RIC Status and Distributions

We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. In order to qualify as a RIC, we must distribute at least 90% of our "Investment Company Taxable Income," as defined by the Code, each year. As long as the distributions are declared by the due date of the tax return, including extensions, distributions paid up to one year 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 maintain our RIC status each year. We are also subject to nondeductible federal excise taxes if we do not distribute at least 98% of net ordinary income, 98.2% of any capital gain net income, if any, and any recognized and undistributed income from prior years for which we paid no federal income taxes.

Following commencement of our operations, we declared our first distribution on January 29, 2009. Subject to the board of directors' discretion and applicable legal restrictions, our board of directors intends to authorize and declare distributions on either a semi-monthly or monthly basis and pay distributions on either a monthly or quarterly basis. While we historically paid distributions on a quarterly basis, commencing in the fourth quarter of 2010, we began to pay distributions on a monthly rather than 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 we accept each stockholder's subscription for shares of our common stock. 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. 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 for tax purposes. Each year a statement on Form 1099-DIV identifying the source of the distributions will be mailed to our stockholders. No portion of the distributions paid during the nine months ended September 30, 2011 or 2010 represented a return of capital for tax purposes.

We make our ordinary distributions in the form of cash, out of assets legally available, unless stockholders elect to receive their distributions in additional shares of our common stock under our distribution reinvestment plan. Any distributions reinvested under the plan will nevertheless remain taxable to the U.S. stockholder.

The following table reflects the cash distributions per share that we have declared and paid on our common stock during the nine months ended September 30, 2011 and 2010:

For the Three Months Ended	Distribution	
	Per Share	Amount
Fiscal 2010		
March 31, 2010 ⁽¹⁾	\$0.1860	\$ 2,443
June 30, 2010	\$0.1875	\$ 3,589
September 30, 2010	\$0.1875	\$ 4,763
Fiscal 2011		
March 31, 2011	\$0.1929	\$ 9,948
June 30, 2011	\$0.2787	\$20,529
September 30, 2011	\$0.2016	\$22,116

(1) The amount of the per share distributions during the three months ended March 31, 2010 has been retroactively adjusted to reflect the stock distribution declared in January 2010 as discussed below.

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On October 14, 2011, our board of directors declared two regular semi-monthly cash distributions of \$0.033594 per share each, which were paid on October 31, 2011 to stockholders of record on October 14, 2011 and October 28, 2011, respectively. On October 28, 2011, our board of directors approved a special cash distribution of \$0.02 per share, which was paid on October 31, 2011 to stockholders of record on October 28, 2011. On November 8, 2011, our board of directors declared two regular semi-monthly cash distributions of \$0.033594 per share each, which are expected to be paid on November 30, 2011 to stockholders of record on November 15, 2011 and November 29, 2011, respectively. 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.

We have adopted an “opt in” distribution reinvestment plan for our stockholders. As a result, if we make a distribution, our stockholders will receive distributions in cash unless they specifically “opt in” to the distribution reinvestment plan so as to have their cash distributions reinvested in additional shares of our common stock.

We may fund our cash distributions to stockholders from any sources of funds available to us, including offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets and expense reimbursements from Franklin Square Holdings. We have not established limits on the amount of funds we may use from available sources to make distributions. The following table reflects, for tax purposes, the sources of the cash distributions that we have paid on our common stock during the nine months ended September 30, 2011, and 2010:

Source of Distribution	Nine Months Ended September 30,			
	2011		2010	
	Distribution Amount	Percentage	Distribution Amount	Percentage
Offering proceeds	\$ —	—	\$ —	—
Borrowings	—	—	—	—
Net investment income ⁽¹⁾	48,572	92%	7,872	73%
Capital gains proceeds from the sale of assets	4,021	8%	2,923	27%
Non-capital gains proceeds from the sale of assets	—	—	—	—
Expense reimbursement from sponsor	—	—	—	—
Total	<u>\$ 52,593</u>	<u>100%</u>	<u>\$ 10,795</u>	<u>100%</u>

(1) During the nine months ended September 30, 2011 and 2010, 88% and 81%, respectively, of our gross investment income was attributable to cash interest earned and 12% and 19%, respectively, was attributable to non-cash accretion of discount and PIK interest.

The aggregate cost of our investments for federal income tax purposes totaled \$1,380,598 and \$715,695 as of September 30, 2011 and December 31, 2010, respectively. The aggregate net unrealized appreciation (depreciation) on a tax basis was \$(54,261) and \$17,885 as of September 30, 2011 and December 31, 2010, respectively. Our net investment income on a tax basis for the nine months ended September 30, 2011 and 2010 was \$48,572 and \$7,869, respectively. We distributed all of our net investment income earned as of September 30, 2011 and 2010.

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The difference between our GAAP-basis net investment income and our tax-basis net investment income is due to the tax-basis amortization of organization and start-up costs incurred prior to the commencement of our operations, interest income earned on a tax basis due to the required accretion of discount on non-performing loans, and the required accrual for GAAP purposes of incentive fees on unrealized gains even though no such incentive fees on unrealized gains are payable by us. See “—Critical Accounting Policies—Capital Gains Incentive Fee.” The following table sets forth a reconciliation between GAAP-basis net investment income and tax-basis net investment income during the nine months ended September 30, 2011 and 2010:

	Nine Months Ended September 30,	
	2011	2010
GAAP-basis net investment income	\$48,632	\$7,809
Amortization of organizational costs	(32)	(33)
Tax accretion of discount on investments	4,035	93
Reversal of incentive fee accrual on unrealized gains	(4,063)	—
Tax-basis net investment income	<u>\$48,572</u>	<u>\$7,869</u>

The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our 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 our distributions for a full year. The actual tax characteristics of distributions to stockholders are reported to stockholders annually on a Form 1099-DIV.

The following table reflects the stock distributions per share that we have declared on our common stock to date:

Date Declared	Record Date	Payment Date	Distribution Percentage	Shares Issued
Fiscal 2009				
March 31, 2009	March 31, 2009	March 31, 2009	1.4%	13,818
April 30, 2009	April 30, 2009	April 30, 2009	3.0%	42,661
May 29, 2009	May 29, 2009	May 29, 2009	3.7%	79,125
June 30, 2009	June 30, 2009	June 30, 2009	3.5%	96,976
July 30, 2009	July 31, 2009	July 31, 2009	3.1%	117,219
August 31, 2009	August 31, 2009	August 31, 2009	3.0%	148,072
December 31, 2009	December 31, 2009	December 31, 2009	0.5%	49,710
Fiscal 2010				
January 28, 2010	January 31, 2010	January 31, 2010	2.5%	283,068

The purpose of these special stock distributions was to maintain a net asset value per share that was below the then-current net offering price, as required by the 1940 Act, subject to certain limited exceptions. Our board of directors determined that our portfolio performance sufficiently warranted taking these actions.

The stock distributions increased the number of shares outstanding, thereby reducing our net asset value per share. However, because the stock distributions were issued to all stockholders in proportion to their current holdings, the reduction in net asset value per share as a result of the stock distributions was offset exactly by the increase in the number of shares owned by each investor. As overall value to an investor was not reduced as a result of the special stock distributions, our board of directors determined that these issuances would not be dilutive to existing stockholders. As the stock distributions did not change any stockholder's proportionate interest in us, they did not represent taxable distributions.

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As of September 30, 2011 and December 31, 2010, the components of accumulated earnings on a tax basis were as follows:

	September 30, 2011 (Unaudited)	December 31, 2010
Distributable ordinary income	\$ 17,403	\$ 1,290
Incentive fee accrual on unrealized gains	—	(4,063)
Unamortized organizational costs	(525)	(558)
Unrealized appreciation (depreciation) on investments and total return swap ⁽¹⁾	(54,261)	17,885
	<u>\$ (37,383)</u>	<u>\$ 14,554</u>

- (1) As of September 30, 2011 and December 31, 2010, the gross unrealized appreciation on our investments was \$14,449 and \$20,136, respectively. As of September 30, 2011 and December 31, 2010, the gross unrealized depreciation on our investments and total return swap was \$68,710 and \$2,251, respectively.

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 our expected operating plans occur 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 that are publicly-traded are valued at the reported closing price on the valuation date. Securities that are not publicly-traded are valued at fair value as determined in good faith by our board of directors. In connection with that determination, FB Advisor prepares portfolio company valuations using 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 third-party valuation services.

Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosure*, or ASC Topic 820, issued by 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.

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

- our quarterly valuation process begins with each portfolio company or investment being initially valued by FB Advisor's management team, with such valuation potentially taking into account information received from any of our sub-advisers or an independent valuation firm, if applicable;
- preliminary valuation conclusions are then documented and discussed with our valuation committee;
- our valuation committee reviews the preliminary valuation and FB Advisor's management team, together with our independent valuation firm, if applicable, responds and supplements the preliminary valuation to reflect any comments provided by the valuation committee; and
- our board of directors discusses valuations and determines the fair value of each 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 third-party valuation firm, if applicable.

Determination of fair value involves subjective judgments and estimates. Accordingly, the notes to our financial statements refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations on our financial statements. Below is a description of factors that our board of directors may consider when valuing our equity and debt 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 will incorporate these factors into discounted cash flow models to arrive at fair value. Other factors that our board of directors will consider include the borrower's ability to adequately service its debt, the fair market value of the portfolio company in relation to the face amount of its outstanding debt and the quality of collateral securing our debt investments.

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 analysis 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.

Our board of directors may also look to 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. Our board of directors may also consider the size and scope of a portfolio company and its specific strengths and weaknesses, as well as any other factors it deems relevant in assessing the 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.

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 faith pursuant to our valuation policy and consistently applied valuation process. Our investments as of September 30, 2011 consisted primarily of debt securities that are traded on a private over-the-counter market for institutional investors. Except as described below, we valued our CLOs, CDOs and subordinated debt investments by obtaining bid and ask prices from independent dealers and we valued all of our other debt investments, including our senior secured bond investments, by using an independent third-party pricing service,

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which provided prevailing bid and ask prices that were screened for validity by the service from dealers on the date of the relevant period end. Seven of our senior secured loan investments and two subordinated debt investments, for which broker quotes were not available, were valued by an independent valuation firm, which determined the value of such investments by considering the borrower's ability to adequately service its debt, prevailing interest rates for like investments, call features and other relevant terms of the debt. All of our equity investments were valued by the same independent valuation firm, which determined the value of such investments by considering various factors, such as multiples of EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. We valued the TRS in accordance with the TRS Agreement. Pursuant to the TRS Agreement, the loans underlying the TRS are valued based on quotes received from third-party dealers. The value of the TRS is based on the increase or decrease in the value of the loans underlying the TRS, together with accrued interest income, interest expense and certain other expenses incurred under the TRS.

Our investments as of December 31, 2010 consisted primarily of debt securities that traded on a private over-the-counter market for institutional investors. We valued our CLOs, CDOs and subordinated debt investments by obtaining bid and ask prices from independent dealers. We valued all of our other investments, including our senior secured bond investments, by using an independent third-party pricing service, which provided prevailing bid and ask prices that were screened for validity by the service from dealers on the date of the relevant period end.

We periodically benchmark the bid and ask prices we receive from independent dealers and the third-party pricing service against the actual prices at which we purchase and sell our investments. Based on the results of the benchmark analysis and our experience 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 to determine fair value for securities for which we cannot obtain prevailing bid and ask prices through our third-party pricing service or independent dealers, including the use of an independent valuation firm. Our 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 process.

Revenue Recognition

Security transactions are accounted for on the trade date. We record interest and dividend income on an accrual basis to the extent that we expect to collect such amounts. 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. 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. Upon the prepayment of a loan or security, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and securities as interest income when we receive such amounts.

Net Realized Gains or Losses and 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 upfront 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 portfolio investment values during the reporting period due to the impact of foreign currency fluctuations.

Capital Gains Incentive Fee

Pursuant to the terms of the investment advisory and administrative services agreement we entered into with FB Advisor, the incentive fee on capital gains earned on liquidated investments of our portfolio during operations prior to our liquidation is determined and payable in arrears as of the end of each calendar year. 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 each calendar year, 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 the investment advisory and administrative services agreement with FB Advisor neither includes nor contemplates 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 capital gains incentive fee payable. 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. During the year ended December 31, 2010, we accrued a capital gains incentive fee of \$5,459 based on the performance of our portfolio, of which \$1,396 was based on realized gains and was payable to FB Advisor as of December 31, 2010. During the nine months ended September 30, 2011, we reversed \$4,063 in capital gains incentive fees accrued by us during the year ended December 31, 2010 as a result of the unrealized losses incurred in our portfolio during the nine months ended September 30, 2011.

