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

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

OR

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

FOR THE TRANSITION PERIOD FROM

TO

COMMISSION FILE NUMBER: 0-53424

FS Investment Corporation

(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

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

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

19104
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value
\$0.001 per share

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

There is no established market for the Registrant's shares of common stock. The Registrant is currently conducting an ongoing public offering of its shares of common stock pursuant to a Registration Statement on Form N-2, which shares are being sold at \$10.75 per share, with discounts available for certain categories of purchasers, or at a price necessary to ensure that shares are not sold at a price below net asset value per share.

There were 56,165,179 shares of the Registrant's common stock outstanding as of March 15, 2011.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement relating to the registrant's 2011 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year, are incorporated by reference in Part III of this Annual Report on Form 10-K as indicated herein.

FS INVESTMENT CORPORATION
FORM 10-K FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

	<u>Page</u>
PART I	
ITEM 1. BUSINESS	1
ITEM 1A. RISK FACTORS	26
ITEM 1B. UNRESOLVED STAFF COMMENTS	46
ITEM 2. PROPERTIES	46
ITEM 3. LEGAL PROCEEDINGS	46
ITEM 4. RESERVED	46
PART II	
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	47
ITEM 6. SELECTED FINANCIAL DATA	52
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	53
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	71
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	73
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	107
ITEM 9A. CONTROLS AND PROCEDURES	107
ITEM 9B. OTHER INFORMATION	108
PART III	
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	110
ITEM 11. EXECUTIVE COMPENSATION	110
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	110
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	110
ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES	110
PART IV	
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	111
SIGNATURES	113

PART I

Many of the amounts and percentages presented in Part I have been rounded for convenience of presentation, and all dollar amounts, excluding per share amounts, are presented in thousands unless otherwise noted.

Item 1. Business

FS Investment Corporation (“FSIC” or the “Company,” which may also be referred to as “we,” “us” or “our”) was organized in December 2007 to invest in debt securities of private U.S. companies and commenced operations in January 2009. We are an externally managed, non-diversified, closed-end management investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, we have elected to be treated for federal income tax purposes as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code.

We are managed by FB Income Advisor, LLC, or FB Advisor, a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act, which oversees the management of our operations and is responsible for making investment decisions for our portfolio. FB Advisor has engaged GSO / Blackstone Debt Funds Management LLC, or GDFM, to act as our investment sub-adviser. GDFM assists FB Advisor in identifying investment opportunities and makes investment recommendations for approval by FB Advisor, according to asset allocation and other guidelines set by FB Advisor. GDFM, a registered investment adviser under the Advisers Act, is a subsidiary of GSO Capital Partners LP, or GSO, the credit platform affiliate of The Blackstone Group L.P., a leading global alternative asset manager and provider of financial advisory services. GSO is one of the world’s largest credit platforms in the alternative asset business with approximately \$31.0 billion in assets under management as of December 31, 2010.

Our investment objectives are to generate current income and, to a lesser extent, long-term capital appreciation. We will seek to meet our investment objectives by:

- utilizing the experience and expertise of FB Advisor and GDFM, along with the broader resources of GSO which includes its access to the relationships and human capital of its parent, The Blackstone Group L.P., in sourcing, evaluating and structuring transactions;
- employing a defensive investment approach focused on long-term credit performance and principal protection;
- focusing primarily on debt investments in a broad array of private U.S. companies, including small and middle-market companies, which we define as companies with annual revenue of \$10 million to \$2.5 billion at the time of investment. In many environments, we believe such a focus offers an opportunity for superior risk adjusted returns;
- focusing primarily on investing in established, stable companies with positive cash flows; and
- maintaining rigorous portfolio monitoring, in an attempt to anticipate and pre-empt negative credit events within our portfolio.

Our portfolio is comprised primarily of investments in senior secured loans, second lien secured loans and, to a lesser extent, subordinated loans, or mezzanine 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 as primary market investments. In connection with our debt investments, we may on occasion receive equity interests such as warrants or options as additional consideration. We may also purchase 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.

[Table of Contents](#)

The senior secured and second lien secured loans in which we invest generally have stated terms of three to seven years and any mezzanine investments that we make generally have stated terms of up to ten years, but the expected average life of such loans 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 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.

During the year ended December 31, 2010, we made investments in portfolio companies totaling \$849,242. During the same period, we sold positions totaling \$122,581 and received principal repayments of \$117,473. As of December 31, 2010, our investment portfolio, with a total fair value of \$733,580, consisted of interests in 144 portfolio companies (66% in first lien senior secured loans, 19% in second lien senior secured loans, 4% in senior secured bonds and 11% in mezzanine debt/other) with an average annual earnings before interest, taxes, depreciation and amortization, or EBITDA, of approximately \$294.5 million. As of December 31, 2010, the investments in our portfolio were purchased at an average price of 94.9% of par value, the weighted average credit rating of our portfolio was B2 based upon the Moody’s scale and our estimated gross annual portfolio yield, prior to leverage, was 8.5% based upon the purchase price of our investments.

As a BDC, we are subject to certain regulatory restrictions in making our investments. For example, we will not be permitted to co-invest with certain entities affiliated with GDFM in transactions originated by GSO or its affiliates unless we obtain an exemptive order from the Securities and Exchange Commission, or the SEC. We are currently seeking an exemptive order. However, there can be no assurance that we will obtain such relief. Even if we receive exemptive relief, GSO and its affiliates are not obligated to offer GDFM or us the right to participate in any transactions originated by them.

Prior to obtaining exemptive relief, we intend to co-invest alongside GSO or its affiliates only in accordance with existing regulatory guidance. For example, at any time, we may co-invest in syndicated deals and secondary loan market transactions where price is the only negotiated point. While we desire to receive exemptive relief from the SEC, given the latitude permitted within existing regulatory guidance and our current universe of investment opportunities, we do not feel that the absence of exemptive relief materially affects our ability to achieve our investment objectives.

To enhance our opportunity for gain, we intend to employ leverage as market conditions permit and at the discretion of FB Advisor, but in no event will leverage employed exceed 50% of the value of our assets, as required by the 1940 Act.

While a BDC may list its shares for trading in the public markets, we have currently elected not to do so. We believe that a non-traded structure is more appropriate for the long-term nature of the assets in which we invest. This structure allows us to operate with a long-term view, similar to that of other types of private investment funds—instead of managing to quarterly market expectations—and to pursue our investment objectives without subjecting our investors to the daily share price volatility associated with the public markets. To provide our stockholders with limited liquidity, we conduct quarterly tender offers pursuant to our share repurchase program. During the year ended December 31, 2010, we repurchased 228,950 shares at \$9.36 per share for aggregate consideration totaling \$2,143. On January 3, 2011, we repurchased 99,633 shares at \$9.59 per share for aggregate consideration totaling \$955.

We currently intend to limit the number of shares to be repurchased during any calendar year to the number of shares we can repurchase with the proceeds we receive from the sale of shares under our distribution reinvestment plan. At the discretion of our board of directors, we may also use cash on hand, cash available from borrowings and cash from the liquidation of securities investments as of the end of the applicable period to repurchase shares. In addition, we will not repurchase shares in any calendar year in an amount exceeding 10% of the weighted average number of shares outstanding in the prior calendar year, or 2.5% in each quarter. We will

[Table of Contents](#)

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. Our board of directors may amend, suspend or terminate the repurchase program at any time upon 30 days' notice.

Although we do not currently intend to list our securities on an exchange and do not expect a public market to develop for them in the foreseeable future, we intend to seek to complete a liquidity event within five to seven years following the completion of our offering stage or at such earlier time as our board of directors may determine, taking into consideration market conditions and other factors. We will view our offering stage as complete as of the termination date of our most recent public equity offering, if we have not conducted a public equity offering in any continuous two-year period. Therefore, stockholders may not be able to sell their shares promptly or at a desired price.

Status of Our Ongoing Public Offering

Since commencing our initial public offering and through March 15, 2011, we have sold 56,357,510 shares (as adjusted for stock distributions) of our common stock for gross proceeds of approximately \$576.4 million. As of March 15, 2011, we had raised total gross proceeds of approximately \$577.4 million, including approximately \$1 million contributed by principals of our investment adviser in February 2008.

Distributions

The following table reflects the cash distributions per share that we have declared and paid on our common stock during the years ended December 31, 2008, 2009 and 2010:

For the Year Ended	Distribution	
	Per Share ⁽¹⁾⁽²⁾⁽³⁾	Amount
2008	\$ 0.1835	\$ 25
2009	0.6717	3,134
2010	0.8728	21,389

- (1) The amount of each per share distribution has been retroactively adjusted to reflect the stock distributions declared throughout 2009 and 2010 as discussed below.
- (2) In addition to regular semi-monthly cash distributions during such period, cash distributions declared and paid on our common stock during the year ended December 31, 2010 include approximately \$3,851, or approximately \$0.12 per share, in special cash distributions.
- (3) On October 13, 2010, our board of directors determined to increase the amount of semi-monthly distributions payable to stockholders of record from \$0.03125 per share to \$0.03185 per share, effective October 1, 2010. On October 29, 2010, our board of directors determined to increase the amount of semi-monthly distributions payable to stockholders of record from \$0.03185 per share to \$0.032156 per share, effective November 1, 2010.

On January 13, 2011, our board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which were paid on January 31, 2011 to stockholders of record on January 14, 2011 and January 28, 2011, respectively. On February 14, 2011, our board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which were paid on February 28, 2011 to stockholders of record on February 14, 2011 and February 25, 2011, respectively. On March 14, 2011, our board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which will be paid on March 31, 2011 to stockholders of record on March 14, 2011 and March 30, 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.

[Table of Contents](#)

The following table reflects the stock distributions per share that we have declared and paid 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

About FB Advisor

FB Advisor is registered as an investment adviser with the SEC under the Advisers Act. Our chief executive officer, Michael C. Forman, has led FB Advisor since its inception. In 2005, Mr. Forman co-founded FB Capital Partners, L.P., an investment firm that invests in private equity, senior and mezzanine debt, and real estate, and has served as managing general partner since its inception. In 2007, he co-founded Franklin Square Holdings, L.P., or Franklin Square Holdings, a national sponsor and distributor of alternative investment products designed for the individual investor. In managing its funds, Franklin Square Holdings seeks to partner with what it believes to be best-in-class institutional asset managers.

Mr. Forman and the other members of FB Advisor's senior management team, including David J. Adelman, the vice chairman of our board of directors and the co-founder of Franklin Square Holdings, have extensive experience in private lending, private equity and real estate investing, and have developed an expertise in using all levels of a firm's capital structure to produce income-generating investments, while focusing on risk management. FB Advisor is presently staffed with twelve employees and may retain additional investment personnel as our activities expand.

All investment decisions require the unanimous approval of FB Advisor's investment committee, which is led by Mr. Forman. Our board of directors, including a majority of independent directors, oversees and monitors our investment performance and annually reviews the compensation we pay to FB Advisor and the compensation FB Advisor pays to GDFM to determine that the provisions of the investment advisory and administrative services agreement and the investment sub-advisory agreement, respectively, are carried out.

About GDFM

From time to time, FB Advisor may enter into sub-advisory relationships with registered investment advisers that possess skills that FB Advisor believes will aid it in achieving our investment objectives. FB Advisor has engaged GDFM to act as our investment sub-adviser. GDFM assists FB Advisor in identifying investment opportunities and makes investment recommendations for approval by FB Advisor, according to asset allocation and other guidelines set by FB Advisor. GDFM is a Delaware limited liability company with principal offices located at 280 Park Avenue, New York, New York 10017.

GDFM is a wholly-owned subsidiary of GSO. GSO is the credit platform affiliate of The Blackstone Group L.P., or Blackstone, a leading global alternative asset manager. As of December 31, 2010, GSO and its affiliates

Table of Contents

managed approximately \$31.0 billion of assets across multiple strategies within the leveraged finance marketplace, including leveraged loans, high-yield bonds, distressed, mezzanine and private equity. As sub-advisor, GDFM makes recommendations to FB Advisor in a manner that is consistent with its existing investment and monitoring processes.

Blackstone is a leading global alternative asset manager and provider of financial advisory services. It is one of the largest independent managers of private capital in the world, with assets under management of \$128.1 billion as of December 31, 2010. Blackstone's alternative asset management businesses include the management of private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation vehicles, separately managed accounts and publicly-traded closed-end mutual funds. Blackstone is a publicly traded limited partnership that has common units which trade on the New York Stock Exchange under the symbol "BX." Information about Blackstone and its various affiliates, including certain ownership, governance and financial information, is disclosed in Blackstone's periodic filings with the SEC, which can be obtained from Blackstone's website at <http://ir.blackstone.com> or the SEC's website at www.sec.gov.

Under the investment sub-advisory agreement, GDFM assists FB Advisor in identifying investment opportunities and makes investment recommendations for approval by FB Advisor, according to asset allocation and other guidelines set by FB Advisor. In addition, to the extent requested by FB Advisor, GDFM assists with the monitoring of our portfolio and may make managerial assistance available to certain of our portfolio companies. It is anticipated that FB Advisor will benefit from the scale arising from GDFM's existing infrastructure, access to investment opportunities from GSO's existing institutional relationships, access to proprietary investments from GSO's existing dedicated origination and sourcing team and risk management from GDFM's existing policies and expertise. GDFM has an established infrastructure and investment processes for managing leveraged credit portfolios, including senior secured loans, second lien secured loans, mezzanine debt, high yield bonds, structured finance instruments and credit derivatives. GDFM may rely upon the wider resources and operations of GSO, including additional originated deal flow, market risk management, finance, compliance, legal, internal audit and fund administration as needed.

Market Opportunity

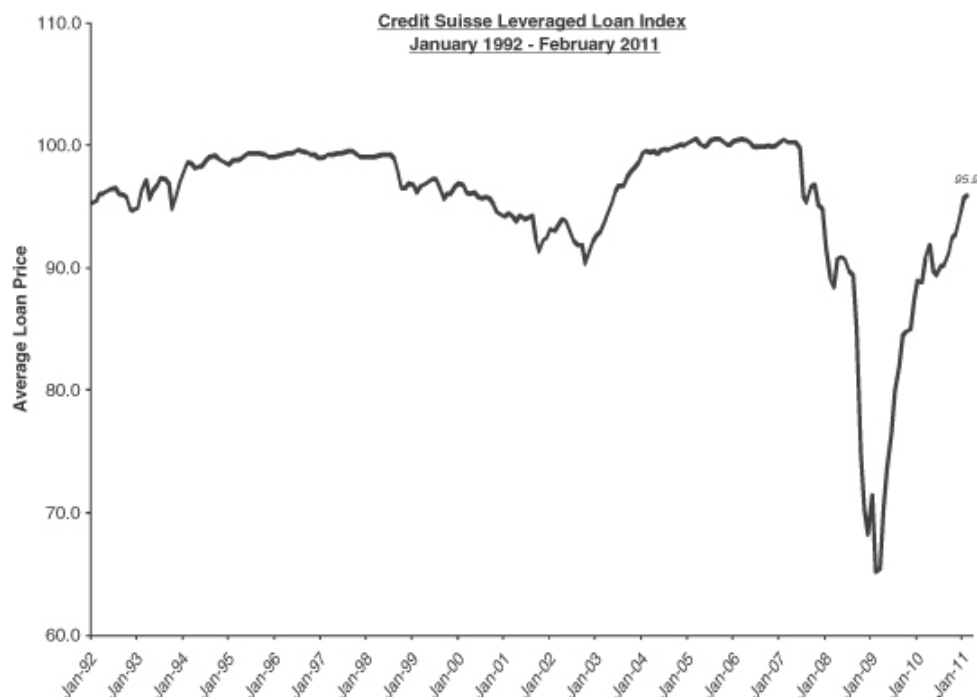
We believe that there are and will continue to be significant investment opportunities in senior secured and second lien secured loans as well as investments in debt securities of small and middle market companies.

Attractive Opportunities in Senior Secured and Second Lien Secured Loans

Since the beginning of 2009, there have been signs that global credit and other financial market conditions have improved markedly as stability has increased throughout the international financial system. Concentrated policy initiatives undertaken by central banks and governments appear to have curtailed the incidence of large-scale failures within the global financial system. Concurrently, investor confidence, financial indicators, capital markets activity and asset prices have shown signs of marked improvement. While financial conditions have improved, economic activity continues to be somewhat subdued as unemployment rates remain high. Corporate interest rate risk premiums, otherwise known as credit spreads, remain above historical averages, particularly in the loan market. Given current market conditions, it is our view that, at this time, there are and will continue to be significant investment opportunities in senior secured and second lien secured loans as well as investments in debt securities of small and middle market companies.

[Table of Contents](#)

The chart below illustrates the sharp decline and subsequent partial recovery in the average prices of senior secured loans, including first and second lien loans, tracked by the Credit Suisse Leveraged Loan Index.

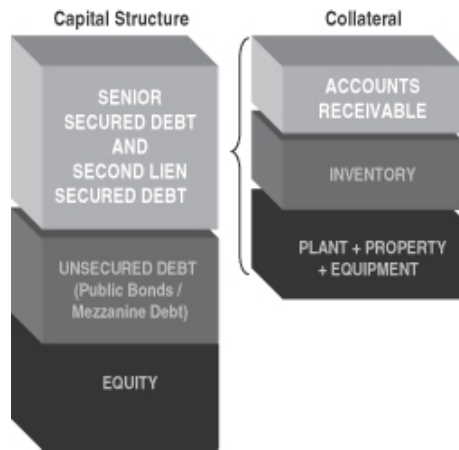


Source: Bloomberg

We feel that opportunities in senior secured loans and second lien secured loans are significant not only because of the potential returns available, but also because of the strong defensive characteristics of this investment class. Because these loans have priority in payment among an issuer's security holders (i.e., they are due to receive payment before bondholders and stockholders), they carry the least potential risk among investments in the issuer's capital structure. Further, these investments are secured by the issuer's assets, which may be seized in the event of a default if necessary, and generally carry restrictive covenants aimed at ensuring repayment before unsecured creditors, such as most types of public bondholders, and other security holders and preserving collateral to protect against credit deterioration. In addition, most senior secured debt issues carry variable interest rate structures, meaning the securities are generally less susceptible to declines in value experienced by fixed-rate securities in a rising interest rate environment. However, in declining interest rate environments, variable interest rate structures decrease the income we would receive from our debt securities.

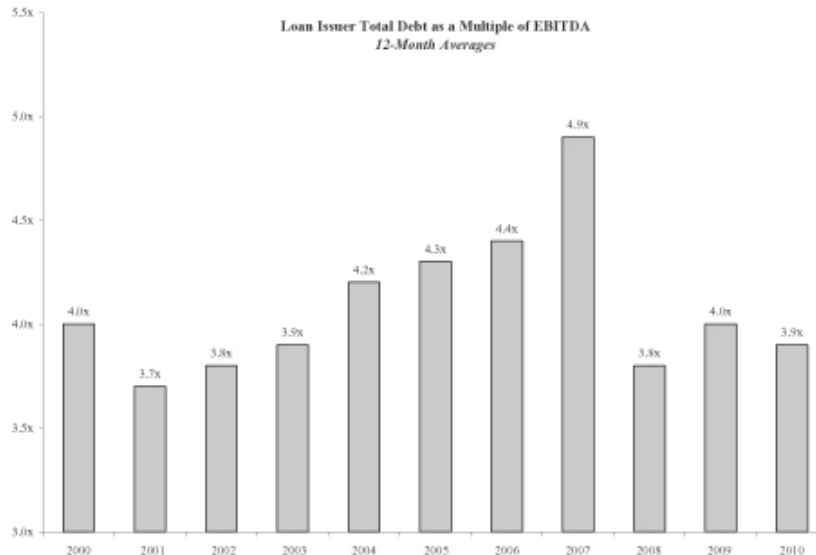
[Table of Contents](#)

The chart below illustrates examples of the collateral used to secure senior secured and second lien secured debt.



Source: Moody's Investors Service

Further, as a result of the dislocation in the credit markets and the reduction in competition for loans, lenders have recalibrated their concepts of risk and are now in a position to demand improved pricing, reduced issuer leverage and more stringent covenant structures before committing to new debt issues. As an example, the chart below depicts the reduced leverage permitted of issuers in the current marketplace. In contrast to the recent peak of the credit cycle, which was characterized by loose lending practices, we believe that the current environment for newly-issued loans presents an opportunity for investors to receive stronger risk-adjusted returns.



Source: S&P Leveraged Commentary & Data

[Table of Contents](#)

Opportunity in Small and Middle Market Private Companies

In addition to investing in senior secured and second lien secured loans generally, we believe that the market for lending to private companies, particularly small and middle market private companies within the U.S., is underserved and presents a compelling investment opportunity.

Large Target Market

According to The U.S. Census Bureau, in its most recently released economic census in 2002, there were approximately 153,000 small and middle market companies in the U.S. with annual revenues between \$10 million and \$2.5 billion, compared with approximately 900 companies with revenues greater than \$2.5 billion. These smaller and middle market companies represent a significant portion of the growth segment of the U.S. economy and often require substantial capital investment to grow their businesses. In the same economic census mentioned above, The U.S. Census Bureau found that firms in this target market collectively generated \$8.7 trillion in revenues and employed 44.3 million people. Small and middle market companies have generated a significant number of investment opportunities for investment programs managed by FB Advisor and GDFM over the past several years, and we believe that this market segment may continue to produce significant investment opportunities for us.

Limited Investment Competition

Despite the size of the market, we believe that financial difficulties and a widespread consolidation in the financial services industry have substantially reduced the number of investment firms and financial institutions lending to small and middle market companies. For example, the Federal Deposit Insurance Corporation reports that the number of federally insured financial institutions declined from approximately 15,200 in 1990 to approximately 7,800 in 2010.

We believe that lending to small and middle market companies, which are often private, generally requires a greater dedication of the lender's time and resources compared to lending to larger companies due in part to the smaller size of each investment and the often fragmented nature of information available for disclosure from these firms. Further, many investment firms lack the breadth and scale necessary to track investment opportunities, particularly within the secondary market, in the loans of thousands of small and middle market firms, meaning that attractive investment opportunities are often overlooked. In addition, small and middle market companies may require more active monitoring and participation on the lender's part. We believe that many large financial organizations, with relatively high cost structures, are not equipped to deal with these factors and instead emphasize services to larger corporate clients and transactions with a consequential reduction in the availability of debt financing to small and middle market companies.

Attractive Market Segment

We believe that the underserved nature of such a large segment of the market can at times create an opportunity for investment. In many environments, we believe that small and middle market companies are more likely to offer attractive economics in terms of transaction pricing, up-front and ongoing fees, prepayment penalties and more attractive security features in the form of stricter covenants and quality collateral. Further, due to a lack of coverage at many investment firms, loans to small and middle market firms tend to be priced less efficiently, potentially creating attractive opportunities for investment. Additionally, as compared to larger companies, small and middle market companies often have simpler capital structures and carry less leverage, thus aiding the structuring and negotiation process and allowing us greater flexibility in structuring favorable transactions. We believe that these factors often result in advantageous conditions in which to pursue our investment objectives of generating current income and, to a lesser extent, long-term capital appreciation.

Characteristics of and Risks Relating to Investments in Private Companies

We invest primarily in the debt of privately held companies. Investments in private companies pose certain incremental risks as compared to investments in public companies. First, private companies have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress. Second, the investments themselves may often be illiquid. As such, we may have difficulty exiting an investment promptly or at a desired price prior to maturity or outside of a normal amortization schedule. In addition, little public information generally exists about private companies. Finally, these companies often do not have third-party debt ratings or audited financial statements. We must therefore rely on the ability of FB Advisor and/or GDFM to obtain adequate information through their due diligence efforts to evaluate the creditworthiness of, and risks involved in, investing in these companies. These companies and their financial information will also generally not be subject to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and other rules and regulations that govern public companies that are designed to protect investors.

Investment Strategy

When identifying prospective portfolio companies, we focus primarily on the following attributes, which we believe help us generate attractive total returns with an acceptable level of risk. While these criteria provide general guidelines for our investment decisions, we caution you that, if we believe the benefits of investing are sufficiently strong, not all of these criteria necessarily will be met by each prospective portfolio company in which we choose to invest. These attributes are:

- *Leading, defensible market positions.* We seek to invest in companies that have developed strong positions within their respective markets and exhibit the potential to maintain sufficient cash flows and profitability to service our debt in a range of economic environments. We seek companies that we believe possess advantages in scale, scope, customer loyalty, product pricing, or product quality versus their competitors, thereby minimizing business risk and protecting profitability.
- *Investing in stable companies with positive cash flow.* We seek to invest in established, stable companies with strong profitability and cash flows. Such companies, we believe, are well-positioned to maintain consistent cash flow to service and repay our loans and maintain growth in their businesses or market share. We do not intend to invest in start-up companies, turnaround situations or companies with speculative business plans.
- *Proven management teams.* We focus on investments in which the target company has an experienced management team with an established track record of success. We typically require the portfolio companies to have in place proper incentives to align management's goals with ours.
- *Private equity sponsorship.* Often, we seek to participate in transactions sponsored by what we believe to be high-quality private equity firms. FB Advisor's management team believes that a private equity sponsor's willingness to invest significant sums of equity capital into a company is an implicit endorsement of the quality of the investment. Further, by co-investing with quality private equity firms which commit significant sums of equity capital with junior priority to our debt investments, we may benefit from having due diligence on our investments performed by both parties. Further, strong private equity sponsors with significant investments at risk have the ability and a strong incentive to contribute additional capital in difficult economic times should operational issues arise.
- *Diversification.* We seek to diversify our portfolio broadly among issuers and industries, thereby potentially reducing the risk of a downturn in any one company or industry having a disproportionate impact on the value of our portfolio. We cannot assure you that we will be successful in this regard.
- *Viable exit strategy.* Many of our current investments are tradable in a privately negotiated over-the-counter market, providing us a means by which we may exit our positions. We expect that a large portion of our portfolio will continue to be tradable on this secondary market for the foreseeable future, depending upon market conditions. For any investments that are not traded within a secondary

[Table of Contents](#)

market, we focus primarily on investing in companies whose business models and growth prospects offer other attractive exit possibilities, including repayment of our investments, with the potential for capital gain on any equity interests we hold, through an initial public offering of common stock, merger, sale or recapitalization.

Competitive Advantages

We believe that we offer the following competitive advantages to our investors:

Global platform with seasoned investment professionals

FB Advisor's management team believes that the breadth and depth of its experience, together with the wider resources of GSO's investment team, which is dedicated to sourcing, structuring, executing, monitoring and realizing upon a broad range of private investments, as well as the specific expertise of GDFM, provides us with a significant competitive advantage in sourcing and analyzing attractive investment opportunities worldwide.

Long-term investment horizon

Unlike most private equity and venture capital funds, we will not be required to return capital to our stockholders once we exit a portfolio investment. Such funds typically can only be invested once and must be returned to investors within a specific time period. These provisions often force private equity and venture capital funds to seek liquidity events, including initial public offerings, mergers, or recapitalizations, more quickly than they otherwise might, potentially resulting in a lower return to investors. We believe that freedom from such capital return requirements, which allows us to invest using a longer-term focus, will provide us with the opportunity to increase total returns on invested capital, compared to other private company investment vehicles.