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 liabilities in the 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 interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in the Statements of Operations.

Contractual Obligations

We have entered into an agreement with FB Advisor to provide investment advisory and administrative services. Payments for investment advisory services under the investment advisory and administrative services agreement are equal to (a) an annual base management fee of 2.0% of 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, our sub-adviser, will be reimbursed for administrative expenses incurred on our behalf. For the three months ended September 30, 2011 and 2010, we incurred \$7,432 and \$2,318, respectively, in base management fees and \$915 and \$285, respectively, in administrative services expenses under the investment advisory and administrative services agreement. For the nine months ended September 30, 2011 and 2010, we incurred \$18,216 and \$4,605, respectively, in base management fees and \$1,903 and \$635, respectively, in administrative services expenses under the investment advisory and administrative services agreement. In addition, FB Advisor is eligible to receive incentive fees based on performance. During the three months ended September 30, 2011, we reversed \$7,974 in capital gains incentive fees accrued by us as of June 30, 2011 as a result of the unrealized losses incurred in our portfolio during the three months ended September 30, 2011. During each of the three and nine months ended September 30, 2010, we accrued \$373 in capital gains incentive fees. During the nine months ended September 30, 2011, we reversed \$4,063 in capital gains incentive fees accrued by us during the year ended December 31, 2010 as a result of the unrealized losses incurred in our portfolio during the nine months ended September 30, 2011. See “—Critical Accounting Policies—Capital Gains Incentive Fee.”

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As of September 30, 2011, \$340,000 was outstanding under the credit facility between Broad Street and Deutsche Bank. All such amounts will mature, and all accrued and unpaid interest thereunder will be due and payable, on March 10, 2012. As of September 30, 2011, Race Street had sold \$153,000 in aggregate principal amount of Class A Notes to JPM under the JPM Facility for aggregate proceeds of \$109,286. 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. The final repurchase transaction must occur no later than July 15, 2015.

A summary of our significant contractual payment obligations for the repayment of outstanding borrowings under the credit facility between Broad Street and Deutsche Bank and the JPM Facility between Race Street and JPM at September 30, 2011 is as follows:

	<u>Total</u>	<u>Payments Due By Period</u>			
		<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Borrowings of Broad Street ⁽¹⁾	\$ 340,000	\$ 340,000	—	—	—
Borrowings of Race Street ⁽²⁾	109,286	109,286	—	—	—

(1) At September 30, 2011, no amounts remained unused under the credit facility.

(2) At September 30, 2011, \$190,714 remained unused under the JPM Facility.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Standards

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, which provides additional guidance to improve disclosures regarding fair value measurements. This guidance requires two new disclosures: (1) transfers in and out of Level 1 and 2 measurements and the reasons for the transfers and (2) a gross presentation of activity within the Level 3 roll forward. The guidance also includes clarifications to existing disclosure requirements on the level of disaggregation and disclosures regarding inputs and valuation techniques. The guidance applies to all entities required to make disclosures about recurring and nonrecurring fair value measurements. The effective date of this guidance is the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll forward information, which is required for annual reporting periods beginning after December 15, 2010 and for interim reporting periods within those years. The adoption of this guidance, including the gross presentation of Level 3 roll forward information, did not have a significant impact on our consolidated financial statements or disclosures.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This guidance represents the converged guidance of the Accounting Boards on fair value measurement. The collective efforts of the Accounting Boards reflected in this guidance have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term “fair value” and enhanced disclosure requirements for investments that do not have readily determinable fair values. The Accounting Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards. The amendments to the FASB codification in this guidance are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. We are currently assessing the impact of this guidance on our consolidated financial statements.

Related Party Transactions

We have entered into an investment advisory and administrative services agreement with FB Advisor. Pursuant to the investment advisory and administrative services agreement, FB Advisor is paid a base management fee of 2% of average gross assets and an incentive fee of 20% of net investment income, subject to an annualized 8% hurdle, and 20% of net realized capital gains, if applicable. We commenced accruing fees under the investment advisory and administrative services agreement on January 2, 2009, upon the commencement of our operations. During the three months ended September 30, 2011 and 2010, FB Advisor earned \$7,432 and \$2,318, respectively, in base management fees. During the nine months ended September 30, 2011 and 2010, FB Advisor earned \$18,216 and \$4,605, respectively, in base management fees. Management fees are paid on a quarterly basis in arrears. We paid \$14,093 and \$2,726 of these fees during the nine months ended September 30, 2011 and 2010, respectively.

We accrue for the capital gains incentive fee, which, if earned, is paid annually. We accrue the incentive fee based on net realized and unrealized gains. However, under the terms of our investment advisory and administrative services agreement, 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. During the three months ended September 30, 2011, we reversed \$7,974 in capital gains incentive fees accrued by us as of June 30, 2011 as a result of the unrealized losses incurred in our portfolio during the three months ended September 30, 2011. During each of the three and nine months ended September 30, 2010, we accrued \$373 in capital gains incentive fees. During the nine months ended September 30, 2011, we reversed \$4,063 in capital gains incentive fees accrued by us during the year ended December 31, 2010 as a result of the unrealized losses incurred in our portfolio during the nine months ended September 30, 2011.

We also reimburse FB Advisor for expenses necessary for its performance of services related to our administration and operation, provided that such reimbursement is equal to the lower of FB Advisor's actual costs or the amount that we would be required to pay for comparable services in the same geographic location, and provided further that such costs are reasonably allocated to us on the basis of assets, revenues, time records or other reasonable methods. During the nine months ended September 30, 2011 and 2010, we incurred administrative services charges of \$1,903 and \$635, respectively, attributable to FB Advisor. Of these charges, \$1,366 and \$635, respectively, related to the allocation of costs of administrative personnel for services provided to us by employees of FB Advisor and the remainder related to other reimbursable expenses. We paid FB Advisor \$1,419 and \$496, respectively, for the services incurred under this arrangement during the nine months ended September 30, 2011 and 2010.

Franklin Square Holdings funded offering costs and other expenses in the amount of \$486 for the nine months ended September 30, 2010. The offering costs and other expenses funded by Franklin Square Holdings during the nine months ended September 30, 2010 were recorded as a contribution to capital. The offering costs were offset against capital in excess of par on the financial statements and the other expenses were charged to expense as incurred. All offering costs for the nine months ended September 30, 2011 have been funded directly by us.

The dealer manager for our public offering is FS², which is one of our affiliates. During the nine months ended September 30, 2011 and 2010, FS² retained \$15,622 and \$3,063, respectively, for selling commissions and dealer manager fees in connection with the sale of our common stock.

Under the terms of the investment advisory and administrative services agreement, when our registration statement was declared effective by the SEC and we were successful in raising gross proceeds from unrelated outside investors of at least \$2,500, or the minimum offering requirement, FB Advisor became entitled to receive 1.5% of gross proceeds raised until all offering costs and organization costs funded by FB Advisor or its affiliates (including Franklin Square Holdings) have been recovered. On January 2, 2009, we exceeded the minimum offering requirement. We paid total reimbursements of \$641 and \$1,678 to FB Advisor and its affiliates during

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the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, no amounts were payable to FB Advisor and its affiliates under this arrangement. The reimbursements are recorded as a reduction of capital.

FB Advisor's senior management team is comprised of the same personnel as the senior management team of FS Investment Advisor, LLC, the investment adviser to Franklin Square Holdings' other affiliated BDC, FS Energy and Power Fund. As a result, such personnel provide investment advisory services to both us and FS Energy and Power Fund. While neither FB Advisor nor FS Investment Advisor, LLC is currently making private corporate debt investments for clients other than us and FS Energy and Power Fund, respectively, either one, or both, 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 our investment objectives and strategies, if necessary, so that we will not be disadvantaged in relation to any other client of FB Advisor or its management team. In addition, even 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 rather than to us.

Beginning on February 26, 2009, our affiliate and sponsor, Franklin Square Holdings, agreed to reimburse us for expenses in an amount that is sufficient to ensure that, for tax purposes, our net investment income and net capital gains are equal to or greater than the cumulative distributions paid to our stockholders in each quarter. This arrangement is designed to ensure that no portion of our distributions will represent a return of capital for our stockholders. Franklin Square Holdings has no obligation to reimburse any portion of our expenses. The specific amount of expenses reimbursed by Franklin Square Holdings, if any, will be determined at the end of each quarter. During the nine months ended September 30, 2011 and 2010, we received no reimbursements from Franklin Square Holdings. We do not expect that conditions will require Franklin Square Holdings to provide reimbursements in the future. To the extent reimbursements may be needed in the future, there can be no assurance that Franklin Square Holdings will provide any such reimbursements. Franklin Square Holdings is controlled by our chairman, president and chief executive officer, Michael Forman, and our vice-chairman, David Adelman.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are subject to financial market risks, including changes in interest rates. As of September 30, 2011, 24.6% of our portfolio investments (based on fair value) paid fixed interest rates and the remainder paid variable interest rates. A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments, especially to the extent that we predominantly hold variable rate investments, and to declines in the value of any fixed rate investments we hold. Accordingly, an increase in interest rates would make it easier for us to meet or exceed our incentive fee preferred return, as defined in the investment advisory and administrative services agreement we have entered into with FB Advisor, and may result in a substantial increase in our net investment income, and also 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 \$340,000 credit facility which Broad Street maintains with Deutsche Bank, Broad Street borrows at a floating rate based on LIBOR. Under the terms of the TRS between Arch Street and Citibank, Arch Street pays fees to Citibank at a floating rate based on LIBOR in exchange for the right to receive the economic benefit of a pool of loans having a maximum notional amount of \$300,000. Pursuant to the terms of the financing arrangement with JPM, borrowings under the Revolving Credit Agreement, pricing of repurchase transactions under the JPM Facility and interest on the Class A Notes are all subject to a floating rate based on LIBOR. We expect any future credit facilities, total return swap agreements or other financing arrangements that we or any of our subsidiaries may enter into will also be based on a floating interest rate. As a result, we are subject to risks relating to changes in market interest rates. In periods of rising interest rates, when we or our subsidiaries have debt outstanding or swap agreements in effect, our interest expense would increase, which could reduce our net investment income, especially to the extent we hold fixed rate investments.

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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 our investment portfolio and borrowing arrangements in effect as of September 30, 2011:

<u>LIBOR Basis Point Change</u>	<u>Interest Income⁽¹⁾</u>	<u>Interest Expense</u>	<u>Net Interest Income</u>
Down 35 basis points	\$ 148,478	\$(11,108)	\$ 137,370
Up 100 basis points	149,137	(16,939)	132,198
Up 200 basis points	158,396	(21,259)	137,136
Up 300 basis points	170,539	(25,578)	144,961

(1) Includes the net effect of the change in interest rates on the unrealized appreciation/depreciation on the TRS. Assumes no change in defaults or prepayments by portfolio companies.

We expect that our long-term investments will be financed primarily with equity and long-term 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 nine months ended September 30, 2011 and the year ended December 31, 2010, 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.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of 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 September 30, 2011. 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.

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 months ended September 30, 2011 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 Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 and our Annual Report on Form 10-K for the year ended December 31, 2010.

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

During the three months ended September 30, 2011, we issued 921,932 shares of common stock under our distribution reinvestment plan pursuant to an exemption from the registration requirements of the Securities Act.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Reserved.

Item 5. Other Information.

Custody Agreement

On November 14, 2011, we entered into a custodian agreement with State Street Bank and Trust Company, or SSBT, effective as of November 16, 2011. Under the custodian agreement, SSBT will hold all of our portfolio securities and cash, and transfer such securities or cash pursuant to our instructions. The custodian agreement has an initial term ending November 14, 2014, which shall automatically renew for successive one-year terms unless a written notice of non-renewal is delivered by the non-renewing party no later than ninety (90) days prior to the expiration of the term.

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Item 6. Exhibits.

- 3.1 Articles of Amendment and Restatement of FS Investment Corporation, as amended. *(Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K (File No. 814-00757), filed on March 31, 2009)*
- 3.2 Amended and Restated Bylaws of FS Investment Corporation. *(Incorporated by reference to Exhibit (b)(1) filed with Amendment No. 3 to the Company's registration statement on Form N-2 (File No. 333-149374), filed on September 17, 2008)*
- 4.1 Form of Subscription Agreement. *(Incorporated by reference to Appendix A filed with the Company's final prospectus filed pursuant to Rule 497 (File No. 333-174784) filed on November 1, 2011)*
- 4.2 Amended and Restated Distribution Reinvestment Plan, effective as of May 13, 2008. *(Incorporated by reference to Exhibit (e)(1) filed with Amendment No. 3 to the Company's registration statement on Form N-2 (File No. 333-149374), filed on September 17, 2008)*
- 4.3 Amended and Restated Distribution Reinvestment Plan, effective as of January 1, 2012. *(Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on November 14, 2011)*
- 10.1 Investment Advisory and Administrative Services Agreement 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)*
- 10.2 First Amendment to the Investment Advisory and Administrative Services Agreement by and between the Company and FB Income Advisor, LLC. *(Incorporated by reference to Exhibit (g)(1) filed with Amendment No. 3 to the Company's registration statement on Form N-2 (File No. 333-149374), filed on September 17, 2008)*
- 10.3 Investment Sub-advisory Agreement 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)*
- 10.4 Form of Dealer Manager Agreement by and between the Company and FS² Capital Partners, LLC. *(Incorporated by reference to Exhibit (h)(1) filed with Amendment No. 3 to the Company's registration statement on Form N-2 (File No. 333-149374), filed on September 17, 2008)*
- 10.5 Form of Amendment to Form of Dealer Manager Agreement by and between the Company and FS² Capital Partners, LLC. *(Incorporated by reference to Exhibit (h)(2) filed with Amendment No. 2 to the Company's registration statement on Form N-2 (File No. 333-174784), filed on October 20, 2011)*
- 10.6 Form of Selected Dealer Agreement. (Included as Appendix A to the Form of Dealer Manager Agreement). *(Incorporated by reference to Exhibit (h)(1) filed with Amendment No. 3 to the Company's registration statement on Form N-2 (File No. 333-149374), filed on September 17, 2008)*
- 10.7 Form of Amendment to Form of Selected Dealer Agreement. (Included as Exhibit A to the Form of Amendment to Form of Dealer Manager Agreement). *(Incorporated by reference to Exhibit (h)(4) filed with Amendment No. 2 to the Company's registration statement on Form N-2 (File No. 333-174784), filed on October 20, 2011)*
- 10.8 Custodian Services Agreement by and between the Company and The Bank of New York Mellon (f/k/a PFPC Trust Company). *(Incorporated by reference to Exhibit (j)(1) filed with Post-Effective Amendment No. 1 to the Company's registration statement on Form N-2 (File No. 333-149374), filed on November 13, 2008)*
- 10.9* Custodian Agreement, dated as of November 14, 2011, by and between State Street Bank and Trust Company and FS Investment Corporation.

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- 10.10 Form of Escrow Agreement by and between the Company and UMB Bank, N.A. *(Incorporated by reference to Exhibit (k) filed with Amendment No. 3 to the Company's registration statement on Form N-2 (File No. 333-149374), filed on September 17, 2008)*
- 10.11 Amended and Restated Credit Agreement by and among Broad Street Funding LLC, Deutsche Bank AG, New York Branch and the other lenders party thereto, dated as of January 28, 2011. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on February 1, 2011)*
- 10.12 Asset Contribution Agreement by and between the Company and Broad Street Funding LLC, dated March 10, 2010. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on March 16, 2010)*
- 10.13 First Amendment to Asset Contribution Agreement by and between the Company and Broad Street Funding LLC, dated as of June 17, 2010. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on July 19, 2010)*
- 10.14 Investment Management Agreement by and between the Company and Broad Street Funding LLC, dated March 10, 2010. *(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on March 16, 2010)*
- 10.15 Amended and Restated Security Agreement by and between Broad Street Funding LLC and Deutsche Bank AG, New York Branch, dated as of January 28, 2011. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on February 1, 2011 (Items 1.01, 2.03 and 9.01))*
- 10.16 ISDA 2002 Master Agreement, together with the Schedule thereto and Credit Support Annex to such Schedule, by and between Arch Street Funding LLC and Citibank, N.A., each dated as of March 18, 2011. *(Incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K (File No. 814-00757), filed on March 24, 2011)*
- 10.17 Amended and Restated Confirmation Letter Agreement by and between Arch Street Funding LLC and Citibank, N.A., dated as of June 9, 2011. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on June 13, 2011)*
- 10.18 Investment Management Agreement by and between the Company and Arch Street Funding LLC, dated as of March 18, 2011. *(Incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K (File No. 814-00757), filed on March 24, 2011)*
- 10.19 Asset Transfer Agreement by and between the Company and Locust Street Funding LLC, dated as of July 21, 2011. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on July 27, 2011)*
- 10.20 Indenture by and between Locust Street Funding LLC and Citibank, N.A., as trustee, dated as of July 21, 2011. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on July 27, 2011)*
- 10.21 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 (File No. 814-00757), filed on July 27, 2011)*
- 10.22 TBMA/ISMA 2000 Global Master Repurchase Agreement between JPMorgan Chase Bank, N.A., London Branch and Race Street Funding LLC, together with the related Annex and Confirmation thereto, each dated as of July 21, 2011. *(Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on July 27, 2011)*
- 10.23 Revolving Credit Agreement by and between the Company and Race Street Funding LLC, dated as of July 21, 2011. *(Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on July 27, 2011)*

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- 10.24 Collateral Management Agreement by and between Locust Street Funding LLC and the Company, dated as of July 21, 2011. *(Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on July 27, 2011)*
- 10.24 Collateral Administration Agreement by and among Locust Street Funding LLC, the Company and Virtus Group, LP, dated as of July 21, 2011. *(Incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K (File No. 814-00757), filed on July 27, 2011)*
- 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 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.
- 32.2* Certification of 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 report to be signed on its behalf by the undersigned thereunto duly authorized on November 14, 2011.

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)

CUSTODIAN AGREEMENT

This Agreement, dated as of November 14, 2011, is by and between FS INVESTMENT CORPORATION, a Maryland corporation (the “**Company**”), on behalf of itself and each entity listed on Schedule D hereto, as may be amended from time to time in accordance with Section 19.14 hereof (each such entity, a “**Company Subsidiary**,” and collectively, the “**Company Subsidiaries**”), and STATE STREET BANK AND TRUST COMPANY, a Massachusetts trust company (the “**Custodian**”).

WHEREAS, the Company has selected and desires to retain the Custodian to act as custodian of Company assets, and the Custodian is willing to provide such services to the Company upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows:

Section 1. Employment of Custodian and Property to be Held by It

The Company hereby employs the Custodian as the custodian of its assets, including securities which the Company desires to be held in places within the United States (“**domestic securities**”) and securities it desires to be held outside the United States (“**foreign securities**”). The Custodian shall not be responsible for any property of the Company which is not received by it or which is delivered out in accordance with Proper Instructions (as such term is defined in Section 7 hereof). With respect to uncertificated shares of or other interests (“**Underlying Shares**”) in collective investment vehicles including, *inter alia*, registered investment companies (“**Underlying Funds**”), the holding of confirmation statements which identify such Underlying Shares as being recorded in the Custodian’s name (or in the name of a nominee of the Custodian) for the benefit of the Company, shall be deemed custody for purposes of this Agreement.

Upon receipt of Proper Instructions, the Custodian shall from time to time employ one or more sub-custodians located in the United States as approved by the Company. The Custodian shall have no more or less responsibility or liability to the Company on account of any actions or omissions of any sub-custodian so employed than any such sub-custodian has to the Custodian. The Custodian may employ as sub-custodians for the Company’s securities and other assets the foreign banking institutions and foreign securities depositories designated in Schedules A and B hereto (as may be amended from time to time by the Custodian in accordance with the applicable provisions of Sections 3 and 4 hereof).

Section 2. Duties of the Custodian with Respect to Property of the Company to be Held in the United States

2.1 Holding Securities. The Custodian shall hold and segregate for the account of the Company and each Company Subsidiary all non-cash property, to be held by it in the United States, including all domestic securities owned by the Company or a Company Subsidiary, other than (a) securities which are maintained pursuant to Section 2.8 in a clearing agency which acts as a securities depository or in a book-entry system authorized by the U.S. Department of the Treasury and certain other federal agencies (each, a “**U.S. Securities System**”) and (b) Underlying Shares owned by the Company which are maintained pursuant to Section 2.10 hereof in an account with State Street Bank and Trust Company or such other entity which may from time to time act as a transfer agent, registrar, corporate secretary, general partner or other relevant third party for the Underlying Funds and with respect to which the Custodian is provided with Proper Instructions (the “**Underlying Transfer Agent**”).

2.2 Delivery of Securities. The Custodian shall release and deliver domestic securities owned by the Company held by the Custodian or in a U.S. Securities System account of the Custodian or in an account at the Underlying Transfer Agent, only upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, and only in the following cases:

- 1) Upon the sale of such securities for the account of the Company and receipt of payment therefor;

- 2) Upon the receipt of payment in connection with any repurchase agreement related to such securities entered into by the Company;
- 3) In the case of a sale effected through a U.S. Securities System, in accordance with the provisions of Section 2.8 hereof;
- 4) To the depository agent in connection with tender or other similar offers for portfolio securities owned by the Company;
- 5) To the issuer thereof or its agent when such securities are called, redeemed, retired or otherwise become payable; provided that, in any such case, the cash or other consideration is to be delivered to the Custodian;
- 6) To the issuer thereof, or its agent, for transfer into the name of the Company or into the name of any nominee or nominees of the Custodian or into the name or nominee name of any agent appointed pursuant to Section 2.7 or into the name or nominee name of any sub-custodian appointed pursuant to Section 1; or for exchange for a different number of bonds, certificates or other evidence representing the same aggregate face amount or number of units; provided, that, in any such case, the new securities are to be delivered to the Custodian;
- 7) Upon the sale of such securities for the account of the Company, to the broker or its clearing agent, against a receipt, for examination in accordance with "street delivery" custom; provided that in any such case, the Custodian shall have no responsibility or liability for any loss arising from the delivery of such securities prior to receiving payment for such securities except as may arise from the Custodian's own negligence or willful misconduct;
- 8) For exchange or conversion pursuant to any plan of merger, consolidation, recapitalization, reorganization or readjustment of the securities of the issuer of such securities, or pursuant to provisions for conversion contained in such securities, or pursuant to any deposit agreement; provided that, in any such case, the new securities and cash, if any, are to be delivered to the Custodian;
- 9) In the case of warrants, rights or similar securities, the surrender thereof in the exercise of such warrants, rights or similar securities or the surrender of interim receipts or temporary securities for definitive securities; provided that, in any such case, the new securities and cash, if any, are to be delivered to the Custodian;
- 10) For delivery as security in connection with any borrowing by the Company requiring a pledge of assets by the Company provided, however, that securities shall be released only upon payment to the Company of the monies borrowed, except that in cases where additional collateral is required to secure a borrowing already made subject to proper prior authorization, further securities may be released for that purpose upon receipt of Proper Instructions;
- 11) For delivery in accordance with the provisions of any agreement among the Company, the Custodian and a broker-dealer which is a member of The Financial Industry Regulatory Authority, Inc. ("**FINRA**"), relating to compliance with the rules of The Options Clearing Corporation and of any registered national securities exchange, or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Company;
- 12) For delivery in accordance with the provisions of any agreement among the Company, the Custodian, and a Futures Commission Merchant registered under the Commodity Exchange Act, relating to compliance with the rules of the Commodity Futures Trading Commission ("**CFTC**") and/or any contract market, or any similar organization or organizations, regarding account deposits in connection with transactions by the Company;
- 13) Upon receipt of instructions from the transfer agent or registrar of the Company, if any ("**Transfer Agent**"), or from the Company, if there is no such Transfer Agent, for delivery to

such Transfer Agent or to holders of shares of the Company's common stock ("**Shares**") in connection with distributions in kind, in satisfaction of requests by holders of Shares for repurchase or redemption by the Company;

- 14) In the case of a sale processed through the Underlying Transfer Agent of Underlying Shares, in accordance with Section 2.11 hereof;
- 15) For delivery to a broker in connection with the broker's custody of margin collateral relating to futures or options on futures contracts; and
- 16) For any other purpose, but only upon receipt of Proper Instructions specifying (a) the securities to be delivered and (b) the person(s) to whom delivery of such securities shall be made.

2.3 Registration of Securities. Domestic securities held by the Custodian (other than bearer securities) shall be registered in the name of the Company or in the name of any nominee of the Company or of any nominee of the Custodian which nominee shall be assigned exclusively to the Company, unless the Company has authorized in writing the appointment of a nominee to be used in common with other investment companies or funds having the same investment adviser as the Company, or in the name or nominee name of any agent appointed pursuant to Section 2.7 or in the name or nominee name of any sub-custodian appointed pursuant to Section 1. All securities accepted by the Custodian on behalf of the Company under the terms of this Agreement shall be in "street name" or other good delivery form. If, however, the Company directs the Custodian to maintain securities in "street name", the Custodian shall utilize its best efforts only to timely collect income due the Company on such securities and to notify the Company on a best efforts basis only of relevant corporate actions including, without limitation, pendency of calls, maturities, tender or exchange offers.