GDFM transaction sourcing capability

FB Advisor seeks to leverage GDFM's significant access to transaction flow. GDFM seeks to generate investment opportunities through syndicate and club deals (generally, investments made by a small group of investment firms) and, subject to regulatory constraints as discussed under "Item 1. Business—Regulation," also through GSO's proprietary origination channels. With respect to syndicate and club deals, GDFM has built a network of relationships with commercial and investment banks, finance companies and other investment funds as a result of the long track record of its investment professionals in the leveraged finance marketplace. With respect to GDFM's origination channel, FB Advisor seeks to leverage the global presence of GSO to generate access to a substantial amount of originated transactions with attractive investment characteristics. We believe that the broad network of GDFM will produce a significant amount of investment opportunities for us. GDFM also has a significant trading platform allowing us access to the secondary loan market for investment opportunities.

Disciplined, income-oriented investment philosophy

FB Advisor and GDFM employ a defensive investment approach focused on long-term credit performance and principal protection. This investment approach involves a multi-stage selection process for each investment opportunity, as well as ongoing monitoring of each investment made, with particular emphasis on early detection of credit deterioration. This strategy is designed to maximize current yield and minimize the risk of capital loss while maintaining the potential for long-term capital appreciation. FB Advisor's approach seeks to produce strong returns concurrent with reduced risk by:

- focusing on companies it believes to have leading, defensible market positions;
- engaging in extensive due diligence and credit analysis;
- committing significant resources to monitor portfolio companies closely after the transaction is closed;

[Table of Contents](#)

- participating in transactions sponsored by what it believes to be high-quality private equity firms;
- investing primarily in companies with proven management teams; and
- investing in established, stable companies with positive cash flow.

Expertise across all levels of the corporate capital structure

FB Advisor and GDFM believe that their broad expertise and experience at all levels of a company's capital structure affords us numerous approaches to managing risk while preserving the opportunity for significant returns on our investments. We attempt to capitalize on this expertise in an effort to produce and maintain an investment portfolio that will perform in a broad range of economic conditions

Operating and Regulatory Structure

Our investment activities are managed by FB Advisor and supervised by our board of directors, a majority of whom are independent. Under our investment advisory and administrative services agreement, we have agreed to pay FB Advisor an annual base management fee based on our gross assets as well as incentive fees based on our performance. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations" for a description of the fees we pay to FB Advisor.

FB Advisor provides us with general ledger accounting, fund accounting, and investor and other administrative services. FB Advisor has contracted with BNY Mellon Asset Servicing (formerly, PNC Global Investment Servicing) to provide various accounting and administrative services. FB Advisor has also contracted with Pine Hill Group, LLC, to provide us with a chief financial officer, Charles Jacobson, the Managing Director of that firm, and has contracted with Vigilant Compliance Services, LLC, to provide us with a chief compliance officer, Salvatore Faia, a principal with that firm.

On March 14, 2011, our board of directors appointed William Goebel to serve as our full-time chief financial officer, effective upon the resignation from such position by Mr. Jacobson. In connection with Mr. Goebel's appointment, Mr. Jacobson tendered his resignation, which will take effect immediately after the filing of this annual report on Form 10-K. Mr. Goebel is employed by Franklin Square Holdings, an affiliate of FB Advisor. Mr. Jacobson's resignation and Mr. Goebel's appointment were effected in accordance with our board of directors' determination that the services of a full-time chief financial officer were in our best interests.

As a business development company, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt will be limited in certain significant respects. Within the limits of existing regulation, we will adjust our use of debt, according to market conditions, to the level we believe will allow us to generate maximum risk-adjusted returns. See "Item 1. Business—Regulation." We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code.

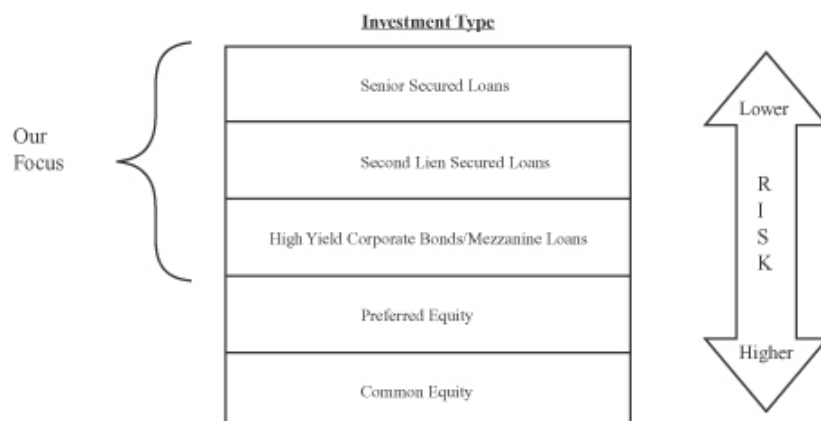
Investment Types

We focus primarily on investments in debt securities, including senior secured loans, second lien secured loans and, to a lesser extent, mezzanine loans. FB Advisor will seek to tailor our investment focus as market conditions evolve. Depending on market conditions, we may increase or decrease our exposure to less senior portions of the capital structure, where returns tend to be stronger in a more stable or growing economy, but less secure in weak economic environments. Below is a diagram illustrating where these investments lie in a typical portfolio company's capital structure. Senior secured debt is situated at the top of the capital structure, and typically has the first claim on the assets and cash flows of the company, followed by second lien secured debt, mezzanine debt, preferred equity and finally common equity. Due to this priority of cash flows, an investment's risk increases as it moves further down the capital structure. Investors are usually compensated for this risk

[Table of Contents](#)

associated with junior status in the form of higher returns, either through higher interest payments or potentially higher capital appreciation. We rely on FB Advisor's and GDFM's experience to structure investments, possibly using all levels of the capital structure, which we believe will perform in a broad range of economic environments.

Typical Leveraged Capital Structure Diagram



Senior Secured Loans

Senior secured loans are situated at the top of the capital structure. Because these loans have priority in payment, they carry the least risk among all investments in a firm. Generally, our senior secured loans are expected to have maturities of three to seven years, offer some form of amortization, and have first priority security interests in the assets of the borrower. Generally, we expect that the interest rate on our senior secured loans typically will have variable rates ranging between 2.0% and 6.0% over a standard benchmark, such as the prime rate or the London Interbank Offered Rate (LIBOR).

Second Lien Secured Loans

Second lien secured loans are immediately junior to senior secured loans and have substantially the same maturities, collateral and covenant structures as senior secured loans. Second lien secured loans, however, are granted a second priority security interest in the assets of the borrower. In return for this junior ranking, second lien secured loans generally offer higher returns compared to senior secured debt. These higher returns come in the form of higher interest and in some cases the potential for equity participation through warrants, though to a lesser extent than with mezzanine loans. Generally, we expect these loans to carry a fixed or a floating current yield of 4.0% to 8.0% over the prime rate or LIBOR. In addition, we may receive additional returns from any warrants we may receive in connection with these investments.

Mezzanine Loans

In addition to senior secured and second lien secured loans, we also may invest a portion of our assets in mezzanine loans. Mezzanine loans usually rank junior in priority of payment to senior secured loans and second lien secured loans and are often unsecured, but are situated above preferred equity and common stock in the capital structure. In return for their junior status compared to senior secured loans and second lien secured loans, mezzanine loans typically offer higher returns through both higher interest rates and possible equity ownership in the form of warrants, enabling the lender to participate in the capital appreciation of the borrower. These

[Table of Contents](#)

warrants typically require only a nominal cost to exercise. We intend to generally target mezzanine loans with interest-only payments throughout the life of the loan, with the principal due at maturity. Typically, mezzanine loans have maturities of five to ten years. Generally, we expect these loans to carry a fixed or a floating current yield of 6.0% to 12.0% over the prime rate or LIBOR. In addition, we may receive additional returns from any warrants we may receive in connection with these investments. In some cases, a portion of the total interest may accrue or be paid in kind.

Equity and Equity-Related Securities

While we intend to maintain our focus on investments in debt securities, from time to time, when we see the potential for extraordinary gain, or in connection with securing particularly favorable terms in a debt investment, we may enter into non-control investments in preferred or common equity, typically in conjunction with a private equity sponsor we believe to be of high quality. In addition, we typically receive the right to make equity investments in a portfolio company whose debt securities we hold in connection with the next equity financing round for that company. This right will provide us with the opportunity to further enhance our returns over time through equity investments in our portfolio companies. In addition, we may hold equity-related securities consisting primarily of warrants or other equity interests generally obtained in connection with our mezzanine loans. In the future, we may achieve liquidity through a merger or acquisition of a portfolio company, a public offering of a portfolio company's stock or by exercising our right, if any, to require a portfolio company to repurchase the equity-related securities we hold. With respect to any preferred or common equity investments, we expect to target an annual investment return of at least 25%.

Cash

In addition, we may maintain a certain level of cash or equivalent instruments to make follow-on investments if necessary in existing portfolio companies or to take advantage of new opportunities.

Comparison of Targeted Debt Investments to Corporate Bonds

Loans to private companies are debt instruments that can be compared to corporate bonds to aid an investor's understanding. As with corporate bonds, loans to private companies can range in credit quality depending on security-specific factors, including total leverage, amount of leverage senior to the security in question, variability in the issuer's cash flows, the quality of assets securing debt and the degree to which such assets cover the subject company's debt obligations. As is the case in the corporate bond market, we will require greater returns for securities that we perceive to carry increased risk. The companies in which we invest may be leveraged, often as a result of leveraged buyouts or other recapitalization transactions, and, in certain cases, will not be rated by national rating agencies. We believe that our targeted debt investments typically will carry ratings from an NRSRO, and that such ratings generally will be below investment grade (rated lower than "Baa3" by Moody's Investors Service or lower than "BBB-" by Standard & Poor's Corporation). To the extent we make unrated investments, we believe that such investments would likely receive similar ratings if they were to be examined by a NRSRO. Compared to below-investment grade corporate bonds that are typically available to the public, our targeted senior secured and second lien secured loan investments are higher in the capital structure, have priority in receiving payment, are secured by the issuer's assets, allowing the lender to seize collateral if necessary, and generally exhibit higher rates of recovery in the event of default. Corporate bonds, on the other hand, are often unsecured obligations of the issuer.

The market for loans to private companies possesses several key differences compared to the corporate bond market. For instance, due to a possible lack of debt ratings for certain small and middle market firms, and also due to the reduced availability of information for private companies, investors must conduct extensive due diligence investigations before committing to an investment. This intensive due diligence process gives the investor significant access to management, which is often not possible in the case of corporate bondholders, who rely on underwriters, debt rating agencies and publicly available information for due diligence reviews and

[Table of Contents](#)

monitoring of corporate issuers. While holding these investments, private debt investors often receive monthly or quarterly updates on the portfolio company's financial performance, along with possible representation on the company's board of directors, which allows the investor to take remedial action quickly if conditions happen to deteriorate. Due to reduced liquidity, the relative scarcity of capital and extensive due diligence and expertise required on the part of the investor, we believe that private debt securities typically offer higher returns than corporate bonds of equivalent credit quality.

Sources of Income

The primary means through which our stockholders will receive a return of value is through interest income, dividends and capital gains generated by our investments. In addition to these sources of income, we may receive fees paid by our portfolio companies, including one-time closing fees paid at the time each investment is made and monitoring fees paid throughout the term of our investments. Closing fees typically range from 1.0% to 2.0% of the purchase price of an investment, while monitoring fees generally range from 0.25% to 1.0% of the purchase price of an investment annually.

Risk Management

We seek to limit the downside potential of our investment portfolio by:

- applying our investment strategy guidelines for portfolio investments;
- requiring a total return on investments (including both interest and potential appreciation) that adequately compensates us for credit risk;
- diversifying our portfolio, size permitting, with an adequate number of companies, across different industries, with different types of collateral; and
- negotiating or seeking out loans with covenants that protect us while affording portfolio companies flexibility in managing their businesses consistent with preservation of capital.

Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights. We may also enter into interest rate hedging transactions at the sole discretion of FB Advisor. Such transactions will enable us to selectively modify interest rate exposure as market conditions dictate.

Affirmative Covenants

Affirmative covenants require borrowers to take actions that are meant to ensure the solvency of the company, facilitate the lender's monitoring of the borrower, and ensure payment of interest and loan principal due to lenders. Examples of affirmative covenants include requiring the firm to maintain adequate insurance, accounting and tax records, and to produce frequent financial reports for the benefit of the lender.

Negative Covenants

Negative covenants impose restrictions on the borrower and are meant to protect lenders from actions that the borrower may take that could harm the credit quality of the lender's investments. Examples of negative covenants include restrictions on the payment of dividends and restrictions on the issuance of additional debt without the lender's approval. In addition, certain covenants restrict a borrower's activities by requiring it to meet certain earnings interest coverage ratio and leverage ratio requirements. These covenants are also referred to as financial or maintenance covenants.

Investment Process

The investment professionals employed by FB Advisor and GDFM have spent their careers developing the resources necessary to invest in private companies. Our transaction process is highlighted below.

Our Transaction Process



Sourcing

In order to source transactions, FB Advisor seeks to leverage GDFM's significant access to transaction flow, along with GDFM's trading platform, which allows for access to the syndicated loan market, a key source of investment opportunities for us. GDFM seeks to generate investment opportunities through its trading platform, through syndicate and club deals and, subject to regulatory constraints, through GSO's proprietary origination channels. With respect to syndicate and club deals, GDFM has built a network of relationships with commercial and investment banks, finance companies and other investment funds as a result of the long track record of its investment professionals in the leveraged finance marketplace. With respect to GDFM's origination channel, FB Advisor seeks to leverage the global presence of GSO to generate access to originated transactions with attractive investment characteristics. We believe that the broad network of GDFM will produce a significant pipeline of investment opportunities for us.

Evaluation

Initial Review. In its initial review of an investment opportunity to present to FB advisor, GDFM's transaction team examines information furnished by the target company and external sources, including rating agencies, if applicable, to determine whether the investment meets our basic investment criteria and other guidelines specified by FB Advisor, within the context of proper portfolio diversification, and offers an acceptable probability of attractive returns with identifiable downside risk. For the majority of loans available on the secondary market, a comprehensive credit analysis is conducted and continuously maintained by a dedicated GDFM research analyst, the results of which are available for the transaction team to review. In the case of a primary loan transaction, FB Advisor and GDFM conduct detailed due diligence investigations as necessary.

Credit Analysis/Due Diligence. Before undertaking an investment, the transaction team conducts a thorough due diligence review of the opportunity to ensure the company fits our investment strategy, which may include:

- a full operational analysis to identify the key risks and opportunities of the target's business, including a detailed review of historical and projected financial results;
- a detailed analysis of industry dynamics, competitive position, regulatory, tax and legal matters;
- on-site visits, if deemed necessary;
- background checks to further evaluate management and other key personnel;
- a review by legal and accounting professionals, environmental or other industry consultants, if necessary;
- financial sponsor due diligence, including portfolio company and lender reference checks, if necessary; and
- a review of management's experience and track record.

Table of Contents

When possible, our advisory team seeks to structure transactions in such a way that our target companies are required to bear the costs of due diligence, including those costs related to any outside consulting work we may require.

Execution

Recommendation. FB Advisor has engaged GDFM to identify and recommend investment opportunities for its approval. GDFM seeks to maintain a defensive approach toward its investment recommendations by emphasizing risk control in its transaction process, which includes (i) the pre-review of each opportunity by one of its portfolio managers to assess the general quality, value and fit relative to our portfolio, (ii) where possible, transaction structuring with a focus on preservation of capital in varying economic environments and (iii) ultimate approval of investment recommendations by GDFM's investment committee.

Approval. After completing its internal transaction process, GDFM makes formal recommendations for review and approval by FB Advisor. In connection with its recommendation, it transmits any relevant underwriting material and other information pertinent to the decision-making process. In addition, GDFM makes its staff available to answer inquiries by FB Advisor in connection with its recommendations. The consummation of a transaction requires unanimous approval of the members of FB Advisor's investment committee.

Monitoring

Portfolio Monitoring. FB Advisor, with the help of GDFM, monitors our portfolio with a focus toward anticipating negative credit events. To maintain portfolio company performance and help to ensure a successful exit, FB Advisor and GDFM work closely with the lead equity sponsor, loan syndicator, portfolio company management, consultants, advisers and other lenders to discuss financial position, compliance with covenants, financial requirements and execution of the company's business plan. In addition, depending on the size, nature and performance of the transaction, we may occupy a seat or serve as an observer on a portfolio company's board of directors.

Typically, FB Advisor and GDFM receive financial reports detailing operating performance, sales volumes, margins, cash flows, financial position and other key operating metrics on a quarterly basis from our portfolio companies. FB Advisor and GDFM use these data, combined with due diligence gained through contact with the company's customers, suppliers, competitors, market research, and other methods, to conduct an ongoing, rigorous assessment of the company's operating performance and prospects.

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:

<u>Investment Rating</u>	<u>Summary Description</u>
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.

[Table of Contents](#)

FB Advisor monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with valuing our assets, our board of directors reviews these investment ratings on a quarterly basis. In the event that our board of directors or advisory team determines that an investment is underperforming, or circumstances suggest that the risk associated with a particular investment has significantly increased, they attempt to sell the asset in the secondary market, if applicable, or to implement a plan to attempt to exit the investment or to correct the situation.

The following table shows the distribution of our debt investments on the 1 to 5 investment rating scale at fair value as of December 31, 2010 and 2009:

Investment Rating	December 31, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Portfolio	Investments at Fair Value	Percentage of Portfolio
1	\$ 38,899	5%	\$ —	—
2	682,861	93%	98,848	98%
3	11,384	2%	—	—
4	436	0%	1,744	2%
5	—	—	—	—
	<u>\$ 733,580</u>	<u>100%</u>	<u>\$ 100,592</u>	<u>100%</u>

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

Valuation Process. Each quarter, we value investments in our portfolio, and such values are disclosed each quarter in reports filed with the SEC. Investments for which market quotations are readily available are recorded at such market quotations. With respect to investments for which market quotations are not readily available, our board of directors determines the fair value of investments in good faith utilizing the input of our valuation committee, FB Advisor, and the input of any other professionals or materials that our board of directors deems worthy and relevant, including GDFM and independent third-party valuations, if applicable. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Valuation of Portfolio Investments.”

Managerial Assistance. As a business development company, we will offer, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. Depending on the nature of the assistance required, FB Advisor or GDFM will provide such managerial assistance on our behalf to portfolio companies that request this assistance. To the extent fees are paid for these services, we, rather than FB Advisor, will retain any fees paid for such assistance.

Exit

Many of our current investments are tradable in a privately negotiated over-the-counter market, providing us a means by which we may exit our positions. We expect that a large portion of our portfolio will continue to be tradable on this secondary market for the foreseeable future, depending on market conditions. For any investments that are not tradable within this market, we focus primarily on investing in companies whose business models and growth prospects offer attractive exit possibilities, including repayment of our investments, with the potential for capital gain on any equity interests we hold, through an initial public offering of common stock, merger, a sale or a recapitalization.

Financing Arrangements

On January 28, 2011, Broad Street Funding LLC, or Broad Street, our wholly-owned financing subsidiary, 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, we have 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.

As of December 31, 2010, \$297,201 was outstanding under the credit facility. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition, Liquidity and Capital Resources" for a more detailed discussion of the terms of the credit facility.

On March 18, 2011, Arch Street Funding LLC, or Arch Street, our newly-formed, wholly-owned financing subsidiary, entered into a total return swap, or TRS, for senior secured floating rate loans with Citibank, N.A., or Citibank.

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 market value of \$200,000. 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.

A TRS is a commonly used form of financing arrangement that provides economic exposure similar to the exposure under Broad Street's credit facility. Because of the unique structure of a TRS, a TRS often offers lower financing costs than are offered through more traditional borrowing arrangements.

Generally, pursuant to a TRS, 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

[Table of Contents](#)

variable interest rate. A TRS is typically used to obtain exposure to a security or market without owning or taking physical custody of such security or investing directly in such market. A TRS may effectively add leverage to our portfolio because, in addition to our total net assets, we would be subject to investment exposure on the amount of securities 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.

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. The terms of the TRS are governed by a set of agreements between Arch Street and Citibank, which collectively establish the TRS, and are collectively referred to herein as the TRS Agreement.

Pursuant to the terms of the TRS Agreement, Arch Street may select a portfolio of loans with a maximum market value (determined at the time each such loan becomes subject to the TRS) of \$200,000. Each individual loan, and the portfolio of loans taken as a whole, must meet criteria described in the TRS Agreement. Arch Street will receive from Citibank all interest and fees payable in respect of the loans included in the portfolio. Arch Street will pay 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. Arch Street may be required to post additional collateral from time to time as a result of a decline in the mark-to-market value of the portfolio of loans subject to the TRS.

Citibank may terminate the TRS on or after 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. 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.

Regulation

We have elected to be regulated as a business development company under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their affiliates, principal underwriters and affiliates of those affiliates or underwriters. The 1940 Act requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities.

The 1940 Act defines “a majority of the outstanding voting securities” as the lesser of (i) 67% or more of the voting securities present at a meeting if the holders of more than 50% of our outstanding voting securities are present or represented by proxy or (ii) 50% of our voting securities.

We will generally not be able to issue and sell our common stock at a price below net asset value per share. See “Item 1A. Risk Factors—Risks Related to Business Development Companies—Regulations governing our operation as a business development company and RIC will affect our ability to raise, and the way in which we raise additional capital or borrow for investment purposes, which may have a negative effect on our growth.” We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value of our common stock if our board of directors determines that such sale is

[Table of Contents](#)

in our best interests and the best interests of our stockholders, and our stockholders approve such sale. In addition, we may generally issue new shares of our common stock at a price below net asset value in rights offerings to existing stockholders, in payment of dividends and in certain other limited circumstances.

As a business development company, we are not permitted to invest in any portfolio company in which FB Advisor or any of its affiliates currently have an investment or to make any co-investments with FB Advisor or any of their affiliates without an exemptive order from the SEC. We are seeking an exemptive order. However, there is no assurance that we will obtain such relief. As a result, we could be limited in our ability to invest in certain portfolio companies in which GDFM or any of its affiliates are investing or are invested.

Qualifying Assets

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our business are any of the following:

1. Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:
 - a. is organized under the laws of, and has its principal place of business in, the United States;
 - b. is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
 - c. satisfies any of the following:
 - i. does not have any class of securities that is traded on a national securities exchange;
 - ii. has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million;
 - iii. is controlled by a business development company or a group of companies including a business development company and the business development company has an affiliated person who is a director of the eligible portfolio company; or
 - iv. is a small and solvent company having total assets of not more than \$4.0 million and capital and surplus of not less than \$2.0 million.
2. Securities of any eligible portfolio company that we control.
3. Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
4. Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
5. Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
6. Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

[Table of Contents](#)

In addition, a business development company must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above.

Managerial Assistance to Portfolio Companies

In order to count portfolio securities as qualifying assets for the purpose of the 70% test, we must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where we purchase such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the business development company, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

Temporary Investments

Pending investment in other types of “qualifying assets,” as described above, our investments may consist of cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price that is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the Diversification Tests in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. FB Advisor will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Senior Securities

We are permitted, under specified conditions, to issue multiple classes of debt and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see “Item 1A. Risk Factors—Risks Related to Business Development Companies—Regulations governing our operation as a business development company and RIC will affect our ability to raise, and the way in which we raise additional capital or borrow for investment purposes, which may have a negative effect on our growth.”

Code of Ethics

We have adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code’s requirements. We have attached our code of ethics as an exhibit to the registration statement of which our prospectus is a part. You may also read and copy the code of ethics at the SEC’s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549.

[Table of Contents](#)

You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the code of ethics is available on the EDGAR Database on the SEC's Internet site at www.sec.gov.

Compliance Policies and Procedures

We and FB Advisor have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws and are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation. Our chief compliance officer is responsible for administering these policies and procedures.

Proxy Voting Policies and Procedures

We have delegated our proxy voting responsibility to FB Advisor. The proxy voting policies and procedures of FB Advisor are set forth below. The guidelines are reviewed periodically by FB Advisor and our non-interested directors, and, accordingly, are subject to change.

Introduction

As an investment adviser registered under the Advisers Act, FB Advisor has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, it recognizes that it must vote client securities in a timely manner free of conflicts of interest and in the best interests of its clients.

These policies and procedures for voting proxies for the investment advisory clients of FB Advisor are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Proxy Policies

FB Advisor will vote proxies relating to our securities in the best interest of its clients' stockholders. It will review on a case-by-case basis each proposal submitted for a stockholder vote to determine its impact on the portfolio securities held by its clients. Although FB Advisor will generally vote against proposals that may have a negative impact on its clients' portfolio securities, it may vote for such a proposal if there exists compelling long-term reasons to do so.

The proxy voting decisions of FB Advisor are made by the senior officers who are responsible for monitoring each of its clients' investments. To ensure that its vote is not the product of a conflict of interest, it will require that: (a) anyone involved in the decision-making process disclose to its chief compliance officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (b) employees involved in the decision making process or vote administration are prohibited from revealing how FB Advisor intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Proxy Voting Records

You may obtain information, without charge, regarding how we voted proxies with respect to our portfolio securities by making a written request for proxy voting information to: Chief Compliance Officer, Cira Centre, 2929 Arch Street, Suite 675, Philadelphia, Pennsylvania 19104.

[Table of Contents](#)

Other

We will be periodically examined by the SEC for compliance with the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misconduct, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

Securities Exchange Act and Sarbanes-Oxley Act Compliance

We are subject to the reporting and disclosure requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including the filing of quarterly, annual and current reports, proxy statements and other required items. In addition, we are subject to the Sarbanes-Oxley Act, which imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. For example:

- pursuant to Rule 13a-14 of the Exchange Act, our chief executive officer and chief financial officer are required to certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 of Regulation S-K, our periodic reports are required to disclose our conclusions about the effectiveness of our disclosure controls and procedures; and
- pursuant to Rule 13a-15 of the Exchange Act, our management is required to prepare a report regarding its assessment of our internal control over financial reporting.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and take actions necessary to ensure that we are in compliance therewith. In addition, we have voluntarily elected to comply with Section 404(b) of the Sarbanes-Oxley Act, and have engaged our independent registered public accounting firm to audit our internal control over financial reporting.

Taxation as a Regulated Investment Company

We have elected, effective as of the date of our formation, to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level federal income taxes on any income that we distribute to our stockholders from our tax earnings and profits. To maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, in order to maintain RIC tax treatment, we must distribute to our stockholders, for each taxable year, at least 90% of our "investment company taxable income," which is generally our net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses, or the Annual Distribution Requirement.

If we:

- maintain our qualification as a RIC; and
- satisfy the Annual Distribution Requirement,

then we will not be subject to federal income tax on the portion of our income we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

[Table of Contents](#)

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years and on which we paid no federal income tax, or the Excise Tax Avoidance Requirement. We generally will endeavor in each taxable year to avoid any U.S. federal excise tax on our earnings.

In order to maintain our qualification as a RIC for federal income tax purposes, we must, among other things:

- continue to qualify as a business development company under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities, loans, gains from the sale of stock or other securities, net income from certain “qualified publicly traded partnerships,” or other income derived with respect to our business of investing in such stock or securities, or the 90% Income Test; and
- diversify our holdings so that at the end of each quarter of the taxable year:
 - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and
 - no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain “qualified publicly traded partnerships,” or the Diversification Tests.

For federal income tax purposes, we may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or debt instruments that were issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. We anticipate that a portion of our income may constitute original issue discount or other income required to be included in taxable income prior to receipt of cash.

Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of the accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount. As a result, we may have difficulty meeting the annual distribution requirement necessary to obtain and maintain RIC tax treatment under the Code. We may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain “asset

[Table of Contents](#)

coverage” tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

Employees

We do not currently have any employees. The compensation of our chief compliance officer, Salvatore Faia, is paid in the form of fees to his firm, Vigilant Compliance Services. The compensation of our chief financial officer, Charles Jacobson, is paid in the form of fees to his firm, Pine Hill Group, LLC. On March 14, 2011, our board of directors appointed William Goebel to serve as our full-time chief financial officer, effective upon the resignation from such position by Mr. Jacobson. In connection with Mr. Goebel’s appointment, Mr. Jacobson tendered his resignation, which will take effect immediately after the filing of this annual report on Form 10-K. Mr. Goebel is employed by Franklin Square Holdings, an affiliate of FB Advisor, and the portion of his compensation relating to the provision of his services to us as chief financial officer will be reimbursed by us pursuant to the investment advisory and administrative services agreement with FB Advisor.

Available Information

Within 60 days after each fiscal quarter, we will distribute our quarterly report on Form 10-Q to all stockholders of record. In addition, we will distribute our annual report on Form 10-K to all stockholders within 120 days after the end of each fiscal year. These reports will also be available on our website at www.fsinvestmentcorp.com and on the SEC’s website at www.sec.gov. Information contained on our website is not incorporated by reference into this annual report on Form 10-K and you should not consider information contained on our website to be part of this annual report on Form 10-K.

We are required to file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC’s website at www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC’s Public Reference Section, 100 F Street, N.E., Washington, DC 20549.

Item 1A. Risk Factors

Investing in our common stock involves a number of significant risks. In addition to the other information contained in this annual report on Form 10-K, you should consider carefully the following information before making an investment in our common stock. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, the net asset value of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Our Business and Structure

We are a relatively new company and have limited operating history.

We were formed on December 21, 2007 and commenced operations on January 2, 2009 after meeting our minimum offering requirement of selling, in aggregate, \$2.5 million in common stock to persons not affiliated with us. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objectives and that the value of our common stock could decline substantially.

Economic activity in the United States was impacted by the global financial crisis of 2008 and has yet to fully recover.

Beginning in the third quarter of 2007, global credit and other financial markets suffered substantial stress, volatility, illiquidity and disruption. These forces reached extraordinary levels in late 2008, resulting in the bankruptcy of, the acquisition of, or government intervention in the affairs of several major domestic and international financial institutions. In particular, the financial services sector was negatively impacted by significant write-offs as the value of the assets held by financial firms declined, impairing their capital positions and abilities to lend and invest. We believe that such value declines were exacerbated by widespread forced liquidations as leveraged holders of financial assets, faced with declining prices, were compelled to sell to meet margin requirements and maintain compliance with applicable capital standards. Such forced liquidations also impaired or eliminated many investors and investment vehicles, leading to a decline in the supply of capital for investment and depressed pricing levels for many assets. These events significantly diminished overall confidence in the debt and equity markets, engendered unprecedented declines in the values of certain assets, and caused extreme economic uncertainty.

Economic activity continues to be somewhat subdued as unemployment rates remain high. Despite this, capital has steadily flowed into the financial markets since the nadir of the credit crisis, as general risk aversion has subsided. As a result, corporate interest rate risk premiums, otherwise known as credit spreads, declined significantly throughout most of 2009 and 2010. However, credit spreads remain above historical averages, particularly in the loan market. The improving economic and market conditions which have driven these declines in credit spreads may reverse themselves if uncertainty returns to the markets. Such a reversal could negatively impact credit spreads as well as our ability to obtain financing, particularly from the debt markets.

Price declines in the large corporate leveraged loan market may adversely affect the fair value of our syndicated loan portfolio, reducing our net asset value through increased net unrealized depreciation.

Prior to the onset of the financial crisis, collateralized loan obligations, or CLOs, a type of leveraged investment vehicle holding corporate loans, hedge funds and other highly leveraged investment vehicles, comprised the majority of the market for purchasing and holding senior secured and second lien secured loans. As the secondary market pricing of the loans underlying these portfolios deteriorated during the fourth quarter of 2008, it is our understanding that many investors, as a result of their generally high degrees of leverage, were forced to raise cash by selling their interests in performing loans in order to satisfy margin requirements or the equivalent of margin requirements imposed by their lenders. This resulted in a forced deleveraging cycle of price declines, compulsory sales, and further price declines, with widespread redemption requests and other constraints

[Table of Contents](#)

resulting from the credit crisis generating further selling pressure. The pervasive forced selling and the resultant price declines led to the elimination or significant impairment of many of our leveraged competitors for investment opportunities, especially those having built their investment portfolios prior to the financial crisis.

While prices appreciated measurably during 2009 and 2010, conditions in the large corporate leveraged loan market may deteriorate again, which may cause pricing levels to decline. As a result, we may suffer unrealized depreciation and could incur realized losses in connection with the sale of our syndicated loans, which could have a material adverse impact on our business, financial condition and results of operations.

Our ability to achieve our investment objectives depends on FB Advisor's and GDFM's ability to manage and support our investment process. If either FB Advisor or GDFM were to lose any members of their respective senior management teams, our ability to achieve our investment objectives could be significantly harmed.

Since we have no employees, we depend on the investment expertise, skill and network of business contacts of FB Advisor and GDFM. FB Advisor, with the assistance of GDFM, evaluates, negotiates, structures, executes, monitors and services our investments. Our future success depends to a significant extent on the continued service and coordination of FB Advisor and its senior management team. The departure of any members of FB Advisor's senior management team could have a material adverse effect on our ability to achieve our investment objectives. Likewise, the departure of any key employees of GDFM may impact its ability to render services to us under the terms of its sub-advisory agreement with FB Advisor.

Our ability to achieve our investment objectives depends on FB Advisor's ability, with the assistance of GDFM, to identify, analyze, invest in, finance and monitor companies that meet our investment criteria. FB Advisor's capabilities in structuring the investment process, providing competent, attentive and efficient services to us, and facilitating access to financing on acceptable terms depend on the employment of investment professionals in an adequate number and of adequate sophistication to match the corresponding flow of transactions. To achieve our investment objectives, FB Advisor may need to hire, train, supervise and manage new investment professionals to participate in our investment selection and monitoring process. FB Advisor may not be able to find investment professionals in a timely manner or at all. Failure to support our investment process could have a material adverse effect on our business, financial condition and results of operations. In addition, both the investment advisory and administrative services agreement and the sub-advisory agreement that FB Advisor has entered into with GDFM have termination provisions that allow the parties to terminate the agreements without penalty. The investment advisory and administrative services agreement may be terminated at any time, without penalty, by FB Advisor, upon 120 days notice to us. The sub-advisory agreement may be terminated at any time, without the payment of any penalty, upon 60 days written notice by GDFM or, if our board of directors or the holders of a majority of our outstanding voting securities determine that the sub-advisory agreement with GDFM should be terminated, by FB Advisor. If either agreement is terminated, it may adversely affect the quality of our investment opportunities. In addition, in the event such agreements are terminated, it may be difficult for us to replace FB Advisor or for FB Advisor to replace GDFM. Furthermore, the termination of either of these agreements may adversely impact the terms of our credit facility. See "—Risks Related to Debt Financing."

Because our business model depends to a significant extent upon relationships with private equity sponsors, investment banks, and commercial banks, the inability of FB Advisor and GDFM to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.

We expect that FB Advisor and GDFM will depend on their relationships with private equity sponsors, investment banks, and commercial banks, and we will rely to a significant extent upon these relationships to provide us with potential investment opportunities. If FB Advisor or GDFM fail to maintain their existing relationships or develop new relationships with other sponsors or sources of investment opportunities, we may not be able to grow our investment portfolio. In addition, individuals with whom FB Advisor and GDFM have relationships are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that such relationships will generate investment opportunities for us.

We may face increasing competition for investment opportunities, which could delay deployment of our capital, reduce returns and result in losses.

We compete for investments with other business development companies and investment funds (including private equity funds, mezzanine funds and collateralized loan obligation, or CLO, funds), as well as traditional financial services companies such as commercial banks and other sources of funding. Moreover, alternative investment vehicles, such as hedge funds, have begun to invest in areas they have not traditionally invested in, including making investments in small- to mid-sized private, U.S. companies. As a result of these new entrants, competition for investment opportunities in small and middle market private U.S. companies may intensify. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of capital and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than we have. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than we are able to do. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we are forced to match our competitors' pricing, terms and structure, we may not be able to achieve acceptable returns on our investments or may bear substantial risk of capital loss. A significant part of our competitive advantage stems from the fact that the market for investments in small and middle market private U.S. companies is underserved by traditional commercial banks and other financial sources. A significant increase in the number and/or the size of our competitors in this target market could force us to accept less attractive investment terms. Furthermore, many of our competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act imposes on us as a business development company.

A significant portion of our investment portfolio will be recorded at fair value as determined in good faith by our board of directors and, as a result, there is and will be uncertainty as to the value of our portfolio investments.

Under the 1940 Act, we are required to carry our portfolio investments at market value or, if there is no readily available market value, at fair value, as determined by our board of directors. However, the majority of our investments are not publicly traded or actively traded on a secondary market but are, instead, traded on a privately negotiated over-the-counter secondary market for institutional investors. As a result, we will value these securities quarterly at fair value as determined in good faith by our board of directors.

Certain factors that may be considered in determining the fair value of our investments include dealer quotes for securities traded on the secondary market for institutional investors, the nature and realizable value of any collateral, the portfolio company's earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparison to comparable publicly-traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Due to this uncertainty, our fair value determinations may cause our net asset value on a given date to materially understate or overstate the value that we may ultimately realize upon the sale of one or more of our investments.

There is a risk that investors in our equity securities may not receive distributions or that our distributions may not grow over time.

We intend to make distributions to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. See "Item 1. Business—Regulation—Senior Securities."

[Table of Contents](#)

The amount of any distributions we may make is uncertain. Our distribution proceeds have exceeded and in the future may exceed our net investment income, particularly during the period before we have substantially invested the net proceeds from our public offering. Therefore, portions of the distributions that we make may represent a return of capital to you for tax purposes, which will lower your tax basis in your shares and reduce the amount of funds we have for investment in targeted assets. We may not be able to pay you distributions, and our distributions may not grow over time. We may pay distributions from offering proceeds, borrowings or the sale of assets to the extent our cash flow from operations, net investment income or earnings are not sufficient to fund declared distributions.

We intend to declare distributions on either a semi-monthly or monthly basis and pay distributions on either a monthly or quarterly basis. We will pay these distributions to our stockholders out of assets legally available for distribution. We may fund distributions from the uninvested proceeds of this offering and borrowings. We have paid and may continue to pay distributions from the sale of assets to the extent distributions exceed our net investment income or cash flows from operations.

While Franklin Square Holdings has, in the past, limited our expenses to ensure that such expenses were reasonable in relation to our income, we cannot assure you that we will achieve investment results that will allow us to make a targeted level of cash distributions or year-to-year increases in cash distributions. We do not expect that conditions will require Franklin Square Holdings to provide reimbursements in the future. Our ability to pay distributions might be adversely affected by, among other things, the impact of one or more of the risk factors described herein. In addition, the inability to satisfy the asset coverage test applicable to us as a business development company may limit our ability to pay distributions. All distributions will be paid at the discretion of our board of directors and will depend on our earnings, our net investment income, our financial condition, maintenance of our RIC status, compliance with applicable business development company regulations and such other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will pay distributions to our stockholders in the future. In the event that we encounter delays in locating suitable investment opportunities, we may pay all or a substantial portion of our distributions from the proceeds of our public offering or from borrowings in anticipation of future cash flow, which may constitute a return of your capital and will lower your tax basis in your shares. Distributions from the proceeds of our public offering or from borrowings also could reduce the amount of capital we ultimately invest in our portfolio companies.

Our board of directors may change our operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.

Our board of directors has the authority to modify or waive our current operating policies, investment criteria and strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies, investment criteria and strategies would have on our business, net asset value, operating results and value of our stock. However, the effects might be adverse, which could negatively impact our ability to pay you distributions and cause you to lose all or part of your investment. Moreover, we will have significant flexibility in investing the net proceeds of this offering and may use the net proceeds from our public offering in ways with which investors may not agree or for purposes other than those contemplated at the time of our public offering.

If we internalize our management functions, your interest in us could be diluted, and we could incur other significant costs associated with being self-managed.

Our board of directors may decide in the future to internalize our management functions. If we do so, we may elect to negotiate to acquire FB Advisor's assets and personnel. At this time, we cannot anticipate the form or amount of consideration or other terms relating to any such acquisition. Such consideration could take many forms, including cash payments, promissory notes and shares of our common stock. The payment of such consideration could result in dilution of your interests as a stockholder and could reduce the earnings per share attributable to your investment.

[Table of Contents](#)

In addition, while we would no longer bear the costs of the various fees and expenses we expect to pay to FB Advisor under the existing investment advisory and administrative services agreement, we would incur the compensation and benefits costs of our officers and other employees and consultants that are now being paid by FB Advisor or its affiliates. In addition, we may issue equity awards to officers, employees and consultants. These awards would decrease net income and may further dilute your investment. We cannot reasonably estimate the amount of fees we would save or the costs we would incur if we became self-managed. If the expenses we assume as a result of an internalization are higher than the expenses we avoid paying to FB Advisor, our earnings per share would be lower as a result of the internalization than it otherwise would have been, potentially decreasing the amount of funds available to distribute to our stockholders and the value of our shares. As we are currently organized, we will not have any employees. If we elect to internalize our operations, we would employ personnel and would be subject to potential liabilities commonly faced by employers, such as workers disability and compensation claims and other employee-related liabilities and grievances.

If we internalize our management functions, we could have difficulty integrating these functions as a stand-alone entity. Currently, individuals employed by FB Advisor and its affiliates perform asset management and general and administrative functions, including accounting and financial reporting, for multiple entities. These personnel have a great deal of know-how and experience. We may fail to properly identify the appropriate mix of personnel and capital needs to operate as a stand-alone entity. An inability to manage an internalization transaction effectively could thus result in our incurring excess costs and/or suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. Such deficiencies could cause us to incur additional costs, and our management's attention could be diverted from effectively managing our investments.

Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.

We and our portfolio companies are subject to regulation at the local, state and federal level. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we are permitted to make, any of which could harm us and our stockholders, potentially with retroactive effect.

Additionally, any changes to the laws and regulations governing our operations relating to permitted investments may cause us to alter our investment strategy to avail ourselves of new or different opportunities. Such changes could result in material differences to our strategies and plans as set forth herein and may result in our investment focus shifting from the areas of expertise of FB Advisor and GDFM to other types of investments in which FB Advisor and GDFM may have less expertise or little or no experience. Thus, any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

The impact of recent financial reform legislation on us is uncertain.

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, institutes a wide range of reforms that will have an impact on all financial institutions. Many of the requirements called for in the Dodd-Frank Act will be implemented over time, most of which will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full impact such requirements will have on our business, results of operations or financial condition is unclear. The changes resulting from the Dodd-Frank Act may require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with any such laws, regulations or principles, or changes thereto, may negatively impact our business, results of operations and financial condition. While we cannot predict what effect any changes in the laws or regulations or their interpretations would have on us as a result of the Dodd-Frank Act, these changes could be materially adverse to us and our stockholders.

[Table of Contents](#)

As a public company, we are subject to regulations not applicable to private companies, such as provisions of the Sarbanes-Oxley Act. Efforts to comply with such regulations will involve significant expenditures, and non-compliance with such regulations may adversely affect us.

We are subject to regulations not applicable to private companies, such as provisions of the Sarbanes-Oxley Act and the related rules and regulations promulgated by the SEC. Our management is required to report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and rules and regulations of the SEC thereunder. We are required to review on an annual basis our internal control over financial reporting, and on a quarterly and annual basis to evaluate and disclose changes in our internal control over financial reporting. As a result, we expect to incur significant additional expenses, which may negatively impact our financial performance and our ability to make distributions. In the event that we are unable to maintain or achieve compliance with the Sarbanes-Oxley Act and related rules and regulations, we may be adversely affected.

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rate payable on the debt securities we acquire, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any previous period should not be relied upon as being indicative of performance in future periods.

Risks Related to FB Advisor and Its Affiliates

FB Advisor has limited experience managing a business development company or a regulated investment company, or RIC.

FB Advisor has limited experience managing a BDC or a RIC and may not be able to successfully operate our business or achieve our investment objectives. As a result, an investment in our shares of common stock may entail more risk than the shares of common stock of a comparable company with a substantial operating history.

The 1940 Act and the Code impose numerous constraints on the operations of business development companies and RICs that do not apply to the other types of investment vehicles previously managed by FB Advisor. For example, under the 1940 Act, business development companies are required to invest at least 70% of their total assets primarily in securities of qualifying U.S. private or thinly traded companies. Moreover, qualification for RIC tax treatment under subchapter M of the Code requires satisfaction of source-of-income, diversification and other requirements. The failure to comply with these provisions in a timely manner could prevent us from qualifying as a business development company or RIC or could force us to pay unexpected taxes and penalties, which could be material. FB Advisor's limited experience in managing a portfolio of assets under such constraints may hinder its ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objectives.

FB Advisor and its affiliates, including our officers and some of our directors, face conflicts of interest caused by compensation arrangements with us and our affiliates, which could result in actions that are not in the best interests of our stockholders.

FB Advisor and its affiliates receive substantial fees from us in return for their services, and these fees could influence the advice provided to us. Among other matters, the compensation arrangements could affect their judgment with respect to public offerings of equity by us, which allow the dealer manager to earn additional dealer manager fees and FB Advisor to earn increased asset management fees. In addition, the decision to utilize leverage has increased our assets and, as a result, has increased the amount of management fees payable to FB Advisor.

[Table of Contents](#)

We may be obligated to pay FB Advisor incentive compensation even if we incur a net loss due to a decline in the value of our portfolio.

Our investment advisory and administrative services agreement entitles FB Advisor to receive incentive compensation on income regardless of any capital losses. In such case, we may be required to pay FB Advisor incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or if we incur a net loss for that quarter.

Any incentive fee payable by us that relates to our net investment income may be computed and paid on income that may include interest that has been accrued but not yet received. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously included in the calculation of the incentive fee will become uncollectible. FB Advisor is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never received as a result of a default by an entity on the obligation that resulted in the accrual of such income, and such circumstances would result in our paying an incentive fee on income we never received.

For federal income tax purposes, we may be required to recognize taxable income (such as deferred interest that is accrued as original issue discount) in circumstances in which we do not receive a corresponding payment in cash and to make distributions with respect to such income to maintain our status as a RIC even though we will not have received any corresponding cash amount. Under such circumstances, we may have difficulty meeting the annual distribution requirement necessary to obtain and maintain RIC tax treatment under the Code. This difficulty in making the required distribution may be amplified to the extent that we are required to pay an incentive fee with respect to such accrued income for which we have not received a corresponding cash payment. As a result, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax. For additional discussion regarding the tax implications of a RIC, see “—Federal Income Tax Risks—We will be subject to corporate-level income tax if we are unable to qualify as a RIC under Subchapter M of the Code or to satisfy RIC distribution requirements.”

The time and resources that individuals employed by FB Advisor and GDFM devote to us may be diverted and we may face additional competition due to the fact that individuals employed by FB Advisor and GDFM are not prohibited from raising money for or managing another entity that makes the same types of investments that we target.

Neither FB Advisor nor GSO are prohibited from raising money for and managing another investment entity that makes the same types of investments as those we target. As a result, the time and resources that these individuals may devote to us may be diverted. In addition, we may compete with any such investment entity for the same investors and investment opportunities. If we are able to obtain exemptive relief from the SEC, we also intend to co-invest with any such investment entity to the extent permitted by the 1940 Act, or the rules and regulations thereunder. There is no assurance that we will obtain such relief. In the event the SEC does not grant us relief, we could be limited in our ability to invest in certain portfolio companies in which GDFM or any of its affiliates are investing or are invested. Even if we are able to receive exemptive relief, we will be unable to participate in certain transactions originated by GSO or its affiliates prior to receipt of such relief. Affiliates of GDFM, whose primary business include the origination of investments, engage in investment advisory business with accounts that compete with us. Affiliates of GDFM have no obligation to make their originated investment opportunities available to GDFM or to us.

Our incentive fee may induce FB Advisor to make, and GDFM to recommend, speculative investments.

The incentive fee payable by us to FB Advisor may create an incentive for it to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation

arrangement. The way in which the incentive fee payable to FB Advisor is determined may encourage it to use leverage to increase the return on our investments. In addition, the fact that our base management fee is payable based upon our gross assets, which would include any borrowings for investment purposes, may encourage FB Advisor to use leverage to make additional investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor holders of our common stock. Such a practice could result in our investing in more speculative securities than would otherwise be in our best interests, which could result in higher investment losses, particularly during cyclical economic downturns. In addition, since GDFM will receive a portion of the advisory fees paid to FB Advisor, GDFM may have an incentive to recommend investments that are riskier or more speculative.

Risks Related to Business Development Companies

The requirement that we invest a sufficient portion of our assets in qualifying assets could preclude us from investing in accordance with our current business strategy; conversely, the failure to invest a sufficient portion of our assets in qualifying assets could result in our failure to maintain our status as a business development company.

As a BDC, we may not acquire any assets other than “qualifying assets” unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. See “Item 1. Business—Regulation.” Therefore, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets. Conversely, if we fail to invest a sufficient portion of our assets in qualifying assets, we could lose our status as a BDC, which would have a material adverse effect on our business, financial condition and result of operations. Similarly, these rules could prevent us from making additional investments in existing portfolio companies, which could result in the dilution of our position, or could require us to dispose of investments at an inopportune time to comply with the 1940 Act. If we were forced to sell non-qualifying investments in the portfolio for compliance purposes, the proceeds from such sale could be significantly less than the current value of such investments.

Failure to maintain our status as a business development company would reduce our operating flexibility.

If we do not remain a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility.

Regulations governing our operation as a business development company and RIC will affect our ability to raise, and the way in which we raise additional capital or borrow for investment purposes, which may have a negative effect on our growth.

As a result of the annual distribution requirement to qualify as a RIC, we may need to periodically access the capital markets to raise cash to fund new investments. We may issue “senior securities,” including borrowing money from banks or other financial institutions only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend. As a BDC, therefore, we intend to continuously issue equity at a rate more frequent than our privately owned competitors, which may lead to greater stockholder dilution.

We expect to borrow for investment purposes. If the value of our assets declines, we may be unable to satisfy the asset coverage test, which would prohibit us from paying distributions and could prevent us from qualifying as a RIC. If we cannot satisfy the asset coverage test, we may be required to sell a portion of our investments and, depending on the nature of our debt financing, repay a portion of our indebtedness at a time when such sales may be disadvantageous.

[Table of Contents](#)

Under the 1940 Act, we generally are prohibited from issuing or selling our common stock at a price below net asset value per share, which may be a disadvantage as compared with other public companies. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our board of directors and independent directors determine that such sale is in our best interests and the best interests of our stockholders, and our stockholders as well as those stockholders that are not affiliated with us approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the fair value of such securities.

Our ability to enter into transactions with our affiliates will be restricted.

We are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of a majority of the independent members of our board of directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act and we will generally be prohibited from buying or selling any securities from or to such affiliate, absent the prior approval of our board of directors. The 1940 Act also prohibits certain “joint” transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our board of directors and, in some cases, the SEC. If a person acquires more than 25% of our voting securities, we will be prohibited from buying or selling any security from or to such person or certain of that person’s affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. As a result of these restrictions, we may be prohibited from buying or selling any security from or to any portfolio company of a private equity fund managed by FB Advisor without the prior approval of the SEC, which may limit the scope of investment opportunities that would otherwise be available to us.

We are uncertain of our sources for funding our future capital needs; if we cannot obtain debt or equity financing on acceptable terms, our ability to acquire investments and to expand our operations will be adversely affected.

The net proceeds from the sale of shares will be used for our investment opportunities, operating expenses and for payment of various fees and expenses such as base management fees, incentive fees and other fees. Any working capital reserves we maintain may not be sufficient for investment purposes, and we may require debt or equity financing to operate. Accordingly, in the event that we develop a need for additional capital in the future for investments or for any other reason, these sources of funding may not be available to us. Consequently, if we cannot obtain debt or equity financing on acceptable terms, our ability to acquire investments and to expand our operations will be adversely affected. As a result, we would be less able to achieve portfolio diversification and our investment objectives, which may negatively impact our results of operations and reduce our ability to make distributions to our stockholders.

Risks Related to Our Investments

Our investments in prospective portfolio companies may be risky, and we could lose all or part of our investment.

We invest primarily in senior secured term loans, second lien secured loans and, to a lesser extent, mezzanine debt and selected equity investments issued by private U.S. companies, including small and middle market companies.

Senior Secured Loans and Second Lien Secured Loans. When we invest in senior secured term loans and second lien secured loans, we will generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries. We expect this security interest to help mitigate

[Table of Contents](#)

the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time or lose its entire value, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. Also, in some circumstances, our security interest could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

Mezzanine Debt. Our mezzanine debt investments will generally be subordinated to senior loans and will generally be unsecured. This may result in a heightened level of risk and volatility or a loss of principal, which could lead to the loss of the entire investment. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income. Since we will not receive any principal repayments prior to the maturity of some of our mezzanine debt investments, such investments will be of greater risk than amortizing loans.

Equity Investments. We expect to make selected equity investments. In addition, when we invest in senior secured and second lien secured loans or mezzanine debt, we may acquire warrants to purchase equity securities. Our goal is ultimately to dispose of these equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

In addition, investing in small and middle market companies involves a number of significant risks, including that they:

- may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tends to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and members of FB Advisor may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and
- may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

We invest primarily in first lien, second lien and, to a lesser extent, mezzanine debt issued by private U.S. companies, including small and middle market private U.S. companies. Our portfolio companies may have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt in which we invest. By their terms, such debt instruments may entitle the holders to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to the debt instruments in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt instruments in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

Even though we intend to generally structure certain of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt investment and subordinate all or a portion of our claim to that of other creditors. In situations where a bankruptcy carries a high degree of political significance, our legal rights may be subordinated to other creditors. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or instances where we exercise control over the borrower.

We generally will not control our portfolio companies.

We do not expect to control most of our portfolio companies, even though we may have board representation or board observation rights, and our debt agreements with such portfolio companies may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests as debt investors. Due to the lack of liquidity for our investments in non-traded companies, we may not be able to dispose of our interests in our portfolio companies as readily as we would like or at an appropriate valuation. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

We will be exposed to risks associated with changes in interest rates.

We are subject to financial market risks, including changes in interest rates. While the majority of our investments are floating-rate debt instruments, to the extent that we invest in fixed-rate securities or loans, general interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities and, accordingly, have a material adverse effect on our investment objectives and our rate of return on invested capital. In addition, an increase in interest rates would make it more expensive to use debt for our financing needs, if any.

We may enter into total return swap agreements or other derivative transactions which expose us to certain risks, including risks similar to those associated with the use of leverage.

Our wholly-owned financing subsidiary, Arch Street, has entered into a TRS with Citibank. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments" for a more detailed discussion of the terms of the TRS between Arch Street and Citibank.

[Table of Contents](#)

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 is typically used to obtain exposure to a security or market without owning or taking physical custody of such security or investing directly in such market. A TRS may effectively add leverage to our portfolio because, in addition to our total net assets, we would be subject to investment exposure on the amount of securities subject to the TRS.