2.4 Bank Accounts. The Custodian shall open and maintain separate bank accounts in the United States in the name of the Company and each Company Subsidiary, subject only to draft or order by the Custodian acting pursuant to the terms of this Agreement, and shall hold in one or more accounts designated by the Company, subject to the provisions hereof, all cash received by it from or for the account of the Company. Funds held by the Custodian for the Company may be deposited by it to its credit as Custodian in the banking department of the Custodian or in such other banks or trust companies as it may in its discretion deem necessary or desirable provided, however, that every such bank or trust company shall be qualified to act as a custodian under the Investment Company Act of 1940, as amended (the "**1940 Act**"), and that each such bank or trust company to the extent required by law shall be approved by a vote of a majority of the Company's board of directors (the "**Board**"). Such funds shall be deposited by the Custodian in its capacity as Custodian and shall be withdrawable by the Custodian only in that capacity.

2.5 Collection of Income. The Custodian shall collect on a timely basis, and promptly advise the Company upon receipt thereof, all income and other payments with respect to securities held hereunder to which the Company shall be entitled either by law or pursuant to custom in the securities business and shall collect on a timely basis all income and other payments with respect to bearer domestic securities if, on the date of payment by the issuer, such securities are held by the Custodian or its agent thereof and shall credit such income, as collected, to the Company's custodian account. Without limiting the generality of the foregoing, the Custodian shall detach and present for payment all coupons and other income items requiring presentation as and when they become due and shall collect interest when due on securities held hereunder.

2.6

Payment of Company Monies. Upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, the Custodian shall pay out monies of the Company in the following cases only:

- 1) Upon the purchase of domestic securities, options, futures contracts or options on futures contracts for the account of the Company but only (a) against the delivery of such securities, or evidence of title to such options, futures contracts or options on futures contracts, to the Custodian (or any bank, banking firm or trust company doing business in the United States or abroad that is qualified under the 1940 Act to act as a custodian and has been designated by the Custodian as its agent for this purpose) registered in the name of the Company or in the name of a nominee of the Custodian referred to in Section 2.3 hereof or in proper form for transfer; (b) in the case of a purchase effected through a U.S. Securities System, in accordance with the conditions set forth in Section 2.8 hereof; (c) in the case of a purchase of Underlying Shares, in accordance with the conditions set forth in Section 2.10 hereof; (d) in the case of repurchase agreements entered into between the Company and the Custodian, or another bank, or a broker-dealer which is a member of FINRA, (i) against delivery of the securities either in certificated form or through an entry crediting the Custodian's account at the Federal Reserve Bank with such securities or (ii) against delivery of the receipt evidencing purchase by the Company of securities owned by the Custodian along with written evidence of the agreement by the Custodian to repurchase such securities from the Company; or (e) for transfer to a time deposit account of the Company in any bank, whether domestic or foreign; such transfer may be effected prior to receipt of a confirmation from a broker and/or the applicable bank pursuant to Proper Instructions from the Company;
- 2) In connection with conversion, exchange or surrender of securities owned by the Company as set forth in Section 2.2 hereof;
- 3) For the repurchase or redemption of Shares by the Company as set forth in Section 6 hereof;
- 4) For the payment of any expense or liability incurred by the Company, including but not limited to the following payments for the account of the Company: interest, taxes, management, accounting, Transfer Agent and legal fees, and operating expenses of the Company whether or not such expenses are to be in whole or part capitalized or treated as deferred expenses;
- 5) For the payment of any distributions by the Company to the Transfer Agent, as agent for the Company's stockholders, for further distribution thereto;
- 6) For payment of the amount of dividends received in respect of securities sold short;
- 7) For payment as initial or variation margin in connection with futures or options on futures contracts entered into by the Company;
- 8) For payment in accordance with the provisions of any agreement among the Company, the Custodian and a broker-dealer which is a member of FINRA, relating to compliance with the margin regulations of the Board of Governors of the Federal Reserve System, the rules of The Options Clearing Corporation and of any registered national securities exchange, or of any similar organization or organizations, regarding escrow, margin, or other arrangements in connection with transactions by the Company;
- 9) For the repayment of any borrowing of the Company; and
- 10) For any other purpose, but only upon receipt of Proper Instructions specifying (a) the amount of such payment and (b) the person(s) to whom such payment is to be made.

2.7

Appointment of Agents. The Custodian may at any time or times in its reasonable discretion appoint (and may at any time remove) any other bank or trust company which is itself qualified under the 1940 Act to act as a custodian, as its agent to carry out such of the provisions of this Section 2 as the

Custodian may from time to time direct; provided, however, that the appointment of any agent shall not relieve the Custodian of its responsibilities or liabilities hereunder. The Underlying Transfer Agent shall not be deemed an agent or sub-custodian of the Custodian for purposes of this Section 2.7 or any other provision of this Agreement.

2.8 Deposit of Company Assets in U.S. Securities Systems. The Custodian may deposit and/or maintain domestic securities owned by the Company in a U.S. Securities System in accordance with applicable Federal Reserve Board and Securities and Exchange Commission (“**SEC**”) rules and regulations, if any, and to the extent applicable hereto.

2.9 Segregated Account. The Custodian shall upon receipt of Proper Instructions establish and maintain a segregated account or accounts for and on behalf of the Company or any Company Subsidiary, into which account or accounts may be transferred cash and/or securities, including securities maintained in an account by the Custodian pursuant to Section 2.9 hereof, (a) in accordance with the provisions of any agreement among the Company, the Custodian and a broker-dealer which is registered under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) and is a member of FINRA (or any Futures Commission Merchant registered under the Commodity Exchange Act), relating to compliance with the rules of The Options Clearing Corporation and of any registered national securities exchange (or the CFTC or any registered contract market), or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Company, (b) for purposes of segregating cash or government securities in connection with options purchased, sold or written by the Company or commodity futures contracts or options thereon purchased or sold by the Company, (c) for the purposes of compliance by the Company with the procedures required by Investment Company Act Release No. 10666, or any subsequent release of the SEC, or interpretative opinion of the staff of the SEC, relating to the maintenance of segregated accounts by registered investment companies, (d) for any newly-formed Company Subsidiary, and (e) for any other purpose in accordance with Proper Instructions.

2.10 Deposit of Underlying Shares with the Underlying Transfer Agent. Underlying Shares beneficially owned by the Company shall be deposited and/or maintained in an account or accounts maintained with an Underlying Transfer Agent and the Custodian’s only responsibilities with respect thereto shall be limited to the following:

- 1) Upon receipt of a confirmation or statement from an Underlying Transfer Agent that such Underlying Transfer Agent is holding or maintaining Underlying Shares in the name of the Custodian (or a nominee of the Custodian) for the benefit of the Company, the Custodian shall identify by book-entry that such Underlying Shares are being held by it as custodian for the benefit of the Company.
- 2) In respect of the purchase of Underlying Shares for the account of the Company, upon receipt of Proper Instructions, the Custodian shall pay out monies of the Company as so directed, and record such payment from the account of the Company on the Custodian’s books and records.
- 3) In respect of the sale or redemption of Underlying Shares for the account of the Company, upon receipt of Proper Instructions, the Custodian shall transfer such Underlying Shares as so directed, record such transfer from the account of the Company on the Custodian’s books and records and, upon the Custodian’s receipt of the proceeds therefor, record such payment for the account of the Company on the Custodian’s books and records.

The Custodian shall not be liable to the Company for any loss or damage to the Company resulting from the maintenance of Underlying Shares with Underlying Transfer Agent except for losses resulting directly from the fraud, negligence or willful misconduct of the Custodian or any of its agents or of any of its or their employees.

- 2.11 Ownership Certificates for Tax Purposes. The Custodian shall execute ownership and other certificates and affidavits for all federal and state tax purposes in connection with receipt of income or other payments with respect to domestic securities of the Company held by it and in connection with transfers of such securities.
- 2.12 Proxies, Consents and Other Instruments. The Custodian shall, with respect to the domestic securities held hereunder, cause to be promptly executed by the registered holder of such securities, if the securities are registered otherwise than in the name of the Company or a nominee of the Company, all proxies (without indication of the manner in which such proxies are to be voted), consents, authorizations and other similar instruments, and shall promptly deliver the same to the Company, together with all proxy soliciting materials and all notices relating to such securities.
- 2.13 Communications Relating to Company Securities. The Custodian shall transmit promptly to the Company all written information (including, without limitation, pendency of calls and maturities of domestic securities and expirations of rights in connection therewith and notices of exercise of call and put options written by the Company and the maturity of futures contracts purchased or sold by the Company) received by the Custodian from issuers of the securities being held for the Company. With respect to tender or exchange offers, the Custodian shall transmit promptly to the Company all written information received by the Custodian from issuers of the securities whose tender or exchange is sought and from the party (or its agents) making the tender or exchange offer. The Custodian shall not be liable for any untimely exercise of any tender, exchange or other right or power in connection with domestic securities or other property of the Company at any time held by it unless (i) the Custodian is in actual possession of such domestic securities or property and (ii) the Custodian receives Proper Instructions with regard to the exercise of any such right or power, and both (i) and (ii) occur at least three business days prior to the date on which the Custodian is to take action to exercise such right or power. The Custodian shall also transmit promptly to the Company all written information received by the Custodian regarding any class action or other litigation in connection with securities or other assets issued in the United States and then held, or previously held, during the term of this Agreement by the Custodian for the account of the Company, including, but not limited to, opt-out notices and proof-of-claim forms. For avoidance of doubt, upon and after the effective date of any termination of this Agreement, the Custodian shall have no responsibility to so transmit any information under this Section 2.14.
- 2.14 Reports to Company. The Custodian shall provide the Company, at such times as the Company may reasonably require, with reports by independent public accountants on the accounting system, internal accounting control and procedures for safeguarding securities, futures contracts and options on futures contracts, including domestic securities deposited and/or maintained in a U.S. Securities System, relating to the services provided by the Custodian under this Agreement; such reports shall be of sufficient scope and in sufficient detail, as may reasonably be required by the Company to provide reasonable assurance that any material inadequacies would be disclosed by such examination, and, if there are no such inadequacies, the reports shall so state. In addition, the Custodian shall furnish to the Company such periodic and special reports as the Company may reasonably request, to the extent that such reports are not available in a form reasonably satisfactory to the Company on the Custodian's remote access website.
- 2.15 Excess Cash Sweep. The Custodian will sweep any net excess cash balances daily into an investment vehicle or other instrument designated in Proper Instructions.

Section 3. Provisions Relating to Rules 17f-5 and 17f-7

3.1. Definitions. As used throughout this Agreement, the following capitalized terms shall have the indicated meanings:

“**Country Risk**” means all factors reasonably related to the systemic risk of holding Foreign Assets in a particular country including, but not limited to, such country’s political environment, economic and financial infrastructure (including any Eligible Securities Depository operating in the country), prevailing or developing custody and settlement practices, and laws and regulations applicable to the safekeeping and recovery of Foreign Assets held in custody in that country.

“**Eligible Foreign Custodian**” has the meaning set forth in section (a)(1) of Rule 17f-5, including a majority-owned or indirect subsidiary of a U.S. Bank (as defined in Rule 17f-5), a bank holding company meeting the requirements of an Eligible Foreign Custodian (as set forth in Rule 17f-5 or by other appropriate action of the SEC), or a foreign branch of a Bank (as defined in Section 2(a)(5) of the 1940 Act) meeting the requirements of a custodian under Section 17(f) of the 1940 Act; the term does not include any Eligible Securities Depository.

“**Eligible Securities Depository**” has the meaning set forth in section (b)(1) of Rule 17f-7.

“**Foreign Assets**” means any of the Company’s investments (including foreign currencies) for which the primary market is outside the United States and such cash and cash equivalents as are reasonably necessary to effect the Company’s transactions in such investments.

“**Foreign Custody Manager**” has the meaning set forth in section (a)(3) of Rule 17f-5.

“**Rule 17f-5**” means Rule 17f-5 promulgated under the 1940 Act.

“**Rule 17f-7**” means Rule 17f-7 promulgated under the 1940 Act.