A TRS is also subject to the risk that a counterparty will default on its payment obligations thereunder or that we will not be able to meet our obligations to the counterparty. In the case of the TRS with Citibank, Arch Street is required to post cash collateral amounts to secure its obligations to Citibank under the TRS. Citibank, however, is not required to collateralize any of its obligations to Arch Street under the TRS.

In addition to customary events of default and termination events, the agreements governing the TRS with Citibank contain the following termination events: (a) a failure to satisfy the portfolio criteria for at least 30 days; (b) a failure to post initial cash collateral or additional collateral as required by the agreements; (c) a default by Arch Street or us with respect to indebtedness in an amount equal to or greater than the lesser of \$10,000 and 2% of our net asset value at such time; (d) a merger of Arch Street or us meeting certain criteria; (e) us or Arch Street amending our respective constituent documents to alter our investment strategy in a manner that has or could reasonably be expected to have a material adverse effect; and (f) our ceasing to be the investment manager of Arch Street or having authority to enter into transactions under the TRS on behalf of Arch Street, and not being replaced by an entity reasonably acceptable to Citibank.

In addition to the rights of Citibank to terminate the TRS following an event of default or termination event as described above, Citibank may terminate the TRS on or after 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. Upon any termination of the TRS, Arch Street will be required to pay Citibank the amount of any decline in the aggregate value of the loans subject to the TRS or, alternatively, will be entitled to receive the amount of any appreciation in the aggregate value of such loans. In the event that Citibank chooses to exercise its termination rights, it is possible that Arch Street will owe more to Citibank or, alternatively, will be entitled to receive less from Citibank than it would have if Arch Street controlled the timing of such termination due to the existence of adverse market conditions at the time of such termination.

In addition, because a TRS is a form of synthetic leverage, such arrangements are subject to risks similar to those associated with the use of leverage. See “—Risks Relating to Debt Financing” below.

Second priority liens on collateral securing loans that we will make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.

Certain loans that we make to portfolio companies may be secured on a second priority basis by the same collateral securing first priority debt of such companies. The first priority liens on the collateral will secure the portfolio company’s obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the company under the agreements governing the loans. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay their obligations in full before us. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds are not

[Table of Contents](#)

sufficient to repay amounts outstanding under the loan obligations secured by the second priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the company's remaining assets, if any.

The rights we may have with respect to the collateral securing the loans we make to our portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that obligations that have the benefit of the first priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. We may not have the ability to control or direct such actions, even if our rights are adversely affected.

A covenant breach by our portfolio companies may harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.

We may not realize gains from our equity investments.

Certain investments that we may make could include warrants or other equity securities. In addition, we may make direct equity investments in companies. Our goal is ultimately to realize gains upon our disposition of such equity interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow us to sell the underlying equity interests. We intend to seek puts or similar rights to give us the right to sell our equity securities back to the portfolio company issuer. We may be unable to exercise these put rights for the consideration provided in our investment documents if the issuer is in financial distress.

An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies.

Our investments are primarily in privately held companies. Investments in private companies pose certain incremental risks as compared to investments in public companies. First, private companies have reduced access to the capital markets, resulting in diminished capital resources and the ability to withstand financial distress. Second, the investments themselves tend to be less liquid. As such, we may have difficulty exiting an investment promptly or at a desired price prior to maturity or outside of a normal amortization schedule. As a result, the relative lack of liquidity and the potential diminished capital resources of our target portfolio companies may affect our investment returns. Finally, little public information generally exists about private companies. Further, these companies may not have third-party debt ratings or audited financial statements. We must therefore rely on the ability of FB Advisor and/or GDFM to obtain adequate information through due diligence to evaluate the creditworthiness and potential returns from investing in these companies. These companies and their financial information will generally not be subject to the Sarbanes-Oxley Act and other rules and regulations that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments.

A lack of liquidity in certain of our investments may adversely affect our business.

We invest in certain companies whose securities are not publicly traded or actively traded on the secondary market and are, instead, traded on a privately negotiated over-the-counter secondary market for institutional investors and whose securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. The illiquidity of certain of our investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. The reduced liquidity of our investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

We may not have the funds or ability to make additional investments in our portfolio companies.

We may not have the funds or ability to make additional investments in our portfolio companies. After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment through the exercise of a warrant to purchase common stock. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments. Any decisions not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment, may result in a missed opportunity for us to increase our participation in a successful operation or may reduce the expected return on the investment.

Risks Relating to Debt Financing

The agreements governing Broad Street's revolving credit facility contain various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition, results of operations and our ability to pay distributions to our stockholders.

Our wholly-owned financing subsidiary, Broad Street, has entered into a revolving credit facility with Deutsche Bank. The agreements governing this facility contain default provisions such as (a) the failure to make principal payments when due or interest payments within three business days of when due; (b) borrowings under the facility exceeding the applicable advance rates; (c) the purchase by Broad Street of certain ineligible assets; (d) the insolvency or bankruptcy of us or Broad Street; (e) our ceasing 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 or FB Advisor or GDFM in our or their investment advisory capacities. An event of default under the facility would result, among other things, in the termination of the availability of further funds under the facility and an accelerated maturity date for all amounts outstanding under the facility. This could disrupt our business, reduce our revenues and, by delaying any dividends allowed to us under the facility until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business, make distribution payments to our stockholders and maintain our status as a RIC.

The agreements governing the facility also require Broad Street to comply with certain operational covenants. These covenants require Broad Street to, among other things, maintain eligible assets with an aggregate value equal to or exceeding a specified multiple of the borrowings under the facility. The occurrence of certain "Super-Collateralization Events" results in an increase of the minimum aggregate value of eligible assets that Broad Street is required to maintain. Super-Collateralization Events include, without limitation, (i) certain key employees ceasing to be directors, principals, officers or investment managers of GDFM; (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 in certain material agreements or failing to maintain a net asset value at least equal to \$50,000; and (v) us or GDFM or FB Advisor committing fraud or other illicit acts in our or their investment advisory capacities. A decline in the value of assets owned by Broad Street or the occurrence of a Super-

[Table of Contents](#)

Collateralization Event under the facility could result in us being required to contribute additional assets to Broad Street, which would likely disrupt our business and impact our ability to meet our investment objectives and pay distributions to our stockholders.

The failure to meet collateral requirements under the facility or the occurrence of any other event of default which results in the termination of the facility may force Broad Street or us to liquidate positions at a time and/or at a price which is disadvantageous to us and could result in losses. In addition, upon the occurrence of an event of default under the facility, Deutsche Bank would have the right to the assets pledged as collateral supporting the amounts outstanding under the facility and could sell such assets in order to satisfy amounts due under the facility.

Each borrowing under the facility is subject to the satisfaction of certain conditions. We cannot assure you that Broad Street will be able to borrow funds under the facility at any particular time or at all. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition, Liquidity and Capital Resources” for a more detailed discussion of the terms of the facility.

If we borrow money, the potential for gain or loss on amounts invested in us will be magnified and may increase the risk of investing in us.

The use of borrowings, also known as leverage, increases the volatility of investments by magnifying the potential for gain or loss on invested equity capital. If we use leverage to partially finance our investments, through borrowing from banks and other lenders, you will experience increased risks of investing in our common stock. If the value of our assets increases, leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock distribution payments. Leverage is generally considered a speculative investment technique.

At December 31, 2010, we had approximately \$297.2 million of indebtedness outstanding under Broad Street’s revolving credit facility with Deutsche Bank.

Changes in interest rates may affect our cost of capital and net investment income.

Since we intend to use debt to finance investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates when we have debt outstanding, our cost of funds will increase, which could reduce our net investment income. We expect that our long-term fixed-rate investments will be financed primarily with equity and long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. 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. Also, we have limited experience in entering into hedging transactions, and we will initially have to purchase or develop such expertise.

You should also be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee preferred return and may result in a substantial increase of the amount of incentive fees payable to FB Advisor with respect to pre-incentive fee net investment income.

Risks Relating to an Investment in Our Common Stock

Investors will not know the purchase price per share at the time they submit their subscription agreements and could receive fewer shares of common stock than anticipated if our board of directors determines to increase the offering price to comply with the requirement that we avoid selling shares below net asset value per share.

The purchase price at which you purchase shares will be determined at each semi-monthly closing date to ensure that the sales price is equal to or greater than the net asset value of our shares, after deducting selling commissions and dealer manager fees. As a result, in the event of an increase in our net asset value per share, your purchase price may be higher than the prior semi-monthly closing price per share, and therefore you may receive a smaller number of shares than if you had subscribed at the prior semi-monthly closing price.

Investors will not know the purchase price per share at the time they submit their subscription agreements and could pay a premium for their shares of common stock if our board of directors does not decrease the offering price in the event of a decline to our net asset value per share.

The purchase price at which you purchase shares will be determined at each semi-monthly closing date to ensure that the sales price is equal to or greater than the net asset value of our shares, after deducting selling commissions and dealer manager fees. In the event of a decrease to our net asset value per share, you could pay a premium of more than 5% for your shares of common stock if our board of directors does not decrease the offering price. A decline in our net asset value per share to an amount more than 5% below our current offering price, net of selling commissions and dealer manager fees, creates a rebuttable presumption that there has been a material change in the value of our assets such that a reduction in the offering price per share is warranted. This presumption may only be rebutted if our board of directors, in consultation with our management, reasonably and in good faith determines that the decline in net asset value per share is the result of a temporary movement in the credit markets or the value of our assets, rather than a more fundamental shift in the valuation of our portfolio. In the event that (i) net asset value per share decreases to more than 5% below our current net offering price and (ii) our board of directors believes that such decrease in net asset value per share is the result of a non-temporary movement in the credit markets or the value of our assets, our board of directors will undertake to establish a new net offering price that is not more than 5% above our net asset value per share. If our board of directors determines that the decline in our net asset value per share is the result of a temporary movement in the credit markets or the value of our assets, investors will purchase shares at an offering price per share, net of selling commissions and dealer manager fees, which represents a premium to the net asset value per share of greater than 5%.

If we are unable to raise substantial funds in our ongoing, continuous “best efforts” offering, we will be limited in the number and type of investments we may make, and the value of your investment in us may be reduced in the event our assets under-perform.

Our continuous offering is being made on a best efforts basis, whereby the dealer manager and broker-dealers participating in the offering are only required to use their best efforts to sell our shares and have no firm commitment or obligation to purchase any of the shares. To the extent that less than the maximum number of shares is subscribed for, the opportunity for diversification of our investments may be decreased and the returns achieved on those investments may be reduced as a result of allocating all of our expenses among a smaller capital base.

Our shares are not listed on an exchange or quoted through a quotation system, and will not be for the foreseeable future, if ever. Therefore, our stockholders have limited liquidity and may not receive a full return of invested capital upon selling shares.

Our shares are illiquid assets for which there is not a secondary market, and it is not expected that any will develop in the future. We intend to seek to complete a liquidity event for our stockholders within five to seven years following the completion of our offering stage or at such earlier time as our board of directors may

[Table of Contents](#)

determine, taking into consideration market conditions and other factors. However, there can be no assurance that we will complete a liquidity event within such time or at all. We expect that our board of directors, in the exercise of its fiduciary duty to our stockholders, will determine to pursue a liquidity event when it believes that then-current market conditions are favorable for a liquidity event, and that such an event is in the best interests of our stockholders. A liquidity event could include (1) the sale of all or substantially all of our assets either on a complete portfolio basis or individually followed by a liquidation, (2) a listing of our shares on a national securities exchange or (3) a merger or another transaction approved by our board in which our stockholders will receive cash or shares of a publicly traded company.

Prior to the completion of a liquidity event, our share repurchase program may provide a limited opportunity for investors to achieve liquidity, subject to certain restrictions and limitations, at a price which may reflect a discount from the purchase price you paid for the shares being repurchased.

In making the decision to apply for listing of our shares, our directors will try to determine whether listing our shares or liquidating our assets will result in greater value for our stockholders. In making a determination of what type of liquidity event is in the best interest of our stockholders, our board of directors, including our independent directors, may consider a variety of criteria, including, but not limited to, market conditions, portfolio diversification, portfolio performance, our financial condition, potential access to capital as a listed company, market conditions for the sale of our assets or listing of our common stock, internal management requirements to become a perpetual life company and the potential for stockholder liquidity. If our shares are listed, we cannot assure you a public trading market will develop. Further, even if we do complete a liquidity event, you may not receive a return of all of your invested capital.

We are not obligated to complete a liquidity event by a specified date; therefore, it will be difficult for an investor to sell his or her shares.

We intend to seek to complete a liquidity event for our stockholders within five to seven years following the completion of our offering stage or at such earlier time as our board of directors may determine, taking into consideration market conditions and other factors. We expect that our board of directors, in the exercise of the requisite standard of care applicable to directors under Maryland law, will determine to pursue a liquidity event when it believes that then-current market conditions are favorable for a liquidity event, and that such a transaction is in the best interests of our stockholders. A liquidity event could include (1) the sale of all or substantially all of our assets either on a complete portfolio basis or individually followed by a liquidation, (2) a listing of our shares on a national securities exchange or (3) a merger or another transaction approved by our board in which our stockholders will receive cash or shares of a publicly traded company. However, there can be no assurance that we will complete a liquidity event within such time or at all. If we do not successfully complete a liquidity event, liquidity for an investor's shares will be limited to our share repurchase program, which we have no obligation to maintain.

The dealer manager in our continuous offering may be unable to sell a sufficient number of shares of common stock for us to achieve our investment objectives.

The dealer manager for our public offering is FS² Capital Partners, LLC, or our dealer manager. Our dealer manager has limited experience selling shares on behalf of a BDC. There is no assurance that it will be able to sell a sufficient number of shares to allow us to have adequate funds to purchase a diversified portfolio of investments and generate income sufficient to cover our expenses. As a result, we may be unable to achieve our investment objectives, and you could lose some or all of the value of your investment.

[Table of Contents](#)

Because the dealer manager is one of our affiliates, you will not have the benefit of an independent due diligence review of us, which is customarily performed in firm commitment underwritten offerings; the absence of an independent due diligence review increases the risks and uncertainty you face as a stockholder.

The dealer manager, FS² Capital Partners, LLC, is one of our affiliates. As a result, its due diligence review and investigation of us cannot be considered to be an independent review. Therefore, you do not have the benefit of an independent review and investigation of our offering of the type normally performed by an unaffiliated, independent underwriter in a firm commitment underwritten public securities offering.

Our ability to successfully conduct our continuous offering is dependent, in part, on the ability of the dealer manager to successfully establish, operate and maintain a network of broker-dealers.

Other than serving as dealer manager for our public offering, the dealer manager has no prior experience acting as a dealer manager for a public offering. The success of our public offering, and correspondingly our ability to implement our business strategy, is dependent upon the ability of the dealer manager to establish and maintain a network of licensed securities broker-dealers and other agents to sell our shares. If the dealer manager fails to perform, we may not be able to raise adequate proceeds through our public offering to implement our investment strategy. If we are unsuccessful in implementing our investment strategy, you could lose all or a part of your investment.

We intend to offer to repurchase your shares on a quarterly basis. As a result, you will have limited opportunities to sell your shares and, to the extent you are able to sell your shares under the repurchase program, you may not be able to recover the amount of your investment in our shares.

We intend to conduct tender offers to allow you to tender your shares on a quarterly basis at a price equal to 90% of our public offering price in effect on the date of repurchase. The first such tender offer commenced in March 2010 and the repurchase occurred in connection with our April 1, 2010 closing. The share repurchase program will include numerous restrictions that limit your ability to sell your shares. We intend to limit the number of shares repurchased pursuant to our share repurchase program as follows: (1) we currently intend to limit the number of shares to be repurchased during any calendar year to the number of shares we can repurchase with the proceeds we receive from the sale of shares of our common stock under our distribution reinvestment plan, although at the discretion of our board of directors, we 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; (2) we 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; (3) unless you tender all of your shares, you must tender at least 25% of the amount of shares you have purchased in the offering and must maintain a minimum balance of \$5 subsequent to submitting a portion of your shares for repurchase by us; and (4) to the extent that the number of shares put to us for repurchase exceeds the number of shares that we are able to purchase, we will repurchase shares on a pro rata basis, not on a first-come, first-served basis. Further, we will have no obligation to repurchase shares if the repurchase would violate the restrictions on distributions under federal law or Maryland law, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency. These limits may prevent us from accommodating all repurchase requests made in any year. Our board of directors may amend, suspend or terminate the repurchase program upon 30 days notice. We will notify you of such developments (1) in our quarterly reports or (2) by means of a separate mailing to you, accompanied by disclosure in a current or periodic report under the Exchange Act. In addition, although we have adopted a share repurchase program, we have discretion to not repurchase your shares, to suspend the plan, and to cease repurchases. Further, the plan has many limitations and should not be relied upon as a method to sell shares promptly and at a desired price.

The timing of our repurchase offers pursuant to our share repurchase program may be at a time that is disadvantageous to our stockholders.

When we make quarterly repurchase offers pursuant to the share repurchase program, we may offer to repurchase shares at a price that is lower than the price that investors paid for shares in our offering. As a result,

[Table of Contents](#)

to the extent investors have the ability to sell their shares to us as part of our share repurchase program, the price at which an investor may sell shares, which will be 90% of the offering price in effect on the date of repurchase, may be lower than what an investor paid in connection with the purchase of shares in our offering.

In addition, in the event an investor chooses to participate in our share repurchase program, the investor will be required to provide us with notice of intent to participate prior to knowing what the net asset value per share will be on the repurchase date. Although an investor will have the ability to withdraw a repurchase request prior to the repurchase date, to the extent an investor seeks to sell shares to us as part of our periodic share repurchase program, the investor will be required to do so without knowledge of what the repurchase price of our shares will be on the repurchase date.

We may be unable to invest a significant portion of the net proceeds of our offering on acceptable terms in an acceptable timeframe.

Delays in investing the net proceeds of our offering may impair our performance. We cannot assure you that we will be able to identify any investments that meet our investment objectives or that any investment that we make will produce a positive return. We may be unable to invest the net proceeds of our offering on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results.

In addition, even if we are able to raise significant proceeds, we will not be permitted to use such proceeds to co-invest with certain entities affiliated with GDFM in transactions originated by GSO or its affiliates unless we first obtain an exemptive order from the SEC. We are seeking an exemptive order. However, there can be no assurance that we will obtain such relief.

Before making investments, we will invest the net proceeds of our public 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, which may produce returns that are significantly lower than the returns which we expect to achieve when our portfolio is fully invested in securities meeting our investment objectives. As a result, any distributions that we pay while our portfolio is not fully invested in securities meeting our investment objectives may be lower than the distributions that we may be able to pay when our portfolio is fully invested in securities meeting our investment objectives.

A stockholder's interest in us will be diluted if we issue additional shares, which could reduce the overall value of an investment in us.

Our investors do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue 450,000,000 shares of common stock. Pursuant to our charter, a majority of our entire board of directors may amend our charter to increase the number of authorized shares of stock without stockholder approval. After an investor purchases shares, our board may elect to sell additional shares in the future, issue equity interests in private offerings or issue share-based awards to our independent directors or employees of FB Advisor. To the extent we issue additional equity interests after an investor purchases our shares, an investor's percentage ownership interest in us will be diluted. In addition, depending upon the terms and pricing of any additional offerings and the value of our investments, an investor may also experience dilution in the book value and fair value of your shares.

Certain provisions of our charter and bylaws as well as provisions of the Maryland General Corporation Law could deter takeover attempts and have an adverse impact on the value of our common stock.

The Maryland General Corporation Law and our charter and bylaws contain provisions that may have the effect of discouraging, delaying or making difficult a change in control of our company or the removal of our incumbent directors. We will be covered by the Business Combination Act of the Maryland General Corporation Law to the extent that such statute is not superseded by applicable requirements of the 1940 Act. However, our

[Table of Contents](#)

board of directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any person to the extent that such business combination receives the prior approval of our board of directors, including a majority of our directors who are not interested persons as defined in the 1940 Act. Under the Control Share Acquisition Act of the Maryland General Corporation Law, “control shares” acquired in a “control share acquisition” have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror, by officers or by directors who are employees of the corporation. Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of shares of our common stock. The Business Combination Act (if our board should repeal the resolution) and the Control Share Acquisition Act (if we amend our bylaws to be subject to that Act) may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Additionally, our board of directors may, without stockholder action, authorize the issuance of shares of stock in one or more classes or series, including preferred stock; and our board of directors may, without stockholder action, amend our charter to increase the number of shares of stock of any class or series that we have authority to issue. These anti-takeover provisions may inhibit a change of control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the value of our common stock.

Federal Income Tax Risks

We will be subject to corporate-level income tax if we are unable to maintain our qualification as a RIC under Subchapter M of the Code or to satisfy RIC distribution requirements.

To maintain RIC tax treatment under the Code, we must meet the following annual distribution, income source and asset diversification requirements. See “Item 1. Business—Taxation as a Regulated Investment Company.”

- The annual distribution requirement for a RIC will be satisfied if we distribute to our stockholders on an annual basis at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Because we may use debt financing, we are subject to an asset coverage ratio requirement under the 1940 Act and may in the future become subject to certain financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the distribution requirement. If we are unable to obtain cash from other sources, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.
- The income source requirement will be satisfied if we obtain at least 90% of our income for each year from dividends, interest, gains from the sale of stock or securities or similar sources.
- The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. To satisfy this requirement, at least 50% of the value of our assets must consist of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other acceptable securities; and no more than 25% of the value of our assets can be invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain “qualified publicly traded partnerships.” Failure to meet these requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

If we fail to maintain RIC tax treatment for any reason and are subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions.

[Table of Contents](#)

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

For federal income tax purposes, we may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or debt instruments that were issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. We anticipate that a portion of our income may constitute original issue discount or other income required to be included in taxable income prior to receipt of cash. Further, we may elect to amortize market discounts and include such amounts in our taxable income in the current year, instead of upon disposition, as an election not to do so would limit our ability to deduct interest expenses for tax purposes.

Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of the accrual, we may be required to make a distribution to our stockholders in order to satisfy the annual distribution requirement, even though we will not have received any corresponding cash amount. As a result, we may have difficulty meeting the annual distribution requirement necessary to obtain and maintain RIC tax treatment under the Code. We may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are located at 2929 Arch Street, Suite 675, Philadelphia, Pennsylvania, 19104. We believe that our office facilities are suitable and adequate for our business as it is presently conducted.

Item 3. 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 a 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 these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

Item 4. Reserved

PART II

Many of the amounts and percentages presented in Part II have been rounded for convenience of presentation, and all dollar amounts, excluding per share amounts, are presented in thousands.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

There is currently no market for our common stock, and we do not expect that a market for our shares will develop in the foreseeable future. No shares of our common stock have been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally will not be personally liable for our debts or obligations.

We are currently selling our shares on a continuous basis at a price of \$10.75 per share; however, to the extent that our net asset value per share increases, we will sell at a price necessary to ensure that shares are not sold at a price, after deduction of selling commissions and dealer manager fees, that is below net asset value per share. In connection with each semi-monthly closing on the sale of shares of our common stock pursuant to our prospectus, as amended or supplemented, which relates to our public offering of common stock on a continuous basis, our board of directors or a committee thereof is required to make the determination that we are not selling shares of our common stock at a price below our then current net asset value per share within 48 hours of the time that we price our shares.

A decline in our net asset value per share to an amount more than 5% below our current offering price, net of selling commissions and dealer manager fees, creates a rebuttable presumption that there has been a material change in the value of our assets such that a reduction in the offering price per share is warranted. This presumption may only be rebutted if our board of directors, in consultation with our management, reasonably and in good faith determines that the decline in net asset value per share is the result of a temporary movement in the credit markets or the value of our assets, rather than a more fundamental shift in the valuation of our portfolio. In the event that (i) net asset value per share decreases to more than 5% below our current net offering price and (ii) our board of directors believes that such decrease in net asset value per share is the result of a non-temporary movement in the credit markets or the value of our assets, our board of directors will undertake to establish a new net offering price that is not more than 5% above our net asset value per share.

Set forth below is a chart describing the classes of our securities outstanding as of March 15, 2011:

(1)	(2)	(3)	(4)
Title of Class	Amount Authorized	Amount Held by Us or for Our Account	Amount Outstanding Exclusive of Amount Under Column(3)
Common Stock	450,000,000	—	56,165,178.776

As of March 15, 2011, we had 15,722 record holders of our common stock.

Distributions

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, subject to the board of directors' discretion and applicable legal restrictions, 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 interim special

[Table of Contents](#)

distributions in the form of cash or shares of common stock at the discretion of our board of directors. Each year a statement on Form 1099-DIV, identifying the source of the distribution (i.e., paid from ordinary income, paid from net capital gains on the sale of securities, and/or a return of paid-in capital surplus, which is a nontaxable distribution) will be mailed to our stockholders. Our distributions may exceed our earnings, especially during the period before we have substantially invested the proceeds from our offering. As a result, a portion of the distributions we make may represent a return of capital for tax purposes. No portion of the distributions paid during the years ended December 31, 2010 or 2009 represented a return of capital for tax purposes.

We intend to continue to make our ordinary distributions in the form of cash, out of assets legally available, unless stockholders elect to receive their distributions and/or long-term capital gains distributions in additional shares of our common stock under our distribution reinvestment plan. Any distributions reinvested under the plan will nevertheless remain taxable to a U.S. stockholder. If stockholders hold shares in the name of a broker or financial intermediary, they should contact the broker or financial intermediary regarding their election to receive distributions in additional shares of our common stock.

To maintain RIC tax treatment, we must, among other things, distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any net ordinary income and net capital gains for preceding years that were not distributed during such years and on which we paid no federal income tax. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

Promptly following the payment of distributions to all stockholders of record, we will send information to stockholders residing in Maryland regarding the source of such distributions.

The following table reflects the cash distributions per share that we have declared and paid on our common stock during the years ended December 31, 2008, 2009 and 2010:

For the Year Ended	Distribution	
	Per Share ⁽¹⁾⁽²⁾⁽³⁾	Amount
2008	\$ 0.1835	\$ 25
2009	0.6717	3,134
2010	0.8728	21,389

- (1) The amount of each per share distribution has been retroactively adjusted to reflect the stock distributions declared throughout 2009 and 2010 as discussed below.
- (2) In addition to regular semi-monthly cash distributions during such period, cash distributions declared and paid on our common stock during the year ended December 31, 2010 include approximately \$3,851, or approximately \$0.12 per share, in special cash distributions.
- (3) On October 13, 2010, our board of directors determined to increase the amount of semi-monthly distributions payable to stockholders of record from \$0.03125 per share to \$0.03185 per share, effective October 1, 2010. On October 29, 2010, our board of directors determined to increase the amount of semi-monthly distributions payable to stockholders of record from \$0.03185 per share to \$0.032156 per share, effective November 1, 2010.

On January 13, 2011, our board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which were paid on January 31, 2011 to stockholders of record on January 14, 2011 and January 28, 2011, respectively. On February 14, 2011, our board of directors declared two regular semi-

[Table of Contents](#)

monthly cash distributions of \$0.032156 per share each, which were paid on February 28, 2011 to stockholders of record on February 14, 2011 and February 25, 2011, respectively. On March 14, 2011, our board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which will be paid on March 31, 2011 to stockholders of record on March 14, 2011 and March 30, 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. The following table reflects, for tax purposes, the sources of the cash distributions that we have paid on our common stock during the years ended December 31, 2010, 2009 and 2008:

Source of Distribution	Year ended December 31,					
	2010		2009		2008	
	Distribution Amount	Percentage	Distribution Amount	Percentage	Distribution Amount	Percentage
Offering proceeds	\$ —	—	\$ —	—	\$ —	—
Borrowings	—	—	—	—	—	—
Net investment income ⁽¹⁾	13,545	63%	1,917	61%	25	100%
Capital gains proceeds from the sale of assets	7,844	37%	977	31%	—	—
Non-capital gains proceeds from the sale of assets	—	—	—	—	—	—
Expense reimbursement from sponsor	—	—	240	8%	—	—
Total	\$ 21,389	100%	\$ 3,134	100%	\$ 25	100%

- (1) During the years ended December 31, 2010 and 2009, 84% and 57%, respectively, of our gross investment income was attributable to cash interest earned and 16% and 43%, respectively, was attributable to non-cash accretion of discount and PIK interest.

The aggregate cost of our investments for federal income tax purposes totaled \$715,695 and \$92,366 as of December 31, 2010 and 2009, respectively. The aggregate net unrealized appreciation on a tax basis was \$17,885 and \$8,226 as of December 31, 2010 and 2009, respectively. Our net investment income on a tax basis for the years ended December 31, 2010 and 2009 was \$13,545 and \$2,157, respectively. We distributed all of our net investment income earned as of December 31, 2010 and 2009.

[Table of Contents](#)

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 a non-performing loan, 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 “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—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 years ended December 31, 2010 and 2009:

	Year ended December 31,	
	2010	2009
GAAP basis net investment income	\$ 9,392	\$ 2,151
Amortization of organizational costs	(43)	(43)
Tax accretion of discount on investment	133	49
Reversal of incentive fee accrual on unrealized gains	4,063	—
Tax basis net investment income	<u>\$ 13,545</u>	<u>\$ 2,157</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 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 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 are not expected to represent taxable distributions. Specific tax characteristics of all distributions are reported to stockholders annually on Form 1099-DIV.

[Table of Contents](#)

As of December 31, 2010 and 2009, the components of accumulated earnings on a tax basis were as follows:

	As of December 31,	
	2010	2009
Distributable ordinary income	\$ 1,290	\$ 53
Incentive fee accrual on unrealized gains	(4,063)	—
Unamortized organizational costs	(558)	(600)
Unrealized appreciation on investments ⁽¹⁾	17,885	8,226
	<u>\$14,554</u>	<u>\$7,679</u>

(1) As of December 31, 2010 and 2009, the gross unrealized appreciation on our investments was \$20,136 and \$8,390, respectively. As of December 31, 2010 and 2009, the gross unrealized depreciation on our investments was \$2,251 and \$164, respectively.

[Table of Contents](#)

Item 6. Selected Financial Data

The following selected financial data for the years ended December 31, 2010, 2009 and 2008 and for the period from December 21, 2007 (Inception) to December 31, 2007 is derived from our financial statements which have been audited by McGladrey & Pullen, LLP, our independent registered public accounting firm. The data should be read in conjunction with our financial statements and related notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this report.

	Year Ended December 31,			Period from December 21, 2007 (Inception) to December 31, 2007
	2010	2009	2008	
Statement of operations data:				
Investment income	\$ 30,670	\$ 4,420	\$ 25	\$ —
Operating expenses				
Total expenses	21,278	2,509	605	37
Less: Expense reimbursement from sponsor	—	(240)	—	—
Net expenses	21,278	2,269	605	37
Net investment income (loss)	9,392	2,151	(580)	(37)
Realized and unrealized gain	18,872	9,305	—	—
Net increase (decrease) in net assets resulting from operations	\$ 28,264	\$ 11,456	\$ (580)	\$ (37)
Per share data:				
Net investment income (loss)—basic and diluted	\$ 0.40	\$ 0.48	\$ (4.72)	
Net increase (decrease) in net assets resulting from operations—basic and diluted	\$ 1.21	\$ 2.57	\$ (4.72)	
Distributions declared	\$ 0.87	\$ 0.67	\$ 0.18	
Balance sheet data:				
Total assets	\$782,005	\$110,068	\$1,000	
Credit facility payable	\$297,201	\$ —	\$ —	
Total net assets	\$389,232	\$ 93,197	\$ 999	
Other data:				
Total return ⁽¹⁾	13.08%	33.33%	2.40%	
Number of portfolio company investments at period end	144	50	—	
Total portfolio investments for the period	\$849,242	\$106,098	\$ —	
Investment sales and prepayments for the period	\$240,054	\$ 16,717	\$ —	

(1) The 2008 total return is based on an initial investment at \$7.32 per share, which represents the initial offering price per share, net of commissions and discounts, after taking into account the stock distributions to stockholders described in “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Distributions”. The 2009 total return was calculated by taking the net asset value per share as of December 31, 2009, 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, 2008. 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.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

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

Some of the statements in this annual report on Form 10-K constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this annual report on Form 10-K 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 and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

In addition, words such as “anticipate,” “believe,” “expect” and “intend” indicate a forward-looking statement, although not all forward-looking statements include these words. The forward-looking statements contained in this annual report on Form 10-K 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 annual report on Form 10-K on information available to us on the date of this annual report on Form 10-K, and we assume no obligation to update any such forward-looking statements. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. 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 annual report on Form 10-K are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the Securities 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 \$2.5 million 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

[Table of Contents](#)

loans and, to a lesser extent, long-term subordinated loans, referred to as mezzanine 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 mezzanine investments that we make generally will have stated terms of up to ten years, but the expected average life of such loans 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.

Portfolio Investment Activity For The Years Ended December 31, 2010 and 2009

During the year ended December 31, 2010, we made investments in portfolio companies totaling \$849,242. During the same period, we sold positions totaling \$122,581 and received principal repayments of \$117,473. As of December 31, 2010, our investment portfolio, with a total fair value of \$733,580, consisted of interests in 144 portfolio companies (66% in first lien senior secured loans, 19% in second lien senior secured loans, 4% in senior secured bonds and 11% in mezzanine debt/other) with an average annual EBITDA of approximately \$294.5 million. As of December 31, 2010, the investments in our portfolio were purchased at an average price of 94.9% of par value, the weighted average credit rating of our portfolio was B2 based upon the Moody’s scale and our estimated gross annual portfolio yield, prior to leverage, was 8.5% based upon the purchase price of our investments.

During the year ended December 31, 2009, we made investments in portfolio companies totaling \$106,098. During the same period, we sold positions totaling \$11,779 and received principal repayments of \$4,938. As of December 31, 2009, our investment portfolio, with a total fair value of \$100,592, consisted of interests in 50 portfolio companies (46% in first lien senior secured loans, 45% in second lien senior secured loans and 9% in mezzanine debt) with an average annual EBITDA of approximately \$269.4 million. As of December 31, 2009, the investments in our portfolio were purchased at an average price of 82.5% of par value, the weighted average credit rating of our portfolio was B3 based upon the Moody’s scale and our estimated gross annual portfolio yield was 13.2% based upon the purchase price of our investments.

The following table summarizes the composition of our investment portfolio at cost and fair value as of December 31, 2010 and 2009:

	Year Ended December 31,					
	2010			2009		
	Cost ⁽¹⁾	Fair Value	Percentage of Portfolio	Cost ⁽¹⁾	Fair Value	Percentage of Portfolio
Senior Secured Loans—First Lien	\$473,881	\$484,105	66%	\$41,835	\$ 45,780	46%
Senior Secured Loans—Second Lien	131,960	135,962	19%	41,351	45,521	45%
Senior Secured Bonds	30,265	31,659	4%	—	—	0%
Mezzanine Debt/Other	79,408	81,854	11%	9,131	9,291	9%
	<u>\$715,514</u>	<u>\$733,580</u>	<u>100%</u>	<u>\$92,317</u>	<u>\$ 100,592</u>	<u>100%</u>

(1) Cost represents the original cost adjusted for the accretion of discounts on debt investments.

[Table of Contents](#)

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 terms of the underlying loan agreements. As of December 31, 2010, we had three such investments, all of which have been fully funded.

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 December 31, 2010 and 2009:

Industry Classification	Year Ended December 31,			
	2010		2009	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Consumer Discretionary	\$ 129,749	17.6%	\$ 10,739	10.7%
Consumer Staples	56,184	7.7%	4,615	4.6%
Energy	69,048	9.4%	9,388	9.3%
Financials	59,431	8.1%	6,876	6.8%
Healthcare	63,460	8.7%	3,927	3.9%
Industrials	96,762	13.2%	10,943	10.9%
Information Technology	117,499	16.0%	32,030	31.8%
Materials	46,832	6.4%	5,762	5.7%
Telecommunication Services	81,675	11.1%	12,671	12.7%
Utilities	12,940	1.8%	3,641	3.6%
Total	<u>\$733,580</u>	<u>100.0%</u>	<u>\$100,592</u>	<u>100.0%</u>

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:

<u>Investment Rating</u>	<u>Summary Description</u>
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.

[Table of Contents](#)

The following table shows the distribution of our debt investments on the 1 to 5 investment rating scale at fair value as of December 31, 2010 and 2009:

Investment Rating	December 31, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Portfolio	Investments at Fair Value	Percentage of Portfolio
1	\$ 38,899	5%	\$ —	—
2	682,861	93%	98,848	98%
3	11,384	2%	—	—
4	436	0%	1,744	2%
5	—	—	—	—
	<u>\$ 733,580</u>	<u>100%</u>	<u>\$ 100,592</u>	<u>100%</u>

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

Results of Operations

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 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.

Comparison of the years ended December 31, 2010 and December 31, 2009

Revenues

We generated investment income of \$30,670 and \$4,420 for the years ended December 31, 2010 and 2009, respectively, in the form of interest earned on senior secured loans, mezzanine debt, collateralized loan and debt obligations and corporate bonds in our portfolio. Such revenues represent \$25,742 and \$2,513 of cash interest earned as well as \$4,928 and \$1,907 in non-cash portions relating to accretion of discount and PIK interest for the years ended December 31, 2010 and 2009, 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.

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 may also generate revenues in the form of dividends on the equity or other securities we may hold. Since commencing operations, we have not owned any equity interests in our portfolio companies and, therefore, did not receive dividend payments or other fees from our portfolio companies.

In addition, we may generate revenues in the form of commitment, origination, structuring or diligence fees, monitoring fees, fees for providing managerial assistance, consulting fees and performance-based fees. Any such fees generated in connection with our investments will be recognized as earned. No such fees were earned during the years ended December 31, 2010 or 2009.

[Table of Contents](#)

Expenses

Our primary operating expenses are the payment of advisory fees and other expenses under the investment advisory and administrative services agreement 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 shall 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 will be 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, nor 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 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;
- 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
- all other expenses incurred by FB Advisor, our sub-adviser or us in connection with administering our business, including expenses incurred by FB Advisor or our sub-adviser 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.

[Table of Contents](#)

Our total operating expenses were \$21,278 and \$2,509 for the years ended December 31, 2010 and 2009, respectively. Our operating expenses include base management fees attributed to FB Advisor of \$7,900 and \$829 for the years ended December 31, 2010 and 2009, respectively. Our operating expenses also include administrative services expenses attributed to FB Advisor of \$924 and \$261 for the years ended December 31, 2010 and 2009, respectively.

FB Advisor is eligible to receive incentive fees based on performance. We accrued incentive fee expenses during the years ended December 31, 2010 and 2009 of \$5,459 and \$173, respectively. The incentive fee expense for the year ended December 31, 2010 includes \$4,063 accrued with respect to unrealized gains in our investment portfolio, although no such incentive fee is actually payable by us with respect to such unrealized gains unless and until those gains are actually realized. See “—Critical Accounting Policies—Capital Gains Incentive Fee.”

We recorded interest expense of \$3,881 for the year ended December 31, 2010 in connection with our revolving credit facility. Fees incurred with BNY Mellon Asset Servicing (formerly PNC Global Investment Services), which provides various accounting and administrative services to us, totaled \$568 and \$326 for the years ended December 31, 2010 and 2009, respectively. We incurred expenses with our stock transfer agent of \$890 and \$265 for the years ended December 31, 2010 and 2009, respectively.

Our other general and administrative expenses totaled \$1,656 and \$655 for the years ended December 31, 2010 and 2009, respectively, and consisted of the following:

	Year Ended December 31,	
	2010	2009
Expenses associated with our independent audit and related fees	\$ 385	\$ 114
Compensation of our chief financial officer and our chief compliance officer	168	153
Legal fees	316	151
Printing fees	260	42
Fees paid to our independent directors	189	81
Other	338	114
Total	<u>\$ 1,656</u>	<u>\$ 655</u>

After the first half of 2009, our other general and administrative expenses increased as initial pricing arrangements that we negotiated with certain vendors, due to our relatively small scale, ceased. In addition, our independent directors began receiving fees in connection with their service as independent directors in the second half of 2009. Prior to the third quarter of 2009, our independent directors had agreed to waive all fees payable in connection with their service as members of our board of directors.

Over the next several quarters, we expect our general and administrative operating expenses related to our ongoing operations to continue to increase because of the anticipated growth in the size of our asset base. During the years ended December 31, 2010 and 2009, the ratio of our operating expenses to our average net assets was 9.89% and 6.53%, respectively. We generally expect our general and administrative 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 higher ratio of operating expenses to average net assets during the year ended December 31, 2010 compared to the year ended December 31, 2009 can primarily be attributed to (i) a change in our methodology during 2010 for accruing for incentive fees to include unrealized gains in the calculation of our capital gains incentive fee expense, even though no such incentive fee is actually payable by us with respect to such unrealized gains unless and until those gains are actually realized (see “—Critical Accounting Policies—Capital Gains Incentive Fee”), and (ii) interest expense related to the

[Table of Contents](#)

revolving credit facility between Broad Street and Deutsche Bank which was established during the first quarter of 2010. Without such expenses, our ratio of operating expenses to average net assets would have been approximately 6.20% during the year ended December 31, 2010.

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 the year ended December 31, 2010, we received no reimbursements from Franklin Square Holdings. During the year ended December 31, 2009, reimbursements from Franklin Square Holdings totaled \$240. 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 chief executive officer, Michael Forman, and our director, David Adelman.

Net Investment Income

Our net investment income totaled \$9,392 (\$0.40 per share) and \$2,151 (\$0.48 per share) for the years ended December 31, 2010 and 2009, respectively.

Net Realized Gains or Losses

We sold investments and received principal repayments of \$122,581 and \$117,473, respectively, during the year ended December 31, 2010, from which we realized net gains of \$9,081. We sold investments and received principal repayments of \$11,779 and \$4,938, respectively, during the year ended December 31, 2009, from which we realized net gains of \$1,030.

Net Change in Unrealized Appreciation on Investments and Unrealized Loss on Foreign Currency

For the year ended December 31, 2010, the net change in unrealized appreciation on investments totaled \$9,809 and the net change in unrealized loss on foreign currency totaled \$18. For the year ended December 31, 2009, the net change in unrealized appreciation on investments totaled \$8,275. We did not hold any investment denominated in a foreign currency during the year ended December 31, 2009. The unrealized appreciation on our investments during the year ended December 31, 2010 was primarily driven by general improvement in the credit markets. The increase in unrealized appreciation for the year ended December 31, 2009 was due primarily to general increases in prices for senior secured debt as the loan market partially recovered from its historical lows reached in the fourth quarter of 2008.

Net Increase in Net Assets Resulting from Operations

For the year ended December 31, 2010, the net increase in net assets resulting from operations was \$28,264 (\$1.21 per share) compared to a net increase in net assets resulting from operations of \$11,456 (\$2.57 per share) during the corresponding period in 2009.

Comparison of the years ended December 31, 2009 and December 31, 2008

We commenced operations on January 2, 2009, when we raised in excess of \$2.5 million from persons who are not affiliated with us or FB Advisor. As a result, no comparisons with the year ended December 31, 2008 have been provided.

[Table of Contents](#)

For the year ended December 31, 2008 and for the period from December 21, 2007 (Inception) to December 31, 2007, we incurred organization costs of \$605 and \$37, respectively, included in other general and administrative expenses, which represented our only operating activities at that time. These organization costs included, among other items, the cost of legal services pertaining to our organization and the incorporation of our business. These costs were paid on our behalf by an affiliate and were treated as capital contributions. No such costs were incurred during the years ended December 31, 2010 and 2009.

Financial Condition, Liquidity and Capital Resources

During the year ended December 31, 2010, we sold 31,320,067 shares (as adjusted for stock distributions) of our common stock for gross proceeds of \$324,420. The gross proceeds received during the year ended December 31, 2010 include reinvested stockholder distributions of \$8,252. During the year ended December 31, 2010, we also incurred offering costs of \$1,671 in connection with the sale of our common stock, which consisted primarily of legal, due diligence and printing fees. Franklin Square Holdings funded \$1,125 of these offering costs. We recorded these costs as a contribution to capital. The offering costs were offset against capital in excess of par in our consolidated financial statement and the other expenses were charged to expense as incurred. The sales commissions and dealer manager fees related to the sale of our common stock were \$30,252 for the year ended December 31, 2010. These sales commissions and fees include \$5,435 retained by the dealer manager, FS² Capital Partners, LLC, or FS², which is one of our affiliates.

During the year ended December 31, 2009, we sold 10,105,293 shares (as adjusted for stock distributions) of our common stock for gross proceeds of \$93,464 and incurred related offering costs of \$387 in connection with the sale of our common stock, which consisted primarily of legal, due diligence and printing fees. Franklin Square Holdings funded these offering costs. The sales commissions and dealer manager fees related to the sale of our common stock were \$8,187 for the year ended December 31, 2009. These sales commissions and fees include \$1,295 retained by FS².

As of March 15, 2011, we have sold 56,357,510 shares (as adjusted for stock distributions) of our common stock for gross proceeds of \$576,396 since commencing our continuous public offering. Including the seed capital contributed by Messrs. Forman and Adelman, we have raised gross proceeds of \$577,396 to date.

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 debt securities of private U.S. companies, we will 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 business development company election and our election to be taxed as a RIC.

As of December 31, 2010, we had \$38,790 in cash, which we have invested in interest bearing accounts.

To provide our stockholders with limited liquidity, we conduct quarterly tender offers pursuant to our share repurchase program. During the year ended December 31, 2010, we repurchased 228,950 shares at \$9.36 per share for aggregate consideration totaling \$2,143. On January 3, 2011, we repurchased 99,633 shares at \$9.59 per share for aggregate consideration totaling \$955.

Table of Contents

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 have 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.

As of December 31, 2010, \$297,201 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 \$1,341 in connection with obtaining and amending the credit facility, which we have recorded as deferred financing costs on our consolidated balance sheet and amortize to interest expense over the life of the credit facility. As of December 31, 2010, \$835 of such deferred financing costs have yet to be amortized to interest expense.

The effective interest rate under the credit facility was 2.38% on December 31, 2010. Interest is paid quarterly in arrears and commenced August 20, 2010. We recorded interest expense of \$3,881 for the year ended December 31, 2010, of which \$506 related to the amortization of deferred financing costs. We paid \$2,492 in interest expense for the year ended December 31, 2010.

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 or 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

[Table of Contents](#)

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 or 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 December 31, 2010.

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 business development companies.

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.

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 distribution will be mailed to our stockholders. No portion of the distributions paid during the years ended December 31, 2010 or 2009 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 and/or long-term capital gains 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 years ended December 31, 2008, 2009 and 2010:

For the Year Ended	Distribution	
	Per Share⁽¹⁾⁽²⁾⁽³⁾	Amount
2008	\$ 0.1835	\$ 25
2009	0.6717	3,134
2010	0.8728	21,389

(1) The amount of each per share distribution has been retroactively adjusted to reflect the stock distributions declared throughout 2009 and 2010 as discussed below.

[Table of Contents](#)

- (2) In addition to regular semi-monthly cash distributions during such period, cash distributions declared and paid on our common stock during the year ended December 31, 2010 include approximately \$3,851, or approximately \$0.12 per share, in special cash distributions.
- (3) On October 13, 2010, our board of directors determined to increase the amount of semi-monthly distributions payable to stockholders of record from \$0.03125 per share to \$0.03185 per share, effective October 1, 2010. On October 29, 2010, our board of directors determined to increase the amount of semi-monthly distributions payable to stockholders of record from \$0.03185 per share to \$0.032156 per share, effective November 1, 2010.

On January 13, 2011, our board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which were paid on January 31, 2011 to stockholders of record on January 14, 2011 and January 28, 2011, respectively. On February 14, 2011, our board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which were paid on February 28, 2011 to stockholders of record on February 14, 2011 and February 25, 2011, respectively. On March 14, 2011, our board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which will be paid on March 31, 2011 to stockholders of record on March 14, 2011 and March 30, 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. The following table reflects, for tax purposes, the sources of the cash distributions that we have paid on our common stock during the years ended December 31, 2010, 2009 and 2008:

Source of Distribution	Year ended December 31,					
	2010		2009		2008	
	Distribution Amount	Percentage	Distribution Amount	Percentage	Distribution Amount	Percentage
Offering proceeds	\$ —	—	\$ —	—	\$ —	—
Borrowings	—	—	—	—	—	—
Net investment income ⁽¹⁾	13,545	63%	1,917	61%	25	100%
Capital gains proceeds from the sale of assets	7,844	37%	977	31%	—	—
Non-capital gains proceeds from the sale of assets	—	—	—	—	—	—
Expense reimbursement from sponsor	—	—	240	8%	—	—
Total	\$ 21,389	100%	\$ 3,134	100%	\$ 25	100%

- (1) During the years ended December 31, 2010 and 2009, 84% and 57%, respectively, of our gross investment income was attributable to cash interest earned and 16% and 43%, respectively, was attributable to non-cash accretion of discount and PIK interest.

[Table of Contents](#)

The aggregate cost of our investments for federal income tax purposes totaled \$715,695 and \$92,366 as of December 31, 2010 and 2009, respectively. The aggregate net unrealized appreciation on a tax basis was \$17,885 and \$8,226 as of December 31, 2010 and 2009, respectively. Our net investment income on a tax basis for the years ended December 31, 2010 and 2009 was \$13,545 and \$2,157, respectively. We distributed all of our net investment income earned as of December 31, 2010 and 2009.

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 a non-performing loan, 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 years ended December 31, 2010 and 2009:

	Year ended December 31,	
	2010	2009
GAAP basis net investment income	\$ 9,392	\$ 2,151
Amortization of organizational costs	(43)	(43)
Tax accretion of discount on investment	133	49
Reversal of incentive fee accrual on unrealized gains	4,063	—
Tax basis net investment income	<u>\$ 13,545</u>	<u>\$ 2,157</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 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 distribution was offset exactly by the

[Table of Contents](#)

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 are not expected to represent taxable distributions. Specific tax characteristics of all distributions will be reported to stockholders annually on Form 1099-DIV.

As of December 31, 2010 and 2009, the components of accumulated earnings on a tax basis were as follows:

	As of December 31,	
	2010	2009
Distributable ordinary income	\$ 1,290	\$ 53
Incentive fee accrual on unrealized gains	(4,063)	—
Unamortized organizational costs	(558)	(600)
Unrealized appreciation on investments ⁽¹⁾	17,885	8,226
	<u>\$14,554</u>	<u>\$7,679</u>

(1) As of December 31, 2010 and 2009, the gross unrealized appreciation on our investments was \$20,136 and \$8,390, respectively. As of December 31, 2010 and 2009, the gross unrealized depreciation on our investments was \$2,251 and \$164, respectively.

Critical Accounting Policies

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, or U.S. 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 the Financial Accounting Standards Board, or 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

[Table of Contents](#)

interim and annual periods subsequent to initial recognition. ASC Topic 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, which includes inputs such as quoted prices for similar securities in active markets and quoted prices for identical securities where there is little or no activity in the market; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

With respect to investments for which market quotations are not readily available, we 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 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.

[Table of Contents](#)

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 December 31, 2010 consisted primarily of debt securities that are traded on a private over-the-counter market for institutional investors. We valued our collateralized loan and debt obligations and our mezzanine 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. Our investments as of December 31, 2009 consisted entirely of debt securities that are traded on a private over-the-counter market for institutional investors. We valued one of our second lien investments and one of our mezzanine debt investments by obtaining bid and ask prices from independent dealers. We valued all of our other 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 received from the 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. 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 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 will be 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

[Table of Contents](#)

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 American Institute for Certified Public Accountants, or AICPA, Technical Practice Aid for investment companies, commencing during the quarter ended December 31, 2010, we have 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 as 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 only \$1,396 was based on realized gains and is payable to FB Advisor.

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-advisor, will be reimbursed for administrative expenses incurred on our behalf. For the years ended December 31, 2010 and 2009, we incurred \$7,900 and \$829, respectively, in base management fees and \$924 and \$261, 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 years ended December 31, 2010 and 2009, we accrued \$1,396 and \$173, respectively, in capital gains incentive fees payable to FB Advisor under the investment advisory and administrative services agreement. We have also recorded \$4,063 in incentive fees based on the unrealized gains in our investment portfolio as of December 31, 2010; however, such fees are not due and payable to FB Advisor unless and until such time as the gains become realized.

As of December 31, 2010, \$297,201 was outstanding under the revolving 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.

A summary of our significant contractual payment obligations for the repayment of outstanding borrowings under the revolving credit facility between Broad Street and Deutsche Bank at December 31, 2010 is as follows:

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Borrowings ⁽¹⁾	\$297,201	\$ —	\$297,201	\$ —	\$ —

(1) At December 31, 2010, \$42,799 remained unused under the revolving credit 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. Except for the gross presentation of Level 3 roll forward information, we adopted this guidance during 2010, and such adoption did not have a significant impact on our consolidated financial statements or disclosures. We are currently evaluating the impact that the gross presentation of Level 3 roll forward information will have on our consolidated financial statement disclosures when adopted.

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 gains, if applicable. We commenced accruing fees under the agreement on January 2, 2009, upon the commencement of operations. During the years ended December 31, 2010 and 2009, FB Advisor earned \$7,900 and \$829, respectively, in base management fees. Management fees are paid on a quarterly basis in arrears. We paid \$5,039 and \$392 of these fees during the years ended December 31, 2010 and 2009, 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 year ended December 31, 2010, we accrued a capital gains incentive fee of \$5,459 based on the performance of our portfolio, of which only \$1,396 was based on realized gains and is payable to FB Advisor. During the year ended December 31, 2010, we paid FB Advisor \$173 in capital gains incentive fees earned during the year ended December 31, 2009. We also reimburse FB Advisor for expenses necessary for its performance of services related to our administration and operation, provided that such reimbursement shall be 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 will be reasonably allocated to us on the basis of assets, revenues, time records or other reasonable methods. During the years ended December 31, 2010 and 2009, we incurred administrative services charges of \$924 and \$261, respectively, attributable to FB Advisor. Of these charges, \$908 and \$257, 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 have paid FB Advisor \$710 and \$165, respectively, for the services incurred under this arrangement during the years ended December 31, 2010 and 2009.

Franklin Square Holdings funded offering costs and other expenses in the amount of \$1,125, \$404 and \$1,914 for the years ended December 31, 2010, 2009 and 2008, respectively. We recorded these costs as a

[Table of Contents](#)

contribution to capital. The offering costs were offset against capital in excess of par on the financial statement and the other expenses were charged to expense as incurred. We incurred organization costs of \$605 during the year ended December 31, 2008. No such costs were incurred during the years ended December 31, 2010 and 2009.