3.2. The Custodian as Foreign Custody Manager.

3.2.1 Delegation to the Custodian as Foreign Custody Manager. The Company, by resolution adopted by its Board, hereby delegates to the Custodian, subject to section (b) of Rule 17f-5, the responsibilities set forth in this Section 3.2 with respect to Foreign Assets held outside the United States, and the Custodian hereby accepts such delegation as Foreign Custody Manager of the Company.

3.2.2 Countries Covered. The Foreign Custody Manager shall be responsible for performing the delegated responsibilities defined below only with respect to the countries and custody arrangements for each such country listed on Schedule A to this Agreement, which list of countries may be amended from time to time by the Company with the agreement of the Foreign Custody Manager. The Foreign Custody Manager shall list on Schedule A the Eligible Foreign Custodians selected by the Foreign Custody Manager to maintain the Company’s assets, which list of Eligible Foreign Custodians may be amended from time to time in the sole discretion of the Foreign Custody Manager. The Foreign Custody Manager will provide amended versions of Schedule A in accordance with Section 3.2.5 hereof.

Upon the receipt by the Foreign Custody Manager of Proper Instructions to open an account or to place or maintain Foreign Assets in a country listed on Schedule A, and the fulfillment by the Company of the applicable account opening requirements for such country, the Foreign Custody Manager shall be deemed to have been delegated by the Board responsibility as Foreign Custody Manager with respect to that country and to have accepted such delegation. Execution of this Agreement by the Company shall be deemed to be a Proper Instruction to open an account, or to place or maintain Foreign Assets, in each country listed on Schedule A. Following the receipt of Proper Instructions directing the Foreign Custody Manager to close the account of the Company with the Eligible Foreign Custodian selected by the Foreign Custody Manager in a designated

country, the delegation by the Board to the Custodian as Foreign Custody Manager for that country shall be deemed to have been withdrawn and the Custodian shall immediately cease to be the Foreign Custody Manager of the Company with respect to that country.

The Foreign Custody Manager may withdraw its acceptance of delegated responsibilities with respect to a designated country upon written notice to the Company. Thirty (30) days (or such longer period to which the parties agree in writing) after receipt of any such notice by the Company, the Custodian shall have no further responsibility in its capacity as Foreign Custody Manager to the Company with respect to the country as to which the Custodian's acceptance of delegation is withdrawn.

3.2.3 Scope of Delegated Responsibility:

(a) Selection of Eligible Foreign Custodians. Subject to the provisions of this Section 3.2, the Foreign Custody Manager may place and maintain the Foreign Assets in the care of the Eligible Foreign Custodian selected by the Foreign Custody Manager in each country listed on Schedule A, as amended from time to time. In performing its delegated responsibilities as Foreign Custody Manager to place or maintain Foreign Assets with an Eligible Foreign Custodian, the Foreign Custody Manager shall determine that the Foreign Assets will be subject to reasonable care, based on the standards applicable to custodians in the country in which the Foreign Assets will be held by that Eligible Foreign Custodian, after considering all factors relevant to the safekeeping of such assets, including, without limitation, the factors specified in Rule 17f-5(c)(1).

(b) Contracts with Eligible Foreign Custodians. The Foreign Custody Manager shall determine that the contract governing the foreign custody arrangements with each Eligible Foreign Custodian selected by the Foreign Custody Manager will satisfy the requirements of Rule 17f-5(c)(2).

(c) Monitoring. In each case in which the Foreign Custody Manager maintains Foreign Assets with an Eligible Foreign Custodian selected by the Foreign Custody Manager, the Foreign Custody Manager shall establish a system to monitor (i) the appropriateness of maintaining the Foreign Assets with such Eligible Foreign Custodian and (ii) the contract governing the custody arrangements established by the Foreign Custody Manager with the Eligible Foreign Custodian. In the event the Foreign Custody Manager determines that the custody arrangements with an Eligible Foreign Custodian it has selected are no longer appropriate, the Foreign Custody Manager shall notify the Board in accordance with Section 3.2.5 hereunder.

3.2.4 Guidelines for the Exercise of Delegated Authority. For purposes of this Section 3.2, the Board shall be deemed to have considered and determined to accept such Country Risk as is incurred by placing and maintaining the Foreign Assets in each country for which the Custodian is serving as Foreign Custody Manager of the Company.

3.2.5 Reporting Requirements. The Foreign Custody Manager shall report the withdrawal of the Foreign Assets from an Eligible Foreign Custodian and the placement of such Foreign Assets with another Eligible Foreign Custodian by providing to the Board an amended Schedule A at the end of the calendar quarter in which an amendment to such Schedule has occurred. The Foreign Custody Manager shall make written reports notifying the Board of any other material change in the foreign custody arrangements of the Company described in this Section 3.2 after the occurrence of the material change.

3.2.6 Standard of Care as Foreign Custody Manager of the Company. In performing the responsibilities delegated to it, the Foreign Custody Manager agrees to exercise reasonable care, prudence and diligence such as a person having responsibility for the safekeeping of assets of management investment companies registered under the 1940 Act would exercise.

3.2.7 Representations with respect to Rule 17f-5. The Foreign Custody Manager represents to the Company that it is a U.S. Bank as defined in section (a)(7) of Rule 17f-5. The Company represents

to the Custodian that the Board has determined that it is reasonable for the Board to rely on the Custodian to perform the responsibilities delegated pursuant to this Agreement to the Custodian as the Foreign Custody Manager of the Company.

3.2.8 Effective Date and Termination of the Custodian as Foreign Custody Manager. The Board's delegation to the Custodian as Foreign Custody Manager of the Company shall be effective as of the date hereof and shall remain in effect until terminated at any time, without penalty, by written notice from the terminating party to the non-terminating party. Termination will become effective thirty (30) days after receipt by the non-terminating party of such notice. The provisions of Section 3.2.2 hereof shall govern the delegation to and termination of the Custodian as Foreign Custody Manager of the Company with respect to designated countries.

3.3 **Eligible Securities Depositories.**

3.3.1 **Analysis and Monitoring.** The Custodian shall (a) provide the Company (or its duly-authorized investment adviser or investment sub-adviser (collectively, the "investment adviser")) with an analysis of the custody risks associated with maintaining assets with the Eligible Securities Depositories set forth on Schedule B hereto in accordance with section (a)(1)(i)(A) of Rule 17f-7, and (b) monitor such risks on a continuing basis, and promptly notify the Company (or its duly-authorized investment adviser) of any material change in such risks, in accordance with section (a)(1)(i)(B) of Rule 17f-7.

3.3.2 **Standard of Care.** The Custodian agrees to exercise reasonable care, prudence and diligence in performing the duties set forth in Section 3.3.1.

Section 4. **Duties of the Custodian with respect to Property of the Company Held Outside the United States.**

4.1 **Definitions.** As used throughout this Agreement, the following capitalized terms shall have the indicated meanings:

"***Foreign Securities System***" means an Eligible Securities Depository listed on Schedule B hereto.

"***Foreign Sub-Custodian***" means an Eligible Foreign Custodian.

4.2. **Holding Securities.** The Custodian shall identify on its books as belonging to the Company the foreign securities held by each Foreign Sub-Custodian or Foreign Securities System. The Custodian may hold foreign securities for all of its customers, including the Company, with any Foreign Sub-Custodian in an account that is identified as belonging to the Custodian for the benefit of its customers, provided however, that (i) the records of the Custodian with respect to foreign securities of the Company which are maintained in such account shall identify those securities as belonging to the Company and (ii), to the extent permitted and customary in the market in which the account is maintained, the Custodian shall require that securities so held by the Foreign Sub-Custodian be held separately from any assets of such Foreign Sub-Custodian or of other customers of such Foreign Sub-Custodian.

4.3. **Foreign Securities Systems.** Foreign securities shall be maintained in a Foreign Securities System in a designated country through arrangements implemented by the Custodian or a Foreign Sub-Custodian, as applicable, in such country.

Transactions in Foreign Custody Account.

4.4.1. Delivery of Foreign Assets. The Custodian or a Foreign Sub-Custodian shall release and deliver foreign securities of the Company held by the Custodian or such Foreign Sub-Custodian, or in a Foreign Securities System account, only upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, and only in the following cases:

- (i) upon the sale of such foreign securities for the Company in accordance with commercially reasonable market practice in the country where such foreign securities are held or traded, including, without limitation: (A) delivery against expectation of receiving later payment; or (B) in the case of a sale effected through a Foreign Securities System, in accordance with the rules governing the operation of the Foreign Securities System;
- (ii) in connection with any repurchase agreement related to foreign securities;
- (iii) to the depository agent in connection with tender or other similar offers for foreign securities of the Company;
- (iv) to the issuer thereof or its agent when such foreign securities are called, redeemed, retired or otherwise become payable;
- (v) to the issuer thereof, or its agent, for transfer into the name of the Custodian (or the name of the respective Foreign Sub-Custodian or of any nominee of the Custodian or such Foreign Sub-Custodian) or for exchange for a different number of bonds, certificates or other evidence representing the same aggregate face amount or number of units;
- (vi) to brokers, clearing banks or other clearing agents for examination or trade execution in accordance with market custom; provided that in any such case the Foreign Sub-Custodian shall have no responsibility or liability for any loss arising from the delivery of such securities prior to receiving payment for such securities except as may arise from the Foreign Sub-Custodian's own negligence or willful misconduct;
- (vii) for exchange or conversion pursuant to any plan of merger, consolidation, recapitalization, reorganization or readjustment of the securities of the issuer of such securities, or pursuant to provisions for conversion contained in such securities, or pursuant to any deposit agreement;
- (viii) in the case of warrants, rights or similar foreign securities, the surrender thereof in the exercise of such warrants, rights or similar securities or the surrender of interim receipts or temporary securities for definitive securities;
- (ix) for delivery as security in connection with any borrowing by the Company requiring a pledge of assets by the Company;
- (x) for delivery as initial or variation margin in connection with futures or options on futures contracts entered into by the Company;
- (xi) in connection with the lending of foreign securities; and
- (xii) for any other purpose, but only upon receipt of Proper Instructions specifying the foreign securities to be delivered and naming the person or persons to whom delivery of such securities shall be made.

4.4.2. Payment of Company Monies. Upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, the Custodian shall pay out, or direct the respective Foreign Sub-Custodian or the respective Foreign Securities System to pay out, monies of the Company in the following cases only:

- (i) upon the purchase of foreign securities for the Company, unless otherwise directed by Proper Instructions, by (A) delivering money to the seller thereof or to a dealer therefor (or an agent for such seller or dealer) against expectation of receiving later delivery of such

foreign securities; or (B) in the case of a purchase effected through a Foreign Securities System, in accordance with the rules governing the operation of such Foreign Securities System;

- (ii) in connection with the conversion, exchange or surrender of foreign securities of the Company;
- (iii) for the payment of any expense or liability of the Company, including but not limited to the following payments: interest, taxes, investment advisory fees, transfer agency fees, fees under this Agreement, legal fees, accounting fees, and other operating expenses;
- (iv) for the purchase or sale of foreign exchange or foreign exchange contracts for the Company, including transactions executed with or through the Custodian or its Foreign Sub-Custodians;
- (v) for payment as initial or variation margin in connection with futures or options on futures contracts entered into by the Company;
- (vi) for payment of part or all of the dividends received in respect of securities sold short;
- (vii) in connection with the borrowing or lending of foreign securities; and
- (viii) for any other purpose, but only upon receipt of Proper Instructions specifying the amount of such payment and naming the person or persons to whom such payment is to be made.

4.4.3. Market Conditions. Notwithstanding any provision of this Agreement to the contrary, settlement and payment for Foreign Assets received for the account of the Company and delivery of Foreign Assets maintained for the account of the Company may be effected in accordance with the customary established securities trading or processing practices and procedures in the country or market in which the transaction occurs, including, without limitation, delivering Foreign Assets to the purchaser thereof or to a dealer therefor (or an agent for such purchaser or dealer) with the expectation of receiving later payment for such Foreign Assets from such purchaser or dealer.

The Custodian shall provide to the Board the information with respect to custody and settlement practices in countries in which the Custodian employs a Foreign Sub-Custodian described on Schedule C hereto at the time or times set forth on such Schedule. The Custodian may revise Schedule C from time to time, provided that no such revision shall result in the Board being provided with substantively less information than had been previously provided hereunder.

4.5. Registration of Foreign Securities. The foreign securities maintained in the custody of a Foreign Sub-Custodian (other than bearer securities) shall be registered in the name of the Company or in the name of the Custodian or in the name of any Foreign Sub-Custodian or in the name of any nominee of the foregoing, and the Company agrees to hold any such nominee harmless from any liability as a holder of record of such foreign securities. The Custodian or a Foreign Sub-Custodian shall not be obligated to accept securities on behalf of the Company under the terms of this Agreement unless the form of such securities and the manner in which they are delivered are in accordance with reasonable market practice.

4.6. Bank Accounts. The Custodian shall identify on its books as belonging to the Company cash (including cash denominated in foreign currencies) deposited with the Custodian. Where the Custodian is unable to maintain, or market practice does not facilitate the maintenance of, cash on the books of the Custodian, a bank account or bank accounts shall be opened and maintained outside the United States on behalf of the Company with a Foreign Sub-Custodian. All accounts referred to in this Section shall be subject only to draft or order by the Custodian (or, if applicable, such Foreign Sub-Custodian) acting pursuant to the terms of this Agreement to hold cash received by or from or for the account of the Company. Cash maintained on the books of the Custodian (including its

branches, subsidiaries and affiliates), regardless of currency denomination, is maintained in bank accounts established under, and subject to the laws of, The Commonwealth of Massachusetts.

- 4.7. Collection of Income. The Custodian shall use reasonable commercial efforts to collect all income and other payments with respect to the Foreign Assets held hereunder to which the Company shall be entitled and shall credit such income, as collected, to the Company. In the event that extraordinary measures are required to collect such income, the Company and the Custodian shall consult as to such measures and as to the compensation and expenses of the Custodian relating to such measures.
- 4.8. Shareholder Rights. With respect to the foreign securities held pursuant to this Section 4, the Custodian will use reasonable commercial efforts to facilitate the exercise of voting and other shareholder rights, subject always to the laws, regulations and practical constraints that may exist in the country where such securities are issued. The Company acknowledges that local conditions, including lack of regulation, onerous procedural obligations, lack of notice and other factors may have the effect of severely limiting the ability of the Company to exercise shareholder rights.
- 4.9. Communications Relating to Foreign Securities. The Custodian shall transmit promptly to the Company written information with respect to materials received by the Custodian via the Foreign Sub-Custodians from issuers of the foreign securities being held for the account of the Company (including, without limitation, pendency of calls and maturities of foreign securities and expirations of rights in connection therewith). With respect to tender or exchange offers, the Custodian shall transmit promptly to the Company written information with respect to materials so received by the Custodian from issuers of the foreign securities whose tender or exchange is sought or from the party (or its agents) making the tender or exchange offer. The Custodian shall not be liable for any untimely exercise of any tender, exchange or other right or power in connection with foreign securities or other property of the Company at any time held by it unless (i) the Custodian or the respective Foreign Sub-Custodian is in actual possession of such foreign securities or property and (ii) the Custodian receives Proper Instructions with regard to the exercise of any such right or power, and both (i) and (ii) occur at least three business days prior to the date on which the Custodian is to take action to exercise such right or power. The Custodian shall also transmit promptly to the Company all written information received by the Custodian via the Foreign Sub-Custodians from issuers of the foreign securities being held for the account of the Company regarding any class action or other litigation in connection with foreign securities or other assets issued outside the United States and then held, or previously held, during the term of this Agreement by the Custodian for the account of the Company, including, but not limited to, opt-out notices and proof-of-claim forms. For avoidance of doubt, upon and after the effective date of any termination of this Agreement, the Custodian shall have no responsibility to so transmit any information under this Section 4.9.
- 4.10. Liability of Foreign Sub-Custodians. Each agreement pursuant to which the Custodian employs a Foreign Sub-Custodian shall, to the extent possible, require the Foreign Sub-Custodian to exercise reasonable care in the performance of its duties, and to indemnify, and hold harmless, the Custodian from and against any loss, damage, cost, expense, liability or claim arising out of or in connection with the Foreign Sub-Custodian's performance of such obligations. At the Company's election, it shall be entitled to be subrogated to the rights of the Custodian with respect to any claims against a Foreign Sub-Custodian as a consequence of any such loss, damage, cost, expense, liability or claim if and to the extent that the Company has not been made whole for any such loss, damage, cost, expense, liability or claim.
- 4.11. Liability of Custodian. The Custodian shall be liable for the acts or omissions of a Foreign Sub-Custodian to the same extent as set forth with respect to sub-custodians generally in this Agreement and, regardless of whether assets are maintained in the custody of a Foreign Sub-Custodian or a Foreign Securities System, the Custodian shall not be liable for any loss, damage, cost, expense, liability or claim resulting from nationalization, expropriation, currency

restrictions, or acts of war or terrorism, or any other loss where the Foreign Sub-Custodian has otherwise acted with reasonable care.

Section 5. Loan Servicing Provisions.

Section 5.1 General. The following provisions shall apply with respect to investments, property or assets in the nature of loans, or interests or participations in loans, including without limitation interests in syndicated bank loans and bank loan participations, whether in the U.S. or outside the U.S. (collectively, "**Loans**") entered into by the Company.

Section 5.2 Safekeeping. Instruments, certificates, agreements and/or other documents which the Custodian may receive with respect to Loans, if any (collectively "**Financing Documents**"), from time to time, shall be held by the Custodian at its offices in Boston, Massachusetts in a separate account or accounts that physically segregates such Financing Documents of the Company or its subsidiaries from those relating to any other persons.

Section 5.3 Duties of the Custodian. The Custodian shall accept such Financing Documents, if any, with respect to Loans as may be delivered to it from time to time by the Company. The Custodian shall be under no obligation to examine the contents or determine the sufficiency of any such Financing Documents or to provide any certification with respect thereto, whether received by the Custodian as original documents, photocopies, by facsimile or otherwise. Without limiting the foregoing, the Custodian is under no duty to examine any such Financing Documents to determine whether necessary steps have been taken or requirements met with respect to the assignment or transfer of the related Loan or applicable interest or participation in such Loan. The Custodian shall be entitled to assume the genuineness, sufficiency and completeness of any Financing Documents received, and the genuineness and due authority of any signature appearing on such documents. Notwithstanding any term of this Agreement to the contrary, with respect to any Loans, (i) the Custodian shall be under no obligation to determine, and shall have no liability for, the sufficiency of, or to require delivery of, any instrument, document or agreement constituting, evidencing or representing such Loan, other than to receive such Financing Documents, if any, as may be delivered or caused to be delivered to it by the Company (or its investment adviser acting on its behalf), (ii) without limiting the generality of the foregoing, delivery of any such Loan (including without limitation, for purposes of Section 2.9 above) may be made to the Custodian by, and may be represented solely by, delivery to the Custodian of a facsimile or photocopy of an assignment or similar agreement (an "**Assignment Agreement**") or a confirmation or certification from the Company (or the investment adviser) to the effect that it has acquired such Loan and/or has received or will receive, and will deliver to the Custodian, appropriate Financing Documents constituting, evidencing or representing such Loan (such confirmation or certification, together with any Assignment Agreement, collectively, an "**Assignment Agreement or Confirmation**"), in any case without delivery of any promissory note, participation certificate or similar instrument (collectively, an "**Instrument**"), (iii) if an original Instrument shall be or shall become available with respect to any such Loan, it shall be the sole responsibility of the Company (or the investment adviser acting on its behalf) to make or cause delivery thereof to the Custodian, and the Custodian shall be under no obligation at any time or times to determine whether any such original Instrument has been issued or made available with respect to such Loan, and shall not be under any obligation to compel compliance by the Company to make or cause delivery of such Instrument to the Custodian, and (iv) any reference to Financing Documents appearing in this Section 5 shall be deemed to include, without limitation, any such Instrument and/or Assignment Agreement or Confirmation.

If payments with respect to a Loan ("**Loan Payment**") are not received by the Custodian on the date on which they are due, as reflected in the Payment Schedule (as such term is defined in Section 5.4 below) of the Loan ("**Payment Date**"), or in the case of interest payments, not received either on a scheduled interest payable date, as reported to the Custodian by the Company (or the investment adviser acting on its behalf) for the Loan (the "**Interest Payable Date**"), or in the amount of their

accrued interest payable, the Custodian shall promptly, but in no event later than one business day after the Payment Date or the Interest Payable Date, notify the Company of such failure and give telephonic notice to the party obligated under the Financing Documents to make such Loan Payment (the "**Obligor**") of its failure to make timely payment. The Custodian shall have no responsibility with respect to the collection of Loan Payments which are past due, other than the duty to promptly notify the Obligor and the Company (or the investment adviser acting on its behalf) as provided herein.

The Custodian shall have no responsibilities or duties whatsoever under this Agreement, with respect to Loans or the Financing Documents, except for such responsibilities as are expressly set forth herein. Without limiting the generality of the foregoing, the Custodian shall have no obligation to preserve any rights against prior parties or to exercise any right or perform any obligation in connection with the Loans or any Financing Documents (including, without limitation, no obligation to take any action in respect of or upon receipt of any consent solicitation, notice of default or similar notice received from any bank agent or Obligor, except that the Custodian shall forward any such notice to the Company or the investment adviser acting on its behalf). In case any question arises as to its duties hereunder, the Custodian may request instructions from the Company and shall be entitled at all times to refrain from taking any action unless it has received Proper Instructions from the Company or the investment adviser and the Custodian shall in all events have no liability, risk or cost for any action taken, with respect to a Loan, pursuant to and in compliance with the Proper Instructions of such parties.

The Custodian shall be only responsible and accountable for Loan Payments actually received by it and identified as for the account of the Company; any and all credits and payments credited to the Company, with respect to Loans, shall be conditional upon clearance and actual receipt by the Custodian of final payment thereon.

The Custodian shall promptly, upon the Company's request, provide to the Company's investment adviser or to any party as the Company or the Company's investment adviser may specify, copies of any Financing Documents being held on behalf of the Company. Without limiting the foregoing, the Custodian shall not be deemed to have or be charged with knowledge of the sale of any Loan, unless and except to the extent it shall have received written notice and instruction from the Company (or the investment adviser acting on its behalf) with respect thereto, and except to the extent it shall have received the sale proceeds thereof.

In no event shall the Custodian be under any obligation or liability to make any advance of its own funds with respect to any Loan.

Section 5.4 Responsibility of the Company. With respect to each Loan held by the Custodian hereunder in accordance with the provisions hereof, the Company shall (a) cause the Financing Documents evidencing such Loan to be delivered to the Custodian; (b) include with such Financing Documents an amortization schedule of payments (the "**Payment Schedule**") identifying the amount and due dates of scheduled principal payments, the Interest Payable Date(s) and related payment amount information, and such other information with respect to the related Loan and Financing Documents as the Custodian reasonably may require in order to perform its services hereunder (collectively, "**Loan Information**"), in such form and format as the Custodian reasonably may require; (c) take, or cause the investment adviser to take, all actions necessary to acquire good title to such Loan (or the participation in such Loan, as the case may be), as and to the extent intended to be acquired; and (d) cause the Custodian to be named as its nominee for payment purposes under the Financing Documents or otherwise provide for the direct payment of the Loan Payments to the Custodian. The Custodian shall be entitled to rely upon the Loan Information provided to it by the Company (or the investment adviser acting on its behalf) without any obligation on the part of the Custodian independently to verify, investigate, recalculate, update or otherwise confirm the accuracy or completeness thereof; and the Custodian shall have no liability for any delay or failure on the part of the Company in providing necessary Loan Information to the Custodian, or for any inaccuracy

therein or incompleteness thereof. With respect to each such Loan, the Custodian shall be entitled to rely on any information and notices it may receive from time to time from the related bank agent, Obligor or similar party with respect to the related Loan, and shall be entitled to update its records on the basis of such information or notices received, without any obligation on its part independently to verify, investigate or recalculate such information, provided that the Custodian notifies the Company of such changes.

Section 5.5 Instructions; Authority to Act. The certificate of the Secretary, Assistant Secretary or other authorized officer of the Company, identifying certain individuals authorized to sign any such instructions, may be received and accepted as conclusive evidence of the incumbency and authority of such to act and may be considered by the Custodian to be in full force and effect until it receives written notice to the contrary from the Secretary, Assistant Secretary or other authorized officer of the Company. Notwithstanding any other provision of this Agreement, the Custodian shall have no responsibility to ensure that any investment by the Company with respect to Loans has been authorized.

Section 5.6 Attachment. In case any portion of the Loans or the Financing Documents shall be attached or levied upon pursuant to an order of court, or the delivery or disbursement thereof shall be stayed or enjoined by an order of court, or any other order, judgment or decrees shall be made or entered by any court affecting the property of the Company or any act of the Custodian relating thereto, the Custodian is hereby expressly authorized in its reasonable discretion to obey and comply with all orders, judgments or decrees so entered or issued, without the necessity to inquire whether such court had jurisdiction, and, in case the Custodian obeys or complied with any such order, judgment or decree, it shall not be liable to anyone by reason of such compliance; provided, however, that the Custodian shall promptly notify the Company upon receipt of any such order, judgment or decree.