The dealer manager for our public offering is FS², which is one of our affiliates. During the years ended December 31, 2010 and 2009, FS² retained \$5,435 and \$1,295, 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 \$2.5 million, 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 \$1,678 and \$1,418, respectively, to FB Advisor and its affiliates during the years ended December 31, 2010 and 2009. As of December 31, 2010, \$641 is payable to FB Advisor and its affiliates under this arrangement. The reimbursements are recorded as a reduction of capital.

Members of FB Advisor's senior management team provide investment advisory services to both us and FB Capital Partners, L.P. FB Capital Partners, L.P., which is owned by Mr. Forman, our chief executive officer, was organized for the purpose of sourcing and managing income-oriented investments for institutions and high net worth individuals. While neither FB Capital Partners, L.P. nor FB Advisor is making private corporate debt investments for clients other than us currently, FB Advisor 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.

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 year ended December 31, 2010, we received no reimbursements from Franklin Square Holdings. During the year ended December 31, 2009, the reimbursements from Franklin Square Holdings totaled \$240. 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 chief executive officer, Michael Forman, and our director, David Adelman.

Recent Developments

For the period from January 1, 2011 to March 15, 2011, we have sold 14,932,150 shares of our common stock for gross proceeds of \$158,512 at an average price per share of \$10.62.

On March 18, 2011, Arch Street, our newly-formed, wholly-owned financing subsidiary, entered into a total return swap, or TRS, for senior secured floating rate loans with Citibank.

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 market value of \$200,000. Arch Street is required to initially cash collateralize a specified

[Table of Contents](#)

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.

A TRS is a commonly used form of financing arrangement that provides economic exposure similar to the exposure under Broad Street's credit facility. Because of the unique structure of a TRS, a TRS often offers lower financing costs than are offered through more traditional borrowing arrangements.

Generally, pursuant to a TRS, 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 is typically used to obtain exposure to a security or market without owning or taking physical custody of such security or investing directly in such market. A TRS may effectively add leverage to our portfolio because, in addition to our total net assets, we would be subject to investment exposure on the amount of securities 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.

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. The terms of the TRS are governed by a set of agreements between Arch Street and Citibank, which collectively establish the TRS, and are collectively referred to herein as the TRS Agreement.

Pursuant to the terms of the TRS Agreement, Arch Street may select a portfolio of loans with a maximum market value (determined at the time each such loan becomes subject to the TRS) of \$200,000. Each individual loan, and the portfolio of loans taken as a whole, must meet criteria described in the TRS Agreement. Arch Street will receive from Citibank all interest and fees payable in respect of the loans included in the portfolio. Arch Street will pay 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. Arch Street may be required to post additional collateral from time to time as a result of a decline in the mark-to-market value of the portfolio of loans subject to the TRS.

Citibank may terminate the TRS on or after 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. 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. As of December 31, 2010, all but sixteen of our portfolio investments 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 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 our investment advisory and administrative services agreement, 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.

[Table of Contents](#)

Pursuant to the terms of the \$340,000 revolving credit facility which Broad Street maintains with Deutsche Bank, Broad Street borrows at a floating rate based on LIBOR. Pursuant to 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 \$200,000. We expect any future credit facilities or total return swap agreements that we or any subsidiary 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 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. 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 materially adverse effect on our business, financial condition and results of operations.

In addition, we may have risk regarding portfolio valuation. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Valuation of Portfolio Investments.”

[Table of Contents](#)

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements

	<u>Page</u>
Management's Report on Internal Control over Financial Reporting	74
Report of Independent Registered Public Accounting Firm	75
Report of Independent Registered Public Accounting Firm	76
Consolidated Balance Sheets as of December 31, 2010 and 2009	77
Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008	78
Consolidated Statements of Changes in Net Assets for the years ended December 31, 2010, 2009 and 2008	79
Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008	80
Consolidated Schedule of Investments as of December 31, 2010 and 2009	81
Notes to Consolidated Financial Statements	86

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. In connection with the preparation of our annual financial statements, management has conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Management’s assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls. Based on this evaluation, we have concluded that, as of December 31, 2010, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
FS Investment Corporation
Philadelphia, Pennsylvania

We have audited FS Investment Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. FS Investment Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, FS Investment Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FS Investment Corporation, including the consolidated schedules of investments as of December 31, 2010 and 2009, the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2010 and our report dated March 24, 2011 expressed an unqualified opinion.

/s/ McGladrey & Pullen, LLP

Blue Bell, Pennsylvania
March 24, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
FS Investment Corporation
Philadelphia, Pennsylvania

We have audited the accompanying consolidated balance sheets of FS Investment Corporation, including the consolidated schedules of investments, as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2010 by correspondence with the custodians, or by other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FS Investment Corporation as of December 31, 2010 and 2009 and the results of its consolidated operations, changes in its net assets and its cash flows for each of the three years in the period ended December 31, 2010 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FS Investment Corporation's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 24, 2011 expressed an unqualified opinion on the effectiveness of FS Investment Corporation's internal control over financial reporting.

/s/ McGladrey & Pullen, LLP

Blue Bell, Pennsylvania
March 24, 2011

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

	December 31,	
	2010	2009
Assets		
Investments, at fair value (amortized cost—\$715,514 and \$92,317, respectively)	\$ 733,580	\$ 100,592
Cash	38,790	9,035
Receivable for investments sold and repaid	5,162	15
Interest receivable	3,632	402
Deferred financing costs	835	14
Prepaid expenses and other assets	6	10
Total assets	\$ 782,005	\$ 110,068
Liabilities		
Payable for investments purchased	\$ 81,800	\$ 15,366
Credit facility payable	297,201	—
Stockholder distributions payable	2,556	616
Management fees payable	3,298	437
Capital gains incentive fee payable ⁽¹⁾	5,459	173
Administrative services fees payable	310	96
Reimbursements payable	641	—
Interest payable	883	—
Other accrued expenses and liabilities	625	183
Total liabilities	392,773	16,871
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, 41,332,661 and 10,241,544 shares issued and outstanding, respectively ⁽²⁾	41	10
Capital in excess of par value	374,637	85,508
Accumulated undistributed net realized gains on investments	1,290	53
Accumulated distributions in excess of net investment income ⁽³⁾	(4,802)	(649)
Net unrealized appreciation on investments and loss on foreign currency	18,066	8,275
Total stockholders' equity	389,232	93,197
Total liabilities and stockholders' equity	\$ 782,005	\$ 110,068
Net asset value per common share at period end	\$ 9.42	\$ 9.10

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

(2) As discussed in Note 5, between March 31, 2009 and January 31, 2010, the Company issued eight stock distributions. The outstanding shares and net asset value per common share reflect these stock distributions on a retroactive basis.

(3) See Note 5 for a discussion of the source of distributions paid by the Company.

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2010	2009	2008
Investment income			
Interest income	\$ 30,670	\$ 4,420	\$ 25
Operating expenses			
Management fees	7,900	829	—
Capital gains incentive fees ⁽¹⁾	5,459	173	—
Administrative services expenses	924	261	—
Stock transfer agent fees	890	265	—
Accounting and administrative fees	568	326	—
Interest expense	3,881	—	—
Other general and administrative expenses	1,656	655	605
Total expenses	21,278	2,509	605
Less: Expense reimbursement from sponsor (Note 4)	—	(240)	—
Net expenses	21,278	2,269	605
Net investment income (loss)	9,392	2,151	(580)
Realized and unrealized gain			
Net realized gain on investments	9,081	1,030	—
Net change in unrealized appreciation on investments	9,809	8,275	—
Net change in unrealized loss on foreign currency	(18)	—	—
Total net realized and unrealized gain on investments	18,872	9,305	—
Net increase (decrease) in net assets resulting from operations	\$ 28,264	\$ 11,456	\$ (580)
Per share information—basic and diluted			
Net increase (decrease) in net assets resulting from operations	\$ 1.21	\$ 2.57	\$ (4.72)
Weighted average shares outstanding ⁽²⁾	23,283,593	4,465,071	122,850

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

(2) 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 consolidated financial statements.

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

	Year Ended December 31,		
	2010	2009	2008
Operations			
Net investment income	\$ 9,392	\$ 2,151	\$ (580)
Net realized gain on investments	9,081	1,030	—
Net change in unrealized appreciation on investments	9,809	8,275	—
Net change in unrealized loss on foreign currency	(18)	—	—
Net increase (decrease) in net assets resulting from operations	<u>28,264</u>	<u>11,456</u>	<u>(580)</u>
Stockholder distributions⁽¹⁾			
Distributions from net investment income	(13,545)	(2,157)	(25)
Distributions from net realized gain on investments	(7,844)	(977)	—
Net decrease in net assets resulting from stockholder distributions	<u>(21,389)</u>	<u>(3,134)</u>	<u>(25)</u>
Capital share transactions			
Issuance of common stock	285,916	84,787	1,000
Reinvestment of stockholder distributions	8,252	490	—
Repurchases of common stock	(2,143)	—	—
Offering costs	(1,671)	(387)	(1,310)
Reimbursement of investment adviser (Note 4)	(2,319)	(1,418)	—
Capital contributions of investment adviser	1,125	404	1,914
Net increase in net assets resulting from capital share transactions	<u>289,160</u>	<u>83,876</u>	<u>1,604</u>
Total increase in net assets	296,035	92,198	999
Net assets at beginning of year	93,197	999	—
Net assets at end of year	<u>\$389,232</u>	<u>\$93,197</u>	<u>\$ 999</u>

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

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities			
Net increase in net assets resulting from operations	\$ 28,264	\$ 11,456	\$ (580)
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:			
Purchases of investments	(849,242)	(106,098)	—
Payment-in-kind interest	(103)	(133)	—
Proceeds from sales and repayments of investments	240,054	16,717	—
Net change in unrealized appreciation on investments	(9,809)	(8,275)	—
Net change in unrealized loss on foreign currency	18	—	—
Net realized gain on investments	(9,081)	(1,030)	—
Accretion of discount	(4,825)	(1,774)	—
Amortization of deferred financing costs	506	—	—
Increase in interest receivable	(3,230)	(402)	—
(Increase) Decrease in prepaid expenses and other assets	4	(24)	—
Increase in payable for investments purchased	66,434	15,366	—
Increase in receivable for investments sold and repaid	(5,147)	(15)	—
Increase in management fees payable	2,861	437	—
Increase in capital gains incentive fee payable	5,286	173	—
Increase in interest payable	883	—	—
Increase in administrative services fees payable	214	96	—
Increase in other accrued expenses and liabilities	442	183	1
Net cash used in operating activities	<u>(536,471)</u>	<u>(73,323)</u>	<u>(579)</u>
Cash flows from financing activities			
Issuance of common stock	285,916	84,787	1,000
Reinvestment of stockholder distributions	8,252	490	—
Repurchases of common stock	(2,143)	—	—
Offering costs	(1,671)	(387)	(1,310)
Payments to investment adviser for offering and organization costs (Note 4)	(1,678)	(1,418)	—
Capital contributions of investment adviser	1,125	404	1,914
Stockholder distributions	(19,449)	(2,518)	(25)
Borrowings under credit facility	297,201	—	—
Deferred financing costs paid	(1,327)	—	—
Net cash provided by financing activities	<u>566,226</u>	<u>81,358</u>	<u>1,579</u>
Total increase in cash	29,755	8,035	1,000
Cash at beginning of year	9,035	1,000	—
Cash at end of year	<u>\$ 38,790</u>	<u>\$ 9,035</u>	<u>\$ 1,000</u>
Non-cash financing activities			
Payable to investment adviser for offering and organization costs (Note 4)	<u>\$ 641</u>	<u>\$ —</u>	<u>\$ —</u>

See notes to 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)
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
Clorox 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
Freescale 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
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

See notes to consolidated financial statements.

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

Portfolio Company ^(a)	Industry	Principal Amount ^(b)	Amortized Cost	Fair Value ^(c)
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	5,662
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
Spanion, 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
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 ConvergEx 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 (Tenaska Power Fund), LLC, L+425, 12/15/14 ^(d)	Energy	9,170	8,329	8,442

See notes to consolidated financial statements.

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

Portfolio Company ^(a)	Industry	Principal Amount ^(b)	Amortized Cost	Fair Value ^(c)
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			<u>131,960</u>	<u>135,962</u>
Senior Secured Bonds—8.1%				
Allen Systems Group, Inc., 10.5%, 11/15/16	Information Technology	7,348	7,383	7,458
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			<u>30,265</u>	<u>31,659</u>
Mezzanine Debt/Other—21.0%				
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
Aspect Software, Inc., 10.6%, 5/15/17 ^(d)	Information Technology	4,000	4,000	4,137
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
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	Financials	\$ 2,000	869	1,195
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
Franklin CLO 6A Class E, L+425, 8/9/19 ^(f)	Financials	1,919	1,133	1,219
Hughes Network Systems, LLC, 9.5%, 4/15/14 ^(f)	Telecommunication Services	2,000	2,072	2,070
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
Mediacom Broadband LLC, 8.5%, 10/15/15 ^(f)	Consumer Discretionary	2,000	2,029	2,011
Mountain View CLO II Class Pref, 17.4%, 1/12/21 ^{(e)(f)}	Financials	8,975	7,272	7,135
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
Octagon CDO 2007 1A Class Income, 38.1%, 8/25/21 ^(f)	Financials	4,000	2,774	2,900
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 Mezzanine Debt			<u>79,408</u>	<u>81,854</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 9 and 10).

(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 consolidated financial statements.

FS Investment Corporation
Schedule of Investments
As of December 31, 2009
(in thousands)

Portfolio Company ^(a)	Industry	Principal Amount	Amortized Cost	Fair Value ^(b)
Senior Secured Loans—First Lien—49.1%				
1-800 Contacts, Inc., L+395, 3.8% LIBOR Floor, 3/4/15	Healthcare	\$ 3,079	\$ 2,733	\$ 2,987
AmWINS Group, Inc., L+250, 6/8/13	Financials	975	762	829
Appris (DE), Inc., L+325, 12/20/12	Information Technology	879	684	835
CamelBak Products, Prime+475, 8/4/11	Consumer Discretionary	1,966	1,817	1,857
Caritor, Inc. (Keane Inc.), L+225, 6/4/13	Information Technology	1,988	1,571	1,827
Columbian Chemicals Co., L+600, 3/16/13	Materials	1,214	816	1,068
Contec LLC, L+475, 3.0% LIBOR Floor, 7/28/14	Telecommunication Services	1,984	1,618	1,711
Corel Corp., L+400, 5/2/12	Information Technology	1,569	1,346	1,386
Data Transmission Network Corp., L+500, 3/10/13	Information Technology	483	433	464
Edwards Ltd., L+200, 5/31/14	Industrials	1,950	1,272	1,553
First Data Corp., L+ 275, 9/24/14	Information Technology	2,982	2,348	2,654
Global Tel Link Corp., L+600, 3.0% LIBOR Floor, 2/14/13	Telecommunication Services	401	362	398
Green Tree Credit Solutions LLC, L+575, 2.3% LIBOR Floor, 12/18/15	Financials	3,000	2,851	2,895
Harland Clarke Holdings Corp., L+250, 6/30/14 ^(c)	Industrials	2,483	1,818	2,082
InfrastruX Group, Inc., L+500, 2.5% LIBOR Floor, 0.5% PIK, 11/3/12	Industrials	724	670	656
Intralinks, Inc., L+275, 6/15/14	Information Technology	1,480	1,120	1,391
Kenan Advantage Group, Inc., L+275, 12/16/11	Industrials	990	807	950
King Pharmaceuticals, Inc., L+500, 4/19/12	Healthcare	117	97	100
Mosaic US Holdings Inc., L+275, 4/3/13	Consumer Discretionary	889	592	689
National Processing Co. Group, Inc., L+500, 2.5% LIBOR Floor, 10/31/13	Information Technology	1,196	1,136	1,144
NCO Group, Inc., L+500, 2.5% LIBOR Floor, 5/15/13 ^(c)	Information Technology	2,955	2,601	2,859
Pierre Foods, Inc., L+600, 2.5% LIBOR Floor, 9/30/14	Consumer Staples	2,850	2,768	2,871
Quantum Corp., L+350, 7/12/14	Information Technology	897	762	833
SafeNet, Inc., L+250, 4/12/14	Information Technology	495	358	467
SemGroup Corp., L+700, 1.5% LIBOR Floor, 11/30/12	Energy	4,000	3,804	3,940
Sitel, LLC, L+550, 1/30/14	Telecommunication Services	2,000	1,498	1,777
Texas Competitive Electric Holdings Co. LLC, L+350, 10/10/14	Utilities	4,473	3,431	3,641
Vertellus Specialties, Inc., L+425, 12/10/12	Materials	487	416	472
WCP Exposition Services Operating Co. LLC, L+600, 3.0% LIBOR Floor, 8/29/11	Consumer Discretionary	544	246	320
West Corp., L+500, 3.5% LIBOR Floor, 10/24/13	Telecommunication Services	495	442	498
Yell Group Plc, L+300, 7/31/14	Consumer Discretionary	845	656	626
Total Senior Secured Loans—First Lien			41,835	45,780
Senior Secured Loans—Second Lien—48.8%				
Allen Systems Group, Inc., L+800, 3.0% LIBOR Floor, 2.0% PIK, 4/19/14	Information Technology	4,016	3,812	3,906
American Safety Razor, L+625, 1/30/14	Consumer Staples	2,500	1,864	1,744
AmWINS Group, Inc., L+550, 6/8/14	Financials	300	184	247
Aspect Software, Inc., L+700, 7/11/12	Information Technology	3,500	2,187	3,229
Asurion Corp., L+650, 7/3/15 ^(c)	Financials	3,000	2,600	2,905
Attachmate Corp., L+675, 10/13/13	Information Technology	3,000	2,433	2,460
Awesome Acquisition Co., L+500, 6/4/14	Consumer Discretionary	2,940	2,195	2,322
Bresnan Communications LLC, L+450, 3/29/14	Telecommunication Services	1,000	765	953
Building Materials Corp. of America, L+575, 10/6/14	Materials	2,000	1,654	1,825
Custom Building Products, L+800, 2.8% LIBOR Floor, 4/20/12	Materials	2,500	2,347	2,397
Datatel, Inc., L+825, 2.0% LIBOR Floor, 12/10/16	Information Technology	5,000	4,901	5,075
Dresser, Inc., L+575, 5/4/15 ^(c)	Energy	4,000	3,116	3,723
FR Brand Acquisition Corp., L+600, 2/7/15	Industrials	2,000	1,306	1,682
Harrington Holdings, Inc., L+600, 7/11/14	Healthcare	1,000	680	840
ILC Holdings, Inc., 11.5%, 6/30/14	Industrials	4,000	4,000	4,020
Intergraph Corp., L+600, 11/28/14	Information Technology	1,000	868	950
Sirius Computer Solutions, Inc., L+600, 5/30/13	Information Technology	3,000	2,152	2,550
Sorenson Communications, Inc., L+700, 2/16/14	Telecommunication Services	3,008	2,584	2,968
TPF Generation Holdings (Tenaska Power Fund), L+425, 12/15/14 ^(c)	Energy	2,000	1,703	1,725
Total Senior Secured Loans—Second Lien			41,351	45,521

See notes to consolidated financial statements.

FS Investment Corporation
Schedule of Investments (continued)
As of December 31, 2009
(in thousands)

Portfolio Company ^(a)	Industry	Principal Amount	Amortized Cost	Fair Value ^(b)
Mezzanine Debt—10.0%				
ATI Enterprises, Inc., L+1100, 2.3% LIBOR Floor, 12/30/16 ^(c)	Consumer Discretionary	\$ 5,000	\$ 4,901	\$ 4,925
Sorenson Holdings, Inc., L+1200 PIK, 8/16/14 ^(c)	Telecommunication Services	4,616	4,230	4,366
Total Mezzanine Debt			<u>9,131</u>	<u>9,291</u>
TOTAL INVESTMENTS—107.9%			<u>\$ 92,317</u>	<u>100,592</u>
LIABILITIES IN EXCESS OF OTHER ASSETS—(7.9%)				<u>(7,395)</u>
NET ASSETS—100.0%				<u>\$ 93,197</u>

- (a) Security may be an obligation of one or more entities affiliated with the named company.
(b) Fair value determined by the Company's Board of Directors (see Note 7).
(c) Position or portion thereof unsettled as of December 31, 2009.

See notes to consolidated financial statements.

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

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 December 31, 2010, the Company had one wholly-owned financing subsidiary, Broad Street Funding LLC, or Broad Street, which was established on February 2, 2010. On March 1, 2011, the Company formed a second wholly-owned financing subsidiary, Arch Street Funding LLC, or Arch Street. See "Note 12. Subsequent Events." The consolidated financial statements include both the Company's accounts and the accounts of Broad Street. The consolidated financial statements do not include the accounts of Arch Street, as Arch Street was not in existence during the periods covered by the consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

Since commencing its initial public offering and through March 15, 2011, the Company has sold 56,357,510 shares (as adjusted for stock distributions) of common stock for gross proceeds of \$576,396. As of March 15, 2011, the Company had raised total gross proceeds of \$577,396, including approximately \$1,000 contributed by the principals of the Company's investment adviser in February 2008. During the years ended December 31, 2010 and 2009, the Company sold 31,320,067 and 10,105,293 shares for gross proceeds of \$324,420 and \$93,464 at an average price per share of \$10.31 and \$9.25, respectively. The gross proceeds received during the years ended December 31, 2010 and 2009 include reinvested stockholder distributions of \$8,252 and \$490, respectively. During the period from January 1, 2011 to March 15, 2011, the Company sold 14,932,150 shares of common stock for gross proceeds of \$158,512 at an average price per share of \$10.62.

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 of \$30,252 and \$8,187 for the years ended December 31, 2010 and 2009, respectively.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying audited financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles. The Company has evaluated the impact of subsequent events through the date the 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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Many of the amounts have been rounded, and all amounts are in thousands, except share and per share information.

Cash and Cash Equivalents: The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. All cash balances are maintained with high credit quality financial institutions, which are members of the FDIC.

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

Valuation of Portfolio Investments: The Company determines the net asset value of its 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 the Company's board of directors. In connection with that determination, the Company's investment adviser, FB Income Advisor, LLC or 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 the Financial Accounting Standards Board, or FASB, clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. ASC Topic 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, which includes inputs such as quoted prices for similar securities in active markets and quoted prices for identical securities where there is little or no activity in the market; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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

- the 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 the Company's sub-adviser or an independent valuation firm, if applicable;
- preliminary valuation conclusions are then documented and discussed with the Company's valuation committee;
- the valuation committee reviews the preliminary valuation and FB Advisor's management team, together with the Company's independent valuation firm, if applicable, responds and supplements the preliminary valuation to reflect any comments provided by the valuation committee; and
- the Company's board of directors discusses valuations and determines the fair value of each investment in the Company's 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, these notes to the Company's financial statements refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations on the Company's financial statements. Below is a description of factors that the board of directors may consider when valuing the Company's debt and equity 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, the Company will incorporate these factors into discounted cash flow models to arrive at fair value. Other factors that the Company's board of directors may consider include the borrower's ability to adequately service its debt,

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

the fair market value of the portfolio company in relation to the face amount of its outstanding debt and the quality of collateral securing the Company's debt investments.

Equity interests in portfolio companies for which there is no liquid public market are valued at fair value. The Company's board of directors, in its analysis of fair value, may consider 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. All of these factors may be subject to adjustments based upon the particular circumstances of a portfolio company or the Company's actual investment position. For example, adjustments to EBITDA may take into account compensation to previous owners or acquisition, recapitalization, restructuring or other related items.

The Company's 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. The Company's 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 the Company's 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 the Company's investments are determined in good faith by its board of directors. The Company's board of directors is solely responsible for the valuation of the Company's portfolio investments at fair value as determined in good faith pursuant to the Company's valuation policy and consistently applied valuation process. The Company's investments as of December 31, 2010 consisted primarily of debt securities that are traded on a private over-the-counter market for institutional investors. The Company valued its collateralized loan and debt obligations and its mezzanine 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's investments as of December 31, 2009 consisted entirely of debt securities that are traded on a private over-the-counter market for institutional investors. The Company valued one of its second lien investments and one of its mezzanine debt investments by obtaining bid and ask prices from independent dealers. The Company valued all of its other 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 the service against the actual prices at which the Company 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 the Company cannot obtain prevailing bid and ask prices through its third-party pricing service. 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.

Revenue Recognition: Security transactions are accounted for on the trade date. The Company records interest income on an accrual basis to the extent that it expects to collect such amounts. The Company does not

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

accrue as a receivable interest or dividends on loans and securities if it has reason to doubt the ability to collect such income. Loan origination fees, original issue discount, and market discount are capitalized and such amounts are amortized 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. The Company records prepayment premiums on loans and securities as interest income when it receives 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. The Company measures 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 the Company entered into with 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 will be 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 has 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 as 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 only \$1,396 was based on realized gains and is payable to FB Advisor.

Organization Costs: Organization costs include, among other things, the cost of incorporation including the cost of legal services pertaining to the organization and incorporation of the business and incorporation fees. These costs are expensed as incurred and are included in other general and administrative expenses. For the year ended December 31, 2008, the Company incurred organization costs of \$605, which were paid on behalf of the Company by an affiliate and have been recorded as a capital contribution (Note 4). There were no organization costs for the years ended December 31, 2010 and 2009.

Offering Costs: The Company's offering costs include, among other things, legal fees and other costs pertaining to the preparation of the Company's Registration Statement on Form N-2 pertaining to the public offering of its shares of common stock, or the Registration Statement. The Company has charged offering costs

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

against capital in excess of par on the balance sheet. During the years ended December 31, 2010, 2009 and 2008, the Company had offering costs of \$1,671, \$387 and \$1,310, respectively, of which \$1,125, \$387 and \$1,310, respectively, were paid on behalf of the Company by an affiliate and have been recorded as a contribution to capital (Note 4).

Income Taxes: The Company has elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. To maintain qualification as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements and distribute to its stockholders, for each taxable year, at least 90% of its "investment company taxable income," which is generally net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. As a RIC, the Company will not have to pay corporate-level federal income taxes on any income that it distributes to its stockholders. The Company intends to make sufficient distributions to its stockholders to maintain its RIC status each year and to not pay any federal income taxes on income so distributed. The Company is also subject to nondeductible federal excise taxes if it does 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 it paid no federal income taxes.

Uncertainty in Income Taxes: The Company evaluates its 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. The Company recognizes interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in the Statements of Operations. During the years ended December 31, 2010, 2009 and 2008, the Company did not incur any interest or penalties.

The Company has analyzed the tax positions taken on federal and state income tax returns for all open tax years, and has concluded that no provision for income tax is required in the Company's financial statements. The Company's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Distributions: Distributions to stockholders are recorded as of the record date. The amount of distributions was determined by the Company's board of directors on a monthly basis. Net realized capital gains, if any, are distributed or deemed distributed at least annually.

Reclassifications: Certain amounts in the consolidated financial statements for the year ended December 31, 2009 have been reclassified to conform to the classifications used to prepare the consolidated financial statements for the year ended December 31, 2010. These reclassifications had no material impact on the Company's consolidated financial position, results of operations or cash flows as previously reported.