Section 6. Payments for Sales and Repurchases or Redemptions of Shares

The Custodian shall receive from the Transfer Agent or the agent bank for the Company and deposit into the Company's account such payments as are received for Shares issued or sold from time to time by the Company. The Custodian will provide timely notification to the Company and the Transfer Agent of any receipt by it of payments for Shares of the Company.

From such funds as may be available for the purpose, the Custodian shall, upon receipt of instructions from the Company, deliver to the Transfer Agent funds in an amount (as set forth in such instructions) sufficient for payment to holders of Shares who have delivered to the Transfer Agent a request for redemption or repurchase of their Shares. In connection with the redemption or repurchase of Shares, the Custodian is authorized, upon receipt of instructions from the Company, to wire the amount of funds specified therein to the Transfer Agent, as agent for, and for further distribution to, the redeeming stockholders.

Section 7. Proper Instructions Defined

"Proper Instructions," as such term is used throughout this Agreement, means a writing signed or initialed by one or more person or persons as the Company shall have from time to time authorized. Each such writing shall set forth the specific transaction or type of transaction involved. Oral instructions will be considered Proper Instructions if the Custodian reasonably believes them to have been given by a person authorized to give such instructions with respect to the transaction involved. The Company agrees to forward to the Custodian written confirmation with respect to any oral instructions so that the Custodian receives such confirmation by the close of business on the same day that such oral instructions are received. The fact that such written confirmation is not received by the Custodian or differs from the oral instructions shall in no way invalidate the transactions or enforceability of the transactions authorized by the oral instructions or the Custodian's ability to rely

upon such oral instructions. Proper Instructions may include communications effected directly between electro-mechanical or electronic devices provided that the Company and the Custodian agree to security procedures including, but not limited to, the security procedures selected by the Company via the form of Funds Transfer Addendum attached hereto, the terms of which are hereby agreed to. For purposes of this Section, Proper Instructions shall include instructions received by the Custodian pursuant to any three-party agreement which requires a segregated asset account in accordance with Section 2.10.

Concurrently with the execution of this Agreement, and from time to time thereafter, as appropriate, the Company shall deliver to the Custodian (1) a certificate, duly certified by a duly authorized officer of the Company, and/or (2) resolutions of the Board, setting forth the names, titles, scope of authority and specimen signatures of all persons authorized to give Proper Instructions or any other notice, request, direction, instruction, certificate or instrument on behalf of the Company. Such certificate or resolutions may be accepted and relied upon by the Custodian as conclusive evidence of the facts set forth therein and shall be considered to be in full force and effect until receipt by the Custodian of a similar certificate to the contrary.

Section 8. Evidence of Authority.

Subject to the limitations set forth in this Agreement, including the limitations on authority set forth in the certificate or resolutions delivered to the Custodian pursuant to Section 7 hereof, the Custodian shall be protected in acting upon any instructions, notice, request, consent, certificate or other instrument or paper reasonably believed by it to be genuine and to have been properly executed by or on behalf of the Company. The Custodian may receive and accept a copy of a resolution of the Board, certified by the Secretary or an Assistant Secretary of the Company, as conclusive evidence (a) of the authority of any person to act in accordance with such resolution or (b) of any determination or of any action by the Board as described in such resolution, and such resolution may be considered as in full force and effect until receipt by the Custodian of written notice to the contrary.

Section 9. Actions without Express Authority.

The Custodian may in its discretion, without express authority from the Company:

- 1) make payments to itself or others for minor expenses of handling securities or other similar items relating to its duties under this Agreement, provided that all such payments shall be accounted for to the Company;
- 2) surrender securities in temporary form for securities in definitive form;
- 3) endorse for collection, in the name of the Company, checks, drafts and other negotiable instruments;
- 4) collect and receive for the account of the Company, all income, dividends, distributions, coupons, option premiums, other payments and similar items;
- 5) present for payment and collect the amount payable upon all securities which may mature or be called, redeemed, retired or otherwise become payable (on a mandatory basis) on the date such securities become payable;
- 6) take any action which may be necessary and proper in connection with the collection and receipt of the aforementioned income and other payments; and
- 7) hold for the Company's account all stock dividends, rights and similar securities issued with respect to any securities held.

In addition, the Custodian may, in its sole discretion, without express authority from the Company in general, attend to all non-discretionary details in connection with the sale, exchange, substitution, purchase, transfer and other dealings with the securities and property of the Company except as otherwise directed by the Company.

Section 10. Duties of Custodian with Respect to the Books of Account and Calculation of Net Asset Value and Net Income

The Custodian shall cooperate with and supply necessary information to the entity or entities appointed by the Company to keep the books of account of the Company and/or compute the net asset value per Share of the outstanding Shares or, if directed in writing to do so by the Company, shall itself keep such books of account and/or compute such net asset value per Share, but only on a “book basis,” and the Custodian shall have no responsibility under this Agreement for determining any tax accounting for the Company with respect to the Company or with respect to any holder’s interest in the Company. If so directed, the Custodian shall also calculate the net income of the Company as may be agreed upon by the Custodian and the Company but likewise, only on a book basis, and shall advise the Company of the total amounts of such net income. The Company acknowledges and agrees that, with respect to investments maintained with the Underlying Transfer Agent, the Underlying Transfer Agent is the sole source of information on the number of shares or interests held by it on behalf of the Company and that the Custodian has the right to rely on holdings information furnished by the Underlying Transfer Agent to the Custodian in performing its duties under this Agreement, including without limitation, the duties set forth in this Section 10 and in Section 11 hereof; provided, however, that the Custodian shall be obligated to reconcile information as to purchases and sales of Underlying Shares contained in trade instructions and confirmations received by the Custodian and to report promptly any discrepancies to the Underlying Transfer Agent. The calculations of the net asset value per Share and the income of the Company shall be made at such time or times as may be agreed upon by the Custodian and the Company.

Section 11. Records

The Custodian shall create and maintain all records relating to its activities and obligations under this Agreement in such manner as will meet the obligations of the Company under the 1940 Act. All such records shall be the property of the Company and shall at all times during the regular business hours of the Custodian be open for inspection by duly authorized officers, employees or agents of the Company or its affiliates and the employees or agents of any regulatory authority having jurisdiction over the Company or its affiliates. The Custodian shall, at the Company’s request, supply the Company with a tabulation of securities owned by the Company and held by the Custodian, together with any additional information reasonably requested by the Company.

Section 12. Opinion of Company’s Independent Accountant

The Custodian shall cooperate reasonably with the Company’s independent accountants. The Custodian shall take all reasonable action, as the Company may from time to time request, to obtain from year to year favorable opinions from the Company’s independent accountants with respect to its activities hereunder in connection with the preparation of the Company’s Registration Statement on Form N-2, and Annual Report on Form 10-K or other applicable periodic reports to the SEC and with respect to any other applicable requirements thereof.

Section 13. Compensation of Custodian

The Custodian shall be entitled to reasonable compensation for its services and expenses as custodian hereunder, as agreed upon from time to time between the Company and the Custodian and set forth in a separate fee schedule executed by the parties (the “*Fee Schedule*”).

Section 14. Responsibility of Custodian

So long as it is in the exercise of reasonable care, the Custodian shall not be responsible for the title, validity or genuineness of any property or evidence of title thereto received by it or delivered by it

pursuant to this Agreement and shall be held harmless in acting upon any notice, request, consent, certificate or other instrument reasonably believed by it to be genuine and to be signed by the proper party or parties, including any futures commission merchant acting pursuant to the terms of a three-party futures or options agreement. The Custodian shall be held to the exercise of reasonable care in carrying out the provisions of this Agreement, but shall be kept indemnified by and shall be without liability to the Company for any action taken or omitted by it in good faith without negligence, bad faith or willful misconduct of the Custodian or its officers or employees, including, without limitation, acting in accordance with any Proper Instruction. It shall be entitled to rely on and may act upon advice of counsel (who may be counsel for the Company) on all matters, and shall be without liability for any action reasonably taken or omitted pursuant to such advice.

Except as may arise from the Custodian's negligence, bad faith or willful misconduct, or the negligence, bad faith or willful misconduct of its sub-custodian, nominee or agent, the Custodian shall be without liability to the Company for any loss, liability, claim or expense resulting from or caused by: (i) events or circumstances beyond the reasonable control of the Custodian or any sub-custodian or Securities System or any agent or nominee of any of the foregoing, including, without limitation, nationalization or expropriation, imposition of currency controls or restrictions, the interruption, suspension or restriction of trading on or the closure of any securities market, power or other mechanical or technological failures or interruptions, computer viruses or communications disruptions, acts of war or terrorism, riots, revolutions, work stoppages, natural disasters or other similar events or acts; (ii) errors by the Company, any other third-party agent of the Company or its investment adviser in their respective instructions to the Custodian, provided such instructions have been in accordance with this Agreement; (iii) the insolvency of or acts or omissions by a Securities System; (iv) any delay or failure of any broker, agent or intermediary, central bank or other commercially prevalent payment or clearing system to deliver to the Custodian's sub-custodian or agent securities purchased or in the remittance or payment made in connection with securities sold; (v) any delay or failure of any company, corporation, or other body in charge of registering or transferring securities in the name of the Custodian, the Company, the Custodian's sub-custodians, nominees or agents or any consequential losses arising out of such delay or failure to transfer such securities including non-receipt of bonus, dividends and rights and other accretions or benefits; (vi) delays or inability to perform its duties due to any disorder in market infrastructure with respect to any particular security or Securities System; and (vii) any provision of any present or future law or regulation or order of the United States of America, or any state thereof, or any other country, or political subdivision thereof or of any court of competent jurisdiction. The Custodian shall be liable for the acts or omissions of a Foreign Sub-Custodian to the same extent as set forth with respect to sub-custodians generally in this Agreement. In no event shall either party be liable for indirect, special or consequential damages.

If the Company requires the Custodian to take any action with respect to securities not otherwise contemplated by this Agreement, which action involves the payment of money or which action may, in the reasonable opinion of the Custodian, result in the Custodian or its nominee assigned to the Company being liable for the payment of money or incurring liability of some other form, the Company, as a prerequisite to requiring the Custodian to take such action, shall provide indemnity to the Custodian in an amount and form satisfactory to it.

Except as may be required by applicable law or as otherwise agreed upon by the parties, if the Custodian, or any of its affiliates, subsidiaries or agents, advance cash or securities for any purpose (including but not limited to securities settlements, foreign exchange contracts and assumed settlement), or in the event that the Custodian or its nominee shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of this Agreement, except such as may arise from its or its nominee's negligence or willful misconduct, or if the Company fails to compensate the Custodian pursuant to Section 13 hereof, any property then held for the account of the Company or a Company Subsidiary shall be security therefor and should

the Company fail to repay the Custodian promptly, the Custodian shall be entitled to utilize available cash and to dispose of the Company or Company Subsidiary assets to the extent necessary to obtain reimbursement. Notwithstanding the foregoing, the provisions of this paragraph shall not apply to any property of a Company Subsidiary held by the Custodian, where such security interest is expressly prohibited by law or contract.

Section 15. Tax Law

The Custodian shall have no responsibility or liability for any obligations now or hereafter imposed on the Company or the Custodian as custodian of the Company by the tax law of the United States or of any state or political subdivision thereof. It shall be the responsibility of the Company to notify the Custodian of the obligations imposed on the Company or the Custodian as custodian of the Company by the tax law of countries other than those mentioned in the above sentence, including responsibility for withholding and other taxes, assessments or other governmental charges, certifications and governmental reporting. The sole responsibility of the Custodian with regard to such tax law shall be to use reasonable efforts to assist the Company with respect to any claim for exemption or refund under the tax law of countries for which the Company has provided such information.

Section 16. Effective Period, Termination and Amendment

This Agreement shall remain in full force and effect for an initial term ending November 14, 2014 (the “**Initial Term**”). After the expiration of the Initial Term, this Agreement shall automatically renew for successive one-year terms (each, a “**Renewal Term**”) unless a written notice of non-renewal is delivered by the non-renewing party no later than ninety (90) days prior to the expiration of the Initial Term or any Renewal Term, as the case may be. During the Initial Term and thereafter, either party may terminate this Agreement: (i) in the event of the other party’s material breach of a material provision of this Agreement that the other party has failed to establish a remedial plan to cure that is reasonably acceptable, within forty-five (45) days’ written notice of such breach, or (ii) in the event of the appointment of a conservator or receiver for the other party or upon the happening of a like event to the other party at the direction of an appropriate agency or court of competent jurisdiction. Upon termination of this Agreement pursuant to this paragraph with respect to the Company, the Company shall pay Custodian its compensation due and shall reimburse Custodian for its costs, expenses and disbursements.

In the event of: (i) a termination of this Agreement by the Company for any reason other than as set forth in the immediately preceding paragraph or (ii) a transaction not in the ordinary course of business pursuant to which the Custodian is not retained to continue providing services hereunder to the Company (or its successor), the Company shall pay the Custodian its compensation due through the end of the then-current term (based upon the average monthly compensation previously earned by the Custodian hereunder) and shall reimburse the Custodian for its reasonable costs, expenses and disbursements. Upon receipt of such payment and reimbursement, the Custodian will deliver the Company’s securities and cash as set forth herein. For the avoidance of doubt, no payment will be required pursuant to clause (ii) of this paragraph in the event of any transaction such as (a) the liquidation or dissolution of the Company and distribution of the Company’s assets as a result of the Board’s determination in its reasonable business judgment that the Company is no longer viable, (b) a merger of the Company into, or the consolidation of the Company with, another entity, or (c) the sale by the Company of all, or substantially all, of the Company’s assets to another entity, in each of (b) and (c) where the Custodian is retained to continue providing services to the Company (or its successor) on substantially the same terms as this Agreement.

The provisions of Sections 13, 14, 15 and 19.9 of this Agreement shall survive termination of this Agreement for any reason.

This Agreement may be amended at any time in writing by mutual agreement of the parties hereto.

Section 17. Successor Custodian

If a successor custodian shall be appointed by the Board, the Custodian shall, upon termination and receipt of Proper Instructions, deliver to such successor custodian at the office of the Custodian, duly endorsed and in the form for transfer, all securities then held by it hereunder and shall transfer to an account of the successor custodian all of the Company's securities held in a Securities System or at an Underlying Transfer Agent.

If no such successor custodian shall be appointed, the Custodian shall, in like manner, upon receipt of Proper Instructions, deliver at the office of the Custodian and transfer such securities, funds and other properties in accordance with such Proper Instructions.

In the event that no Proper Instructions designating a successor custodian or alternative arrangements shall have been delivered to the Custodian on or before the date when such termination shall become effective, then the Custodian shall have the right to deliver to a bank or trust company of its own selection (which bank or trust company shall be a "bank" as defined in the 1940 Act having an aggregate capital, surplus and undivided profits, as shown by its last published report, of not less than \$25,000,000), all securities, funds and other properties held by the Custodian and all instruments held by the Custodian relative thereto and all other property held by it under this Agreement on behalf of the Company and to transfer to an account of such successor custodian all of the Company's securities held in any Securities System or at an Underlying Transfer Agent. Thereafter, such bank or trust company shall be the successor of the Custodian under this Agreement.

In the event that securities, funds and other properties remain in the possession of the Custodian after the date of termination hereof owing to failure of the Company to provide Proper Instructions as aforesaid, the Custodian shall be entitled to compensation for its services as provided herein during such period as the Custodian retains possession of such securities, funds and other properties and the provisions of this Agreement relating to the duties and obligations of the Custodian shall remain in full force and effect.

Section 18. Anti-Money Laundering

The Company acknowledges that the Custodian is required to comply with a number of federal regulations and policies concerning matters such as the identity of its customers and the source of funds it handles, including the Bank Secrecy Act and the USA Patriot Act, and all regulations issued thereunder, and the regulations issued by the U.S. Department of Treasury, Office of Foreign Asset Control (together, the "**U.S. Money Laundering and Investor Identification Requirements**"). Accordingly, the Company confirms that it has complied and shall continue to comply with all applicable U.S. Money Laundering and Investor Identity Requirements with respect to the account of the Company, including without limitation maintaining and effecting appropriate procedures to verify suspicious transactions and the source of funds for settlement of transactions.

Section 19. General

Section 19.1 Governing Law. This Agreement shall be construed and the provisions thereof interpreted under and in accordance with laws of The Commonwealth of Massachusetts.

Section 19.2 Prior Contracts. This Agreement supersedes and terminates, as of the date hereof, all prior contracts between the Company and the Custodian relating to the custody of the Company's assets, except for the Fee Schedule, which shall remain in full force and effect until the termination or expiration of this Agreement.

Section 19.3 Assignment. Neither this Agreement nor any rights or obligations hereunder may be assigned by either party, whether voluntarily, involuntarily or by operation of law, without the prior written consent of the

other, such consent not to be unreasonably withheld, except to entities controlled by, under common control with or controlling the assigning party, provided that such assignee has financial capacity at least equal to that of the assignor.

Section 19.4 Interpretive and Additional Provisions. In connection with the operation of this Agreement, the Custodian and the Company may from time to time agree on such provisions interpretive of or in addition to the provisions of this Agreement as may in their joint opinion be consistent with the general tenor of this Agreement. Any such interpretive or additional provisions shall be in a writing signed by both parties and shall be annexed hereto, provided that no such interpretive or additional provisions shall contravene any applicable federal or state regulations or any provision of the Company's governing documents. No interpretive or additional provisions made as provided in the preceding sentence shall be deemed to be an amendment of this Agreement.

Section 19.5 Remote Access Services Addendum. The Custodian and the Company agree to be bound by the terms of the Remote Access Services Addendum attached hereto.

Section 19.6 Notices. Any notice, instruction or other instrument required to be given hereunder may be delivered in person to the offices of the parties as set forth herein during normal business hours or delivered prepaid registered mail or by telex, cable or telecopy to the parties at the following addresses or such other addresses as may be notified by any party from time to time.

To the Company: FS Investment Corporation
Cira Centre
2929 Arch Street
Philadelphia, PA 19104
Attention: Chief Financial Officer
Telephone: (215) 495-1150
Facsimile: (215) 222-4649

To the Custodian: State Street Bank and Trust Company
One Lincoln Street
Boston, MA 02111
Attention: Don Gignac, Senior Vice President
Telephone: (617) 662-7325
Facsimile: (212) 339-2886

Such notice, instruction or other instrument shall be deemed to have been served in the case of a registered letter at the expiration of five business days after posting, in the case of overnight courier, upon receipt, in the case of cable twenty-four hours after dispatch and, in the case of telex or telecopy, immediately upon dispatch and if delivered by cable, telex or telecopy outside normal business hours it shall be deemed to have been received at the next time after delivery when normal business hours commence. Evidence that the notice was properly addressed, stamped and put into the post shall be conclusive evidence of posting.

Section 19.7 Counterparts. This Agreement may be executed by the parties hereto on any number of counterparts, delivery of which may occur by facsimile or as an attachment to an electronic communication, each of which shall be deemed an original, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

Section 19.8 Severability. If any provision or provisions of this Agreement shall be held to be invalid, unlawful or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired.

Section 19.9 Confidentiality. The parties hereto agree that each shall treat confidentially all information provided by each party to the other party regarding its business and operations. All confidential information

provided by a party hereto shall be used by any other party hereto solely for the purpose of rendering or receiving services pursuant to this Agreement and, except as otherwise provided under Section 2.7 hereof and as may be required in carrying out this Agreement, shall not be disclosed to any third party.

The foregoing shall not be applicable to any information (i) that is publicly available when provided or thereafter becomes publicly available, other than through a breach of this Agreement, or that is independently derived by any party hereto without the use of any information provided by the other party hereto in connection with this Agreement, (ii) that is required in any legal or regulatory proceeding, investigation, audit, examination, subpoena, civil investigative demand or other similar process, or by operation of law or regulation, or (iii) where the party seeking to disclose such information has received the prior written consent of the party providing the information, which consent shall not be unreasonably withheld.

The undertakings and obligations contained in this Section 19.9 shall survive the termination or expiration of this Agreement for a period of three (3) years.

Section 19.10 Reproduction of Documents. This Agreement and all schedules, exhibits, addenda, attachments and amendments hereto may be reproduced by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process. The parties hereto all/each agree that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding, whether or not the original is in existence and whether or not such reproduction was made by a party in the regular course of business, and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

Section 19.11 Regulation GG. The Company hereby represents and warrants that it does not engage in an "Internet gambling business," as such term is defined in Section 233.2(r) of Federal Reserve Regulation GG (12 CFR 233) ("**Regulation GG**"). The Company hereby covenants and agrees that it shall not engage in an Internet gambling business. In accordance with Regulation GG, the Company is hereby notified that "restricted transactions," as such term is defined in Section 233.2(y) of Regulation GG, are prohibited in any dealings with the Custodian pursuant to this Agreement or otherwise between or among any party hereto.

Section 19.12 Data Privacy. The Custodian will implement and maintain a written information security program that contains appropriate security measures to safeguard the personal information of the Company's shareholders, employees, directors and/or officers that the Custodian receives, stores, maintains, processes or otherwise accesses in connection with the provision of services hereunder. For these purposes, "personal information" shall mean (i) an individual's name (first initial and last name or first name and last name), address or telephone number plus (a) social security number, (b) drivers license number, (c) state identification card number, (d) debit or credit card number, (e) financial account number or (f) personal identification number or password that would permit access to a person's account or (ii) any combination of the foregoing that would allow a person to log onto or access an individual's account. Notwithstanding the foregoing "personal information" shall not include information that is lawfully obtained from publicly available information, or from federal, state or local government records lawfully made available to the general public.

Section 19.13. Disaster Recovery and Business Continuity. The Custodian will implement and maintain reasonable disaster recovery and business continuity procedures that are reasonably designed to recover data processing systems, data communications facilities, information, data and other business related functions of the Custodian in a manner and time frame consistent with legal, regulatory and business requirements applicable to the Custodian in its provision of services hereunder.

Section 19.14 Company Subsidiaries. In the event that the Company desires the Custodian to perform services hereunder with respect to any additional subsidiary of the Company or other entity not identified as of the date hereof on Schedule D hereto, the Company shall so notify the Custodian in writing. Upon the consent of the Custodian (such consent not to be unreasonably withheld, conditioned or delayed), and the delivery of an

amended Schedule D to this Agreement, such subsidiary shall be deemed a Company Subsidiary hereunder, with all of the rights, privileges and obligations thereof as set forth herein.

Section 19.15 Shareholder Communications. SEC Rule 14b-2 promulgated under the Exchange Act requires banks which hold securities for the account of customers to respond to requests by issuers of securities for the names, addresses and holdings of beneficial owners of securities of that issuer held by the bank unless the beneficial owner has expressly objected to disclosure of this information. In order to comply with the rule, the Custodian needs the Company to indicate whether it authorizes the Custodian to provide the Company's name, address, and share position to requesting companies whose stock the Company owns. If the Company tells the Custodian "no", the Custodian will not provide this information to requesting companies. If the Company tells the Custodian "yes" or do not check either "yes" or "no" below, the Custodian is required by the rule to treat the Company as consenting to disclosure of this information for all securities owned by the Company or any funds or accounts established by the Company. For the Company's protection, the Rule prohibits the requesting company from using the Company's name and address for any purpose other than corporate communications. Please indicate below whether the Company consents or objects by checking one of the alternatives below.

YES [] The Custodian is authorized to release the Company's name, address, and share positions.

NO [X] The Custodian is not authorized to release the Company's name, address, and share positions.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each of the parties has caused this instrument to be executed in its name and behalf by its duly authorized representative as of the date first above-written.

FS INVESTMENT CORPORATION

For itself and each Company Subsidiary listed on Schedule D hereto

By: /s/ Gerald F. Stahlecker
Name: Gerald F. Stahlecker
Title: Executive Vice President

STATE STREET BANK AND TRUST COMPANY

By: /s/ George Sullivan
Name: George Sullivan
Title: Executive Vice President

Custodian Agreement

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 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; and
 - 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: November 14, 2011

/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, 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; and
 - 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: November 14, 2011

/s/ William Goebel

William Goebel
Chief Financial Officer

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

I, Michael C. Forman, the chief executive officer of FS Investment Corporation (the "Company"), hereby certify, 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 for the three months ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), 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: November 14, 2011

/s/ MICHAEL C. FORMAN

**Michael C. Forman
Chief Executive Officer**

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

I, William Goebel, the chief financial officer of FS Investment Corporation (the "Company"), hereby certify, 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 for the three months ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), 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: November 14, 2011

/s/ William Goebel

**William Goebel
Chief Financial Officer**