Note 3. 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

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

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. Except for the gross presentation of Level 3 roll forward information, the Company adopted this guidance during 2010, and such adoption did not have a significant impact on the Company's consolidated financial statements or disclosures. The Company is currently evaluating the impact that the gross presentation of Level 3 roll forward information will have on its consolidated financial statement disclosures when adopted. 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.

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 years ended December 31, 2010 and 2009, FB Advisor earned \$7,900 and \$829, respectively, in base management fees. Management fees are paid on a quarterly basis in arrears. The Company paid \$5,039 and \$392, respectively, of these fees during the years ended December 31, 2010 and 2009.

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 year ended December 31, 2010, the Company accrued a capital gains incentive fee of \$5,459 based on the performance of the Company's portfolio, of which only \$1,396 was based on realized gains and is payable to FB Advisor. During the year ended December 31, 2010, the Company paid FB Advisor \$173 in capital gains incentive fees earned during the year ended December 31, 2009.

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

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 shall be 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 will be reasonably allocated to the Company on the basis of assets, revenues, time records or other reasonable methods. During the years ended December 31, 2010 and 2009, the Company incurred administrative services charges of \$924 and \$261, respectively, attributable to FB Advisor. Of these charges, \$908 and \$257, 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 \$710 and \$165, respectively, for the services incurred under this arrangement during the years ended December 31, 2010 and 2009.

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 \$1,125, \$404 and \$1,914 for the years ended December 31, 2010, 2009 and 2008, respectively. These costs have been 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. The Company incurred organization costs of \$605 during the year ended December 31, 2008. No such costs were incurred during the years ended December 31, 2010 and 2009.

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 years ended December 31, 2010, and 2009, FS² retained \$5,435 and \$1,295, 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 proceeds from unrelated outside investors of at least \$2.5 million, 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 \$1,678 and \$1,418, respectively, to FB Advisor and its affiliates during the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, \$641 is payable to FB Advisor and its affiliates under this arrangement. The reimbursements are recorded as a reduction of capital.

Members of FB Advisor's senior management team provide investment advisory services to both the Company and FB Capital Partners, L.P. FB Capital Partners, L.P., which is owned by Mr. Forman, the Company's chief executive officer, was organized for the purpose of sourcing and managing income-oriented investments for institutions and high net worth individuals. While neither FB Capital Partners, L.P. nor FB Advisor is making private corporate debt investments for clients other than the Company currently, FB Advisor 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.

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

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

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 year ended December 31, 2010, the Company received no reimbursements from Franklin Square Holdings. During the year ended December 31, 2009, the reimbursements from Franklin Square Holdings totaled \$240. 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 chief executive officer, Michael Forman, and its director, David Adelman.

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 years ended December 31, 2008, 2009 and 2010:

For the Year Ended	Distribution	
	Per Share ⁽¹⁾⁽²⁾⁽³⁾	Amount
2008	\$ 0.1835	\$ 25
2009	0.6717	3,134
2010	0.8728	21,389

- (1) The amount of each per share distribution has been retroactively adjusted to reflect the stock distributions declared throughout 2009 and 2010 as discussed below.
- (2) In addition to regular semi-monthly cash distributions during such period, cash distributions declared and paid on the Company's common stock during the year ended December 31, 2010 include approximately \$3,851, or approximately \$0.12 per share, in special cash distributions.
- (3) On October 13, 2010, the Company's board of directors determined to increase the amount of semi-monthly distributions payable to stockholders of record from \$0.03125 per share to \$0.03185 per share, effective October 1, 2010. On October 29, 2010, the Company's board of directors determined to increase the amount of semi-monthly distributions payable to stockholders of record from \$0.03185 per share to \$0.032156 per share, effective November 1, 2010.

On January 13, 2011, the Company's board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which were paid on January 31, 2011 to stockholders of record on January 14, 2011 and January 28, 2011, respectively. On February 14, 2011, the Company's board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which were paid on February 28, 2011 to stockholders of record on February 14, 2011 and February 25, 2011, respectively. On March 14, 2011, the Company's board of directors declared two regular semi-monthly cash distributions of \$0.032156 per share each, which will be paid on March 31, 2011 to stockholders of record on March 14, 2011 and March 30, 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 Consolidated Financial Statements
(in thousands, except share and per share amounts)

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 following table reflects, for tax purposes, the sources of the cash distributions that the Company has paid on its common stock during the years ended December 31, 2010, 2009 and 2008:

Source of Distribution	2010		2009		2008	
	Distribution Amount	Percentage	Distribution Amount	Percentage	Distribution Amount	Percentage
Offering proceeds	\$ —	—	\$ —	—	\$ —	—
Borrowings	—	—	—	—	—	—
Net investment income ⁽¹⁾	13,545	63%	1,917	61%	25	100%
Capital gains proceeds from the sale of assets	7,844	37%	977	31%	—	—
Non-capital gains proceeds from the sale of assets	—	—	—	—	—	—
Expense reimbursement from sponsor	—	—	240	8%	—	—
Total	\$ 21,389	100%	\$ 3,134	100%	\$ 25	100%

(1) During the years ended December 31, 2010 and 2009, 84% and 57%, respectively, of the Company's gross investment income was attributable to cash interest earned and 16% and 43%, respectively, was attributable to non-cash accretion of discount and PIK interest.

The aggregate cost of the Company's investments for federal income tax purposes totaled \$715,695 and \$92,366 as of December 31, 2010 and 2009, respectively. The aggregate net unrealized appreciation on a tax basis was \$17,885 and \$8,226 as of December 31, 2010 and 2009, respectively. The Company's net investment income on a tax basis for the years ended December 31, 2010 and 2009 was \$13,545 and \$2,157, respectively. The Company distributed all of its net investment income earned as of December 31, 2010 and 2009.

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 a non-performing loan, 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 years ended December 31, 2010 and 2009:

	Year ended December 31,	
	2010	2009
GAAP basis net investment income	\$ 9,392	\$ 2,151
Amortization of organizational costs	(43)	(43)
Tax accretion of discount on investment	133	49
Reversal of incentive fee accrual on unrealized gains	4,063	—
Tax basis net investment income	\$ 13,545	\$ 2,157

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

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 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 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.

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 are not expected to represent taxable distributions. Specific tax characteristics of all distributions are reported to stockholders annually on Form 1099-DIV.

As of December 31, 2010 and 2009, the components of accumulated earnings on a tax basis were as follows:

	As of December 31,	
	2010	2009
Distributable ordinary income	\$ 1,290	\$ 53
Incentive fee accrual on unrealized gains	(4,063)	—
Unamortized organizational costs	(558)	(600)
Unrealized appreciation on investments ⁽¹⁾	17,885	8,226
	<u>\$14,554</u>	<u>\$7,679</u>

(1) As of December 31, 2010 and 2009, the gross unrealized appreciation on the Company's investments was \$20,136 and \$8,390, respectively. As of December 31, 2010 and 2009, the gross unrealized depreciation on the Company's investments was \$2,251 and \$164, respectively.

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

Note 6. Investment Portfolio

The following table summarizes the composition of the Company's investment portfolio at cost and fair value as of December 31, 2010 and 2009:

	Year Ended December 31,					
	2010			2009		
	Cost ⁽¹⁾	Fair Value	Percentage of Portfolio	Cost ⁽¹⁾	Fair Value	Percentage of Portfolio
Senior Secured Loans—First Lien	\$473,881	\$484,105	66%	\$41,835	\$ 45,780	46%
Senior Secured Loans—Second Lien	131,960	135,962	19%	41,351	45,521	45%
Senior Secured Bonds	30,265	31,659	4%	—	—	0%
Mezzanine Debt/Other	79,408	81,854	11%	9,131	9,291	9%
	<u>\$715,514</u>	<u>\$733,580</u>	<u>100%</u>	<u>\$92,317</u>	<u>\$100,592</u>	<u>100%</u>

(1) Cost represents the original cost adjusted for the accretion of discounts 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.

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 December 31, 2010, the Company had three such investments, all of which have been fully funded.

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 December 31, 2010 and 2009:

Industry Classification	Year Ended December 31,			
	2010		2009	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Consumer Discretionary	\$129,749	17.6%	\$ 10,739	44.3%
Consumer Staples	56,184	7.7%	4,615	48.6%
Energy	69,048	9.4%	9,388	53.0%
Financials	59,431	8.1%	6,876	57.3%
Healthcare	63,460	8.7%	3,927	61.7%
Industrials	96,762	13.2%	10,943	66.0%
Information Technology	117,499	16.0%	32,030	70.4%
Materials	46,832	6.4%	5,762	74.7%
Telecommunication Services	81,675	11.1%	12,671	79.1%
Utilities	12,940	1.8%	3,641	83.4%
Total	<u>\$733,580</u>	<u>100.0%</u>	<u>\$100,593</u>	<u>87.8%</u>

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

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.

As of December 31, 2010 and 2009, the Company's investments were categorized as follows in the fair value hierarchy:

Valuation Inputs	Year Ended December 31,	
	2010	2009
Level 1—Price quotations in active markets	\$ —	\$ —
Level 2—Significant other observable inputs	—	—
Level 3—Significant unobservable inputs	733,580	100,592
	<u>\$ 733,580</u>	<u>\$ 100,592</u>

The Company's investments as of December 31, 2010 consisted primarily of debt securities that are traded on a private over-the-counter market for institutional investors. The Company valued its collateralized loan and debt obligations and its mezzanine 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's investments as of December 31, 2009 consisted entirely of debt securities that are traded on a private over-the-counter market for institutional investors. The Company valued one of its second lien investments and one of its mezzanine debt investments by obtaining bid and ask prices from independent dealers. The Company valued all of its other 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 the 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

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

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 the third-party pricing service. 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.

The following is a reconciliation for the years ended December 31, 2010 and 2009 of investments for which significant unobservable inputs (Level 3) were used in determining fair value:

	For the Year Ended December 31, 2010				
	Senior Secured Loans - First Lien	Senior Secured Loans - Second Lien	Senior Secured Bonds	Mezzanine Debt/Other	Total
Fair value at beginning of period	\$ 45,780	\$ 45,521	\$ —	\$ 9,291	\$ 100,592
Accretion of discount	2,933	1,656	(8)	244	4,825
Net realized gain (loss)	4,378	4,788	(890)	805	9,081
Net change in unrealized appreciation (depreciation)	6,279	(167)	1,394	2,285	9,791
Purchases	555,405	153,442	55,282	85,113	849,242
Paid-in-kind interest	—	61	—	42	103
Sales and redemptions	(130,670)	(69,339)	(24,119)	(15,926)	(240,054)
Net transfers in or out of Level 3	—	—	—	—	—
Fair value at end of period	<u>\$ 484,105</u>	<u>\$ 135,962</u>	<u>\$ 31,659</u>	<u>\$ 81,854</u>	<u>\$ 733,580</u>

The amount of total gains 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>\$ 4,696</u>	<u>\$ (2,942)</u>	<u>\$ 1,394</u>	<u>\$ 2,150</u>	<u>\$ 5,298</u>
--	-----------------	-------------------	-----------------	-----------------	-----------------

	For the Year Ended December 31, 2009				
	Senior Secured Loans - First Lien	Senior Secured Loans - Second Lien	Senior Secured Bonds	Mezzanine Debt/Other	Total
Fair value at beginning of period	\$ —	\$ —	\$ —	\$ —	\$ —
Accretion of discount	963	793	—	6	1,762
Net realized gain	694	—	—	107	801
Net change in unrealized appreciation	3,945	4,170	—	160	8,275
Purchases	52,302	40,542	—	11,904	104,748
Paid-in-kind interest	1	16	—	116	133
Sales and redemptions	(12,125)	—	—	(3,002)	(15,127)
Net transfers in or out of Level 3	—	—	—	—	—
Fair value at end of period	<u>\$ 45,780</u>	<u>\$ 45,521</u>	<u>\$ —</u>	<u>\$ 9,291</u>	<u>\$ 100,592</u>

The amount of total gains 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>\$ 3,945</u>	<u>\$ 4,170</u>	<u>\$ —</u>	<u>\$ 160</u>	<u>\$ 8,275</u>
--	-----------------	-----------------	-------------	---------------	-----------------

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

Note 8. Share Repurchase Program

The Company intends to conduct quarterly tender offers pursuant to its share repurchase program. The first such tender offer commenced in March 2010 and the repurchase occurred in connection with the Company's April 1, 2010 closing. 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;
- 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. During the year ended December 31, 2010, the Company repurchased 228,950 shares at \$9.36 per share for aggregate consideration totaling \$2,143. On January 3, 2011, the Company repurchased 99,633 shares at \$9.59 per share for aggregate consideration totaling \$955.

Note 9. 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

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

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 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.

As of December 31, 2010, \$297,201 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 \$1,341 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 December 31, 2010, \$835 of such deferred financing costs have yet to be amortized to interest expense.

The effective interest rate under the credit facility was 2.38% on December 31, 2010. Interest is paid quarterly in arrears, and commenced August 20, 2010. The Company recorded interest expense of \$3,881 for the year ended December 31, 2010, of which \$506 related to the amortization of deferred financing costs. The Company paid \$2,492 in interest expense for the year ended December 31, 2010. The average borrowings under the credit facility for the year ended December 31, 2010 were \$170,161, with a weighted average interest rate of 2.6%.

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

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

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.

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 business development companies.

Note 10. Broad Street Funding LLC

The financial statements of Broad Street are maintained separate 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 December 31, 2010:

Assets	
Investments, at fair value (amortized cost—\$527,964)	\$ 540,186
Cash	9,534
Receivable for investments sold and repaid	5,162
Interest receivable	2,360
Deferred financing costs	835
Total assets	<u>\$ 558,077</u>
Liabilities	
Payable for investments purchased	\$ 48,947
Credit facility payable	297,201
Due to FS Investment Corporation	992
Interest payable	883
Other accrued expenses	43
Total liabilities	<u>348,066</u>
Member's equity	<u>210,011</u>
Total liabilities and member's equity	<u>\$ 558,077</u>

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

Note 11. Financial Highlights

The following is a schedule of financial highlights for the years ended December 31, 2010, 2009 and 2008:

	Year Ended December 31,		
	2010	2009	2008
Per Share Data⁽¹⁾:			
Net asset value, beginning of period	\$ 9.10	\$ 7.33	\$ —
Results of operations⁽²⁾			
Net investment income	0.40	0.48	(4.72)
Net realized and unrealized appreciation on investments and unrealized loss on foreign currency	0.81	2.09	—
Net increase (decrease) in net assets resulting from operations	1.21	2.57	(4.72)
Stockholder distributions⁽³⁾			
Distributions from net investment income	(0.55)	(0.46)	(0.18)
Distributions from net realized gain on investments	(0.32)	(0.21)	—
Net decrease in net assets resulting from stockholder distributions	(0.87)	(0.67)	(0.18)
Capital share transactions			
Issuance of common stock ⁽⁴⁾	0.10	0.19	7.32
Repurchases of common stock ⁽⁵⁾	—	—	—
Offering costs ⁽²⁾	(0.07)	(0.09)	(10.67)
Reimbursement to investment adviser ⁽²⁾	(0.10)	(0.32)	—
Capital contributions of investment adviser ⁽²⁾	0.05	0.09	15.58
Net increase (decrease) in net assets resulting from capital share transactions	(0.02)	(0.13)	12.23
Net asset value, end of period	\$ 9.42	\$ 9.10	\$ 7.33
Shares outstanding, end of period	41,332,661	10,241,544	136,251
Total return ⁽⁶⁾	13.08%	33.33%	2.40%
Ratio/Supplemental Data:			
Net assets, end of period	\$ 389,232	\$ 93,197	\$ 999
Ratio of net investment income to average net assets ⁽⁷⁾	4.37%	5.60%	(116.12%)
Ratio of operating expenses to average net assets ⁽⁷⁾	9.89%	6.53%	121.20%
Ratio of expenses reimbursed to average net assets ⁽⁷⁾	0.00%	(0.62%)	0.00%
Ratio of total operating expenses to average net assets ⁽⁷⁾	9.89%	5.91%	121.20%
Portfolio turnover	67.48%	46.45%	0.00%

(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.

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

- (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 per share impact for the Company's repurchases of common stock is a reduction to net asset value of \$0.0026 per share.
- (6) The 2008 total return is based on an initial investment at \$7.32 per share, which represents the initial offering price per share, net of commissions and discounts, after taking into account the stock distributions to stockholders described in Note 5. The Company's net loss in 2008 did not reduce net asset value as all expenses were funded by a third-party affiliate. The 2009 total return was calculated by taking the net asset value per share as of December 31, 2009, 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, 2008. 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.
- (7) Average monthly net assets are used for this calculation.

Note 12. Subsequent Events

On March 18, 2011, Arch Street, the Company's newly-formed, wholly-owned financing subsidiary, entered into a total return swap, or TRS, for senior secured floating rate loans with Citibank, N.A., or Citibank.

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 market value of \$200,000. 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.

A TRS is a commonly used form of financing arrangement that provides economic exposure similar to the exposure under Broad Street's credit facility. Because of the unique structure of a TRS, a TRS often offers lower financing costs than are offered through more traditional borrowing arrangements.

Generally, pursuant to a TRS, 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 is typically used to obtain exposure to a security or market without owning or taking physical custody of such security or investing directly in such market. A TRS may effectively add leverage to the Company's portfolio because, in addition to the Company's total net assets, the Company would be subject to investment exposure on the amount of securities subject to the TRS.

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.

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

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. The terms of the TRS are governed by a set of agreements between Arch Street and Citibank, which collectively establish the TRS, and are collectively referred to herein as the TRS Agreement.

Pursuant to the terms of the TRS Agreement, Arch Street may select a portfolio of loans with a maximum market value (determined at the time each such loan becomes subject to the TRS) of \$200,000. Each individual loan, and the portfolio of loans taken as a whole, must meet criteria described in the TRS Agreement. Arch Street will receive from Citibank all interest and fees payable in respect of the loans included in the portfolio. Arch Street will pay 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. Arch Street may be required to post additional collateral from time to time as a result of a decline in the mark-to-market value of the portfolio of loans subject to the TRS.

Citibank may terminate the TRS on or after 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. 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.

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

Note 13. Selected Quarterly Financial Data (Unaudited)

The following is the quarterly results of operations for the years ended December 31, 2010 and 2009. The following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	Quarter Ended			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Investment income	\$ 12,798	\$ 8,678	\$ 6,060	\$ 3,134
Operating expenses				
Total expenses ⁽²⁾	11,215	5,119	2,925	2,019
Net expenses	11,215	5,119	2,925	2,019
Net investment income	1,583	3,559	3,135	1,115
Realized and unrealized gain (loss)	13,681	8,289	(6,852)	3,754
Net increase (decrease) in net assets resulting from operations	<u>\$ 15,264</u>	<u>\$ 11,848</u>	<u>\$ (3,717)</u>	<u>\$ 4,869</u>
Per share information—basic and diluted				
Net investment income	\$ 0.05	\$ 0.14	\$ 0.16	\$ 0.08
Net increase (decrease) in net assets resulting from operations	\$ 0.43	\$ 0.47	\$ (0.19)	\$ 0.37
Weighted average shares outstanding ⁽¹⁾	<u>35,142,181</u>	<u>25,426,504</u>	<u>19,178,168</u>	<u>13,121,990</u>

	Quarter Ended			
	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Investment income	\$ 2,339	\$ 1,353	\$ 570	\$ 158
Operating expenses				
Total expenses	994	785	462	268
Less: Expense reimbursement from sponsor	—	(64)	(52)	(124)
Net expenses	994	721	410	144
Net investment income	1,345	632	160	14
Realized and unrealized gain	2,124	4,650	2,252	279
Net increase in net assets resulting from operations	<u>\$ 3,469</u>	<u>\$ 5,282</u>	<u>\$ 2,412</u>	<u>\$ 293</u>
Per share information—basic and diluted				
Net investment income	\$ 0.15	\$ 0.12	\$ 0.07	\$ 0.02
Net increase in net assets resulting from operations	\$ 0.38	\$ 0.99	\$ 0.98	\$ 0.33
Weighted average shares outstanding ⁽¹⁾	<u>9,069,349</u>	<u>5,337,073</u>	<u>2,456,465</u>	<u>898,022</u>

(1) The weighted average share information has been retroactively adjusted to reflect the stock distributions discussed in Note 5.

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

- (2) Commencing during the quarter ended December 31, 2010, the Company has changed its methodology for accruing for incentive fees to include unrealized gains in the calculation of the capital gains incentive fee expense. As a result, the Company recorded an additional \$4,063 in capital gains incentive fees during this quarter.

The sum of quarterly per share amounts does not equal per share amounts reported for the years ended December 31, 2010 and 2009. This is due to changes in the number of weighted-average shares outstanding and the effects of rounding for each period.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure 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 Securities Exchange Act of 1934, as amended, or 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 SEC Rule 15d-15(b), we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2010. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were (a) designed to ensure that the information we are required to disclose in our reports under the Exchange Act is recorded, processed and reported in an accurate manner and on a timely basis and the information that we are required to disclose in our Exchange Act reports is accumulated and communicated to management to permit timely decisions with respect to required disclosure and (b) operating in an effective manner.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in SEC Rules 13a-15(f) and 15d-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

1. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company's transactions and the dispositions of assets of the Company;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and Board of Directors; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

[Table of Contents](#)

Management's report on internal control over financial reporting is set forth above under the heading "Management's Report on Internal Control over Financial Reporting" in Item 8 of this annual report on Form 10-K.

(c) Attestation Report of the Registered Public Accounting Firm

Our registered public accounting firm has issued an attestation report on our internal control over financial reporting. This report appears on page 75.

(d) Changes in Internal Control Over Financial Reporting

During our fourth quarter of 2010, there has been no change in our internal control over financial reporting (as defined in SEC Rules 13a-15(f) or 15d-15(f)) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

On March 18, 2011, Arch Street Funding LLC, or Arch Street, the Company's newly-formed, wholly-owned financing subsidiary, entered into a total return swap, or TRS, for senior secured floating rate loans with Citibank, N.A., or Citibank.

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.

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. The terms of the TRS are governed by an ISDA 2002 Master Agreement, the Schedule thereto and Credit Support Annex to such Schedule, and the Confirmation exchanged thereunder, between Arch Street and Citibank, which collectively establish the TRS, and are collectively referred to herein as the TRS Agreement.

Pursuant to the terms of the TRS Agreement, and subject to conditions customary for transactions of this nature, Arch Street may select a portfolio of loans with a maximum market value (determined at the time each such loan becomes subject to the TRS) of \$200,000,000. Each individual loan, and the portfolio of loans taken as a whole, must meet criteria described in the TRS Agreement. Arch Street will receive from Citibank all interest and, subject to limitations described in the TRS Agreement, all fees payable in respect of the loans included in the portfolio. Arch Street will pay 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.

Citibank may terminate the TRS on or after 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. Arch Street is required to pay a minimum usage fee in connection with the TRS of 1.25% on 90% of the unused portion of the maximum amount permitted under the TRS. Such minimum usage fee will not apply during the first 90 and last 30 days of the term of the TRS or be payable if Citibank rejects a specified percentage of loans proposed by Arch Street to be included in the portfolio that meet specific criteria described in the TRS Agreement. Arch Street will also pay Citibank customary fees in connection with the establishment and maintenance of the TRS.

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 TRS Agreement. Arch Street may be required to post additional collateral from time to time as a

[Table of Contents](#)

result of a decline in the mark-to-market value of the portfolio of loans subject to the TRS. The obligations of Arch Street under the TRS Agreement are non-recourse to the Company and the Company's exposure under the TRS Agreement 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 Agreement.

In connection with the TRS, Arch Street has made customary 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 and termination events included in the form ISDA 2002 Master Agreement, the TRS Agreement contains the following termination events: (a) a failure to satisfy the portfolio criteria for at least 30 days; (b) a failure to post initial cash collateral or additional collateral as required by the TRS Agreement; (c) a default by Arch Street or the Company with respect to indebtedness in an amount equal to or greater than the lesser of \$10,000,000 and 2% of the Company's net asset value at such time; (d) a merger of Arch Street or the Company meeting certain criteria; (e) the Company or Arch Street amending their respective constituent documents to alter their investment strategy in a manner that has or could reasonably be expected to have a material adverse effect; and (f) the Company ceasing to be the investment manager of Arch Street or having authority to enter into transactions under the TRS Agreement on behalf of Arch Street, and not being replaced by an entity reasonably acceptable to Citibank.

The summary descriptions of the TRS and the TRS Agreement contained in this Annual Report on Form 10-K are qualified in its entirety by the full text of the agreements constituting the TRS Agreement, copies of which are attached to this Annual Report on Form 10-K as Exhibits 10.13, 10.14 and 10.15 and are incorporated herein by reference.

PART III

We will file a definitive Proxy Statement for our 2011 Annual Meeting of Stockholders with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of our definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2011 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2011 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2011 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2011 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2011 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

PART IV**Item 15. Exhibits, Financial Statement Schedules****a. Documents Filed as Part of this Report**

The following financial statements are set forth in Item 8:

	<u>Page</u>
Management's Report on Internal Control over Financial Reporting	74
Report of Independent Registered Public Accounting Firm	75
Report of Independent Registered Public Accounting Firm	76
Consolidated Balance Sheets as of December 31, 2010 and 2009	77
Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008	78
Consolidated Statements of Changes in Net Assets for the years ended December 31, 2010, 2009 and 2008	79
Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008	80
Consolidated Schedule of Investments as of December 31, 2010 and 2009	81
Notes to Consolidated Financial Statements	86

b. Exhibits

Please note that the agreements included as exhibits to this Annual Report on Form 10-K are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about FS Investment Corporation or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that have been made solely for the benefit of the other parties to the applicable agreement and may not describe the actual state of affairs as of the date they were made or at any other time.

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

- 3.1 Articles of Amendment and Restatement of FS Investment Corporation. *(Incorporated by reference to Exhibit (a)(2) filed with Amendment No. 3 to the Company's registration statement on Form N-2 (File No. 333-149374) filed on September 17, 2008.)*
- 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 prospectus Supplement No. 2 on Form 497 (File No. 333-149374) filed on January 14, 2009.)*
- 4.2 Amended and Restated Distribution Reinvestment Plan. *(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.)*
- 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. *(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 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.)*

Table of Contents

- 10.5 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.)*
- 10.6 Custodian Agreement by and between the Company and 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.)*
- 10.7 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.)*
- 10.8 Amended and Restated Credit 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 10.1 to the Company's Current Report on Form 8-K filed on February 1, 2011.)*
- 10.9 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 filed on March 16, 2010.)*
- 10.10 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 filed on July 19, 2010.)*
- 10.11 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 filed on March 16, 2010.)*
- 10.12 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 filed on February 1, 2011.)*
- 10.13* ISDA 2002 Master Agreement, together with the Schedule thereto and Credit Support Annex to such Schedule, each dated as of March 18, 2011, by and between Arch Street Funding LLC and Citibank, N.A.
- 10.14* Confirmation Letter Agreement, dated as of March 18, 2011, by and between Arch Street Funding LLC and Citibank, N.A.
- 10.15* Investment Management Agreement by and between the Company and Arch Street Funding LLC, dated as of March 18, 2011.
- 21.1* Subsidiaries of FS Investment Corporation.
- 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.

c. Financial statement schedules

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

SIGNATURES

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

FS INVESTMENT CORPORATION

Date: March 24, 2011

/s/ Michael C. Forman

Michael C. Forman
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

Date: March 24, 2011

/s/ Michael C. Forman

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

Date: March 24, 2011

/s/ Charles M. Jacobson

Charles M. Jacobson
Chief Financial Officer
(Principal Accounting and Financial Officer)

Date: March 24, 2011

/s/ David Adelman

David Adelman
Director

Date: March 24, 2011

/s/ Gregory P. Chandler

Gregory P. Chandler
Director

Date: March 24, 2011

/s/ Barry H. Frank

Barry H. Frank
Director

Date: March 24, 2011

/s/ Thomas J. Gravina

Thomas J. Gravina
Director

Date: March 24, 2011

/s/ Jeffrey K. Harrow

Jeffrey K. Harrow
Director

Date: March 24, 2011

/s/ Michael Heller

Michael Heller
Director

Date: March 24, 2011

/s/ Paul Mendelson

Paul Mendelson
Director

ISDA®

International Swaps and Derivatives Association, Inc.

2002 MASTER AGREEMENT

dated as of March 18, 2011

CITIBANK, N.A.

and ARCH STREET FUNDING LLC

have entered and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by this 2002 Master Agreement, which includes the schedule (the "Schedule"), and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties or otherwise effective for the purpose of confirming or evidencing those Transactions. This 2002 Master Agreement and the Schedule are together referred to as this "Master Agreement".

Accordingly, the parties agree as follows:—

1. Interpretation

(a) **Definitions.** The terms defined in Section 14 and elsewhere in this Master Agreement will have the meanings therein specified for the purpose of this Master Agreement.

(b) **Inconsistency.** In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement, such Confirmation will prevail for the purpose of the relevant Transaction.

(c) **Single Agreement.** All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this "Agreement"), and the parties would not otherwise enter into any Transactions.

2. Obligations**(a) General Conditions.**

(i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.

(ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.

(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other condition specified in this Agreement to be a condition precedent for the purpose of this Section 2(a)(iii).

Copyright © 2002 by International Swaps and Derivatives Association, Inc.

(b) **Change of Account.** Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the Scheduled Settlement Date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) **Netting of Payments.** If on any date amounts would otherwise be payable:—

- (i) in the same currency; and
- (ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by which the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount and payment obligation will be determined in respect of all amounts payable on the same date in the same currency in respect of those Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or any Confirmation by specifying that "Multiple Transaction Payment Netting" applies to the Transactions identified as being subject to the election (in which case clause (ii) above will not apply to such Transactions). If Multiple Transaction Payment Netting is applicable to Transactions, it will apply to those Transactions with effect from the starting date specified in the Schedule or such Confirmation, or, if a starting date is not specified in the Schedule or such Confirmation, the starting date otherwise agreed by the parties in writing. This election may be made separately for different groups of Transactions and will apply separately to each pairing of Offices through which the parties make and receive payments or deliveries.

(d) **Deduction or Withholding for Tax.**

(i) **Gross-Up.** All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If a party is so required to deduct or withhold, then that party ("X") will:—

- (1) promptly notify the other party ("Y") of such requirement;
- (2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against Y;
- (3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y, evidencing such payment to such authorities; and

(4) if such Tax is an Indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for:—

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for (I) any action taken by a taxing authority, or brought in a court of competent jurisdiction, after a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (II) a Change in Tax Law.

(ii) **Liability.** If:—

(1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4);

(2) X does not so deduct or withhold; and

(3) a liability resulting from such Tax is assessed directly against X,

then, except to the extent Y has satisfied or then satisfies the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d)).

3. Representations

Each party makes the representations contained in Sections 3(a), 3(b), 3(c), 3(d), 3(e) and 3(f) and, if specified in the Schedule as applying, 3(g) to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement). If any “Additional Representation” is specified in the Schedule or any Confirmation as applying, the party or parties specified for such Additional Representation will make and, if applicable, be deemed to repeat such Additional Representation at the time or times specified for such Additional Representation.

(a) **Basic Representations.**

(i) **Status.** It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;

(ii) **Powers.** It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;

(iii) **No Violation or Conflict.** Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) **Consents.** All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) **Obligations Binding.** Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

- (b) **Absence of Certain Events.** No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.
- (c) **Absence of Litigation.** There is not pending or, to its knowledge, threatened against it, any of its Credit Support Providers or any of its applicable Specified Entities any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.
- (d) **Accuracy of Specified Information.** All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.
- (e) **Payer Tax Representation.** Each representation specified in the Schedule as being made by it for the purpose of this Section 3(e) is accurate and true.
- (f) **Payee Tax Representations.** Each representation specified in the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.
- (g) **No Agency.** It is entering into this Agreement, including each Transaction, as principal and not as agent of any person or entity.

4. Agreements

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:—

- (a) **Furnish Specified Information.** It will deliver to the other party or, in certain cases under clause (iii) below, to such government or taxing authority as the other party reasonably directs:—
- (i) any forms, documents or certificates relating to taxation specified in the Schedule or any Confirmation;
- (ii) any other documents specified in the Schedule or any Confirmation; and

(iii) upon reasonable demand by such other party, any form or document that may be required or reasonably requested in writing in order to allow such other party or its Credit Support Provider to make a payment under this Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax or with such deduction or withholding at a reduced rate (so long as the completion, execution or submission of such form or document would not materially prejudice the legal or commercial position of the party in receipt of such demand), with any such form or document to be accurate and completed in a manner reasonably satisfactory to such other party and to be executed and to be delivered with any reasonably required certification,

in each case by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

- (b) **Maintain Authorisations.** It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.
- (c) **Comply With Laws.** It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.
- (d) **Tax Agreement.** It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.
- (e) **Payment of Stamp Tax.** Subject to Section 11, it will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated, organised, managed and controlled or considered to have its seat, or where an Office through which it is acting for the purpose of this Agreement is located (“Stamp Tax Jurisdiction”), and will indemnify the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party’s execution or performance of this Agreement by any such Stamp Tax Jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

5. Events of Default and Termination Events

(a) **Events of Default.** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes (subject to Sections 5(c) and 6(e)(iv)) an event of default (an “Event of Default”) with respect to such party:

(i) **Failure to Pay or Deliver.** Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 9(h)(i)(2) or (4) required to be made by it if such failure is not remedied on or before the first Local Business Day in the case of any such payment or the first Local Delivery Day in the case of any such delivery after, in each case, notice of such failure is given to the party;

(ii) **Breach of Agreement; Repudiation of Agreement.**

(1) Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2(a)(i) or 9(h)(i)(2) or (4) or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i), 4(a)(iii) or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied within 30 days after notice of such failure is given to the party; or

(2) the party disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, this Master Agreement, any Confirmation executed and delivered by that party or any

Transaction evidenced by such a Confirmation (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(iii) **Credit Support Default.**

- (1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;
- (2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document, or any security interest granted by such party or such Credit Support Provider to the other party pursuant to any such Credit Support Document, to be in full force and effect for the purpose of this Agreement (in each case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or
- (3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(iv) **Misrepresentation.** A representation (other than a representation under Section 3(e) or 3(f)) made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) **Default Under Specified Transaction.** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:—

- (1) defaults (other than by failing to make a delivery) under a Specified Transaction or any credit support arrangement relating to a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, such default results in a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction;
- (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment due on the last payment or exchange date of, or any payment on early termination of, a Specified Transaction (or, if there is no applicable notice requirement or grace period, such default continues for at least one Local Business Day);
- (3) defaults in making any delivery due under (including any delivery due on the last delivery or exchange date of) a Specified Transaction or any credit support arrangement relating to a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, such default results in a liquidation of, an acceleration of obligations under, or an early termination of, all transactions outstanding under the documentation applicable to that Specified Transaction; or
- (4) disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, a Specified Transaction or any credit support arrangement relating to a Specified Transaction that is, in either case, confirmed or evidenced by a document or other confirming evidence executed and delivered by that party, Credit Support Provider or Specified Entity (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) **Cross-Default.** If “Cross-Default” is specified in the Schedule as applying to the party, the occurrence or existence of:—

(1) a default, event of default or other similar condition or event (however described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) where the aggregate principal amount of such agreements or instruments, either alone or together with the amount, if any, referred to in clause (2) below, is not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments before it would otherwise have been due and payable; or

(2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments under such agreements or instruments on the due date for payment (after giving effect to any applicable notice requirement or grace period) in an aggregate amount, either alone or together with the amount, if any, referred to in clause (1) above, of not less than the applicable Threshold Amount;

(vii) **Bankruptcy.** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:—

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4)(A) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation by it or such regulator, supervisor or similar official, or (B) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation, and such proceeding or petition is instituted or presented by a person or entity not described in clause (A) above and either (I) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (II) is not dismissed, discharged, stayed or restrained in each case within 15 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 15 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) above (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) **Merger Without Assumption.** The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, or reorganises, reincorporates or reconstitutes into or as, another entity and, at the time of such consolidation, amalgamation, merger, transfer, reorganisation, reincorporation or reconstitution:—

- (1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party; or
- (2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) **Termination Events.** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes (subject to Section 5(c)) an Illegality if the event is specified in clause (i) below, a Force Majeure Event if the event is specified in clause (ii) below, a Tax Event if the event is specified in clause (iii) below, a Tax Event Upon Merger if the event is specified in clause (iv) below, and, if specified to be applicable, a Credit Event Upon Merger if the event is specified pursuant to clause (v) below or an Additional Termination Event if the event is specified pursuant to clause (vi) below:—

(i) **Illegality.** After giving effect to any applicable provision, disruption fallback or remedy specified in, or pursuant to, the relevant Confirmation or elsewhere in this Agreement, due to an event or circumstance (other than any action taken by a party or, if applicable, any Credit Support Provider of such party) occurring after a Transaction is entered into, it becomes unlawful under any applicable law (including without limitation the laws of any country in which payment, delivery or compliance is required by either party or any Credit Support Provider, as the case may be), on any day, or it would be unlawful if the relevant payment, delivery or compliance were required on that day (in each case, other than as a result of a breach by the party of Section 4(b)):—

- (1) for the Office through which such party (which will be the Affected Party) makes and receives payments or deliveries with respect to such Transaction to perform any absolute or contingent obligation to make a payment or delivery in respect of such Transaction, to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or
- (2) for such party or any Credit Support Provider of such party (which will be the Affected Party) to perform any absolute or contingent obligation to make a payment or delivery which such party or Credit Support Provider has under any Credit Support Document relating to such Transaction, to receive a payment or delivery under such Credit Support Document or to comply with any other material provision of such Credit Support Document;

(ii) **Force Majeure Event.** After giving effect to any applicable provision, disruption fallback or remedy specified in, or pursuant to, the relevant Confirmation or elsewhere in this Agreement, by reason of force majeure or act of state occurring after a Transaction is entered into, on any day:—

- (1) the Office through which such party (which will be the Affected Party) makes and receives payments or deliveries with respect to such Transaction is prevented from performing any absolute or contingent obligation to make a payment or delivery in respect of such Transaction, from receiving a payment or delivery in respect of such Transaction or from complying with any other material provision of this Agreement relating to such Transaction (or would be so prevented if such payment, delivery or compliance were required on that day), or it becomes impossible or

impracticable for such Office so to perform, receive or comply (or it would be impossible or impracticable for such Office so to perform, receive or comply if such payment, delivery or compliance were required on that day); or

(2) such party or any Credit Support Provider of such party (which will be the Affected Party) is prevented from performing any absolute or contingent obligation to make a payment or delivery which such party or Credit Support Provider has under any Credit Support Document relating to such Transaction, from receiving a payment or delivery under such Credit Support Document or from complying with any other material provision of such Credit Support Document (or would be so prevented if such payment, delivery or compliance were required on that day), or it becomes impossible or impracticable for such party or Credit Support Provider so to perform, receive or comply (or it would be impossible or impracticable for such party or Credit Support Provider so to perform, receive or comply if such payment, delivery or compliance were required on that day),

so long as the force majeure or act of state is beyond the control of such Office, such party or such Credit Support Provider, as appropriate, and such Office, party or Credit Support Provider could not, after using all reasonable efforts (which will not require such party or Credit Support Provider to incur a loss, other than immaterial, incidental expenses), overcome such prevention, impossibility or impracticability;

(iii) **Tax Event.** Due to (1) any action taken by a taxing authority, or brought in a court of competent jurisdiction, after a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (2) a Change in Tax Law, the party (which will be the Affected Party) will, or there is a substantial likelihood that it will, on the next succeeding Scheduled Settlement Date (A) be required to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 9(h)) or (B) receive a payment from which an amount is required to be deducted or withheld for or on account of a Tax (except in respect of interest under Section 9(h)) and no additional amount is required to be paid in respect of such Tax under Section 2(d)(i)(4) (other than by reason of Section 2(d)(i)(4)(A) or (B));

(iv) **Tax Event Upon Merger.** The party (the “Burdened Party”) on the next succeeding Scheduled Settlement Date will either (1) be required to pay an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 9(h)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Tax in respect of which the other party is not required to pay an additional amount (other than by reason of Section 2(d)(i)(4)(A) or (B)), in either case as a result of a party consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets (or any substantial part of the assets comprising the business conducted by it as of the date of this Master Agreement) to, or reorganising, reincorporating or reconstituting into or as, another entity (which will be the Affected Party) where such action does not constitute a Merger Without Assumption;

(v) **Credit Event Upon Merger.** If “Credit Event Upon Merger” is specified in the Schedule as applying to the party, a Designated Event (as defined below) occurs with respect to such party, any Credit Support Provider of such party or any applicable Specified Entity of such party (in each case, “X”) and such Designated Event does not constitute a Merger Without Assumption, and the creditworthiness of X or, if applicable, the successor, surviving or transferee entity of X, after taking into account any applicable Credit Support Document, is materially weaker immediately after the occurrence of such Designated Event than that of X immediately prior to the occurrence of such Designated Event (and, in any such event, such party or its successor, surviving or transferee entity, as appropriate, will be the Affected Party). A “Designated Event” with respect to X means that:—

(1) X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets (or any substantial part of the assets comprising the business conducted by X as of the

date of this Master Agreement) to, or reorganises, reincorporates or reconstitutes into or as, another entity;

(2) any person, related group of persons or entity acquires directly or indirectly the beneficial ownership of (A) equity securities having the power to elect a majority of the board of directors (or its equivalent) of X or (B) any other ownership interest enabling it to exercise control of X; or

(3) X effects any substantial change in its capital structure by means of the issuance, incurrence or guarantee of debt or the issuance of (A) preferred stock or other securities convertible into or exchangeable for debt or preferred stock or (B) in the case of entities other than corporations, any other form of ownership interest; or

(vi) **Additional Termination Event.** If any “Additional Termination Event” is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties will be as specified for such Additional Termination Event in the Schedule or such Confirmation).

(c) **Hierarchy of Events.**

(i) An event or circumstance that constitutes or gives rise to an Illegality or a Force Majeure Event will not, for so long as that is the case, also constitute or give rise to an Event of Default under Section 5(a)(i), 5(a)(ii)(1) or 5(a)(iii)(1) insofar as such event or circumstance relates to the failure to make any payment or delivery or a failure to comply with any other material provision of this Agreement or a Credit Support Document, as the case may be.

(ii) Except in circumstances contemplated by clause (i) above, if an event or circumstance which would otherwise constitute or give rise to an Illegality or a Force Majeure Event also constitutes an Event of Default or any other Termination Event, it will be treated as an Event of Default or such other Termination Event, as the case may be, and will not constitute or give rise to an Illegality or a Force Majeure Event.

(iii) If an event or circumstance which would otherwise constitute or give rise to a Force Majeure Event also constitutes an Illegality, it will be treated as an Illegality, except as described in clause (ii) above, and not a Force Majeure Event.

(d) **Deferral of Payments and Deliveries During Waiting Period.** If an Illegality or a Force Majeure Event has occurred and is continuing with respect to a Transaction, each payment or delivery which would otherwise be required to be made under that Transaction will be deferred to, and will not be due until:—

(i) the first Local Business Day or, in the case of a delivery, the first Local Delivery Day (or the first day that would have been a Local Business Day or Local Delivery Day, as appropriate, but for the occurrence of the event or circumstance constituting or giving rise to that Illegality or Force Majeure Event) following the end of any applicable Waiting Period in respect of that Illegality or Force Majeure Event, as the case may be; or

(ii) if earlier, the date on which the event or circumstance constituting or giving rise to that Illegality or Force Majeure Event ceases to exist or, if such date is not a Local Business Day or, in the case of a delivery, a Local Delivery Day, the first following day that is a Local Business Day or Local Delivery Day, as appropriate.

(e) **Inability of Head or Home Office to Perform Obligations of Branch.** If (i) an Illegality or a Force Majeure Event occurs under Section 5(b)(i)(1) or 5(b)(ii)(1) and the relevant Office is not the Affected Party’s head or home office, (ii) Section 10(a) applies, (iii) the other party seeks performance of the relevant obligation or

compliance with the relevant provision by the Affected Party's head or home office and (iv) the Affected Party's head or home office fails so to perform or comply due to the occurrence of an event or circumstance which would, if that head or home office were the Office through which the Affected Party makes and receives payments and deliveries with respect to the relevant Transaction, constitute or give rise to an Illegality or a Force Majeure Event, and such failure would otherwise constitute an Event of Default under Section 5(a)(i) or 5(a)(iii)(1) with respect to such party, then, for so long as the relevant event or circumstance continues to exist with respect to both the Office referred to in Section 5(b)(i)(1) or 5(b)(ii)(1), as the case may be, and the Affected Party's head or home office, such failure will not constitute an Event of Default under Section 5(a)(i) or 5(a)(iii)(1).

6. Early Termination; Close-Out Netting

(a) **Right to Terminate Following Event of Default.** If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) Right to Terminate Following Termination Event.

(i) **Notice.** If a Termination Event other than a Force Majeure Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction, and will also give the other party such other information about that Termination Event as the other party may reasonably require. If a Force Majeure Event occurs, each party will, promptly upon becoming aware of it, use all reasonable efforts to notify the other party, specifying the nature of that Force Majeure Event, and will also give the other party such other information about that Force Majeure Event as the other party may reasonably require.

(ii) **Transfer to Avoid Termination Event.** If a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will, as a condition to its right to designate an Early Termination Date under Section 6(b)(iv), use all reasonable efforts (which will not require such party to incur a loss, other than immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its Offices or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after the notice is given under Section 6(b)(i).

Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party, which consent will not be withheld if such other party's policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed.

(iii) **Two Affected Parties.** If a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice of such occurrence is given under Section 6(b)(i) to avoid that Termination Event.

(iv) Right to Terminate.

(1) If:—

(A) a transfer under Section 6(b)(ii) or an agreement under Section 6(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(B) a Credit Event Upon Merger or an Additional Termination Event occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party,

the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event or an Additional Termination Event if there are two Affected Parties, or the Non-affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, if the relevant Termination Event is then continuing, by not more than 20 days notice to the other party, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(2) If at any time an Illegality or a Force Majeure Event has occurred and is then continuing and any applicable Waiting Period has expired:—

(A) Subject to clause (B) below, either party may, by not more than 20 days notice to the other party, designate (I) a day not earlier than the day on which such notice becomes effective as an Early Termination Date in respect of all Affected Transactions or (II) by specifying in that notice the Affected Transactions in respect of which it is designating the relevant day as an Early Termination Date, a day not earlier than two Local Business Days following the day on which such notice becomes effective as an Early Termination Date in respect of less than all Affected Transactions. Upon receipt of a notice designating an Early Termination Date in respect of less than all Affected Transactions, the other party may, by notice to the designating party, if such notice is effective on or before the day so designated, designate that same day as an Early Termination Date in respect of any or all other Affected Transactions.

(B) An Affected Party (if the Illegality or Force Majeure Event relates to performance by such party or any Credit Support Provider of such party of an obligation to make any payment or delivery under, or to compliance with any other material provision of, the relevant Credit Support Document) will only have the right to designate an Early Termination Date under Section 6(b)(iv)(2)(A) as a result of an Illegality under Section 5(b)(i)(2) or a Force Majeure Event under Section 5(b)(ii)(2) following the prior designation by the other party of an Early Termination Date, pursuant to Section 6(b)(iv)(2)(A), in respect of less than all Affected Transactions.

(c) Effect of Designation.

(i) If notice designating an Early Termination Date is given under Section 6(a) or 6(b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 9(h)(i) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date will be determined pursuant to Sections 6(e) and 9(h)(ii).

(d) **Calculations; Payment Date.**

(i) **Statement.** On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including any quotations, market data or information from internal sources used in making such calculations), specifying (except where there are two Affected Parties) any Early Termination Amount payable and giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation or market data obtained in determining a Close-out Amount, the records of the party obtaining such quotation or market data will be conclusive evidence of the existence and accuracy of such quotation or market data.

(ii) **Payment Date.** An Early Termination Amount due in respect of any Early Termination Date will, together with any amount of interest payable pursuant to Section 9(h)(ii)(2), be payable (1) on the day on which notice of the amount payable is effective in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default and (2) on the day which is two Local Business Days after the day on which notice of the amount payable is effective (or, if there are two Affected Parties, after the day on which the statement provided pursuant to clause (i) above by the second party to provide such a statement is effective) in the case of an Early Termination Date which is designated as a result of a Termination Event.

(e) **Payments on Early Termination.** If an Early Termination Date occurs, the amount, if any, payable in respect of that Early Termination Date (the “Early Termination Amount”) will be determined pursuant to this Section 6(e) and will be subject to Section 6(f).

(i) **Events of Default.** If the Early Termination Date results from an Event of Default, the Early Termination Amount will be an amount equal to (1) the sum of (A) the Termination Currency Equivalent of the Close-out Amount or Close-out Amounts (whether positive or negative) determined by the Non-defaulting Party for each Terminated Transaction or group of Terminated Transactions, as the case may be, and (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party less (2) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party. If the Early Termination Amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of the Early Termination Amount to the Defaulting Party.

(ii) **Termination Events.** If the Early Termination Date results from a Termination Event:—

(1) **One Affected Party.** Subject to clause (3) below, if there is one Affected Party, the Early Termination Amount will be determined in accordance with Section 6(e)(i), except that references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and to the Non-affected Party, respectively.

(2) **Two Affected Parties.** Subject to clause (3) below, if there are two Affected Parties, each party will determine an amount equal to the Termination Currency Equivalent of the sum of the Close-out Amount or Close-out Amounts (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions, as the case may be, and the Early Termination Amount will be an amount equal to (A) the sum of (I) one-half of the difference between the higher amount so determined (by party “X”) and the lower amount so determined (by party “Y”) and (II) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to Y. If the Early Termination Amount is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of the Early Termination Amount to Y.

(3) *Mid-Market Events*. If that Termination Event is an Illegality or a Force Majeure Event, then the Early Termination Amount will be determined in accordance with clause (1) or (2) above, as appropriate, except that, for the purpose of determining a Close-out Amount or Close-out Amounts, the Determining Party will:—

(A) if obtaining quotations from one or more third parties (or from any of the Determining Party's Affiliates), ask each third party or Affiliate (I) not to take account of the current creditworthiness of the Determining Party or any existing Credit Support Document and (II) to provide mid-market quotations; and

(B) in any other case, use mid-market values without regard to the creditworthiness of the Determining Party.

(iii) **Adjustment for Bankruptcy**. In circumstances where an Early Termination Date occurs because Automatic Early Termination applies in respect of a party, the Early Termination Amount will be subject to such adjustments as are appropriate and permitted by applicable law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) **Adjustment for Illegality or Force Majeure Event**. The failure by a party or any Credit Support Provider of such party to pay, when due, any Early Termination Amount will not constitute an Event of Default under Section 5(a)(i) or 5(a)(iii)(1) if such failure is due to the occurrence of an event or circumstance which would, if it occurred with respect to payment, delivery or compliance related to a Transaction, constitute or give rise to an Illegality or a Force Majeure Event. Such amount will (1) accrue interest and otherwise be treated as an Unpaid Amount owing to the other party if subsequently an Early Termination Date results from an Event of Default, a Credit Event Upon Merger or an Additional Termination Event in respect of which all outstanding Transactions are Affected Transactions and (2) otherwise accrue interest in accordance with Section 9(h)(ii)(2).

(v) **Pre-Estimate**. The parties agree that an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks, and, except as otherwise provided in this Agreement, neither party will be entitled to recover any additional damages as a consequence of the termination of the Terminated Transactions.

(f) **Set-Off**. Any Early Termination Amount payable to one party (the "Payee") by the other party (the "Payer"), in circumstances where there is a Defaulting Party or where there is one Affected Party in the case where either a Credit Event Upon Merger has occurred or any other Termination Event in respect of which all outstanding Transactions are Affected Transactions has occurred, will, at the option of the Non-defaulting Party or the Non-affected Party, as the case may be ("X") (and without prior notice to the Defaulting Party or the Affected Party, as the case may be), be reduced by its set-off against any other amounts ("Other Amounts") payable by the Payee to the Payer (whether or not arising under this Agreement, matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation). To the extent that any Other Amounts are so set off, those Other Amounts will be discharged promptly and in all respects. X will give notice to the other party of any set-off effected under this Section 6(f).

For this purpose, either the Early Termination Amount or the Other Amounts (or the relevant portion of such amounts) may be converted by X into the currency in which the other is denominated at the rate of exchange at which such party would be able, in good faith and using commercially reasonable procedures, to purchase the relevant amount of such currency.

If an obligation is unascertained, X may in good faith estimate that obligation and set off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

Nothing in this Section 6(f) will be effective to create a charge or other security interest. This Section 6(f) will be without prejudice and in addition to any right of set-off, offset, combination of accounts, lien, right of retention or withholding or similar right or requirement to which any party is at any time otherwise entitled or subject (whether by operation of law, contract or otherwise).

7. Transfer

Subject to Section 6(b)(ii) and to the extent permitted by applicable law, neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that:—

- (a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and
- (b) a party may make such a transfer of all or any part of its interest in any Early Termination Amount payable to it by a Defaulting Party, together with any amounts payable on or with respect to that interest and any other rights associated with that interest pursuant to Sections 8, 9(h) and 11.

Any purported transfer that is not in compliance with this Section 7 will be void.

8. Contractual Currency

(a) **Payment in the Contractual Currency.** Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the “Contractual Currency”). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in good faith and using commercially reasonable procedures in converting the currency so tendered into the Contractual Currency, of the full amount in the Contractual Currency of all amounts payable in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency payable in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency payable in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) **Judgments.** To the extent permitted by applicable law, if any judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in clause (i) or (ii) above, the party seeking recovery, after recovery in full of the aggregate amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which the Contractual Currency is converted into the currency of the judgment or order for the purpose of such judgment or order and the rate of exchange at which such party is able, acting in good faith and using

commercially reasonable procedures in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party.

(c) **Separate Indemnities.** To the extent permitted by applicable law, the indemnities in this Section 8 constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed and will not be affected by judgment being obtained or claim or proof being made for any other sums payable in respect of this Agreement.

(d) **Evidence of Loss.** For the purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

9. Miscellaneous

(a) **Entire Agreement.** This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter. Each of the parties acknowledges that in entering into this Agreement it has not relied on any oral or written representation, warranty or other assurance (except as provided for or referred to in this Agreement) and waives all rights and remedies which might otherwise be available to it in respect thereof, except that nothing in this Agreement will limit or exclude any liability of a party for fraud.

(b) **Amendments.** An amendment, modification or waiver in respect of this Agreement will only be effective if in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system.

(c) **Survival of Obligations.** Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.

(d) **Remedies Cumulative.** Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(e) Counterparts and Confirmations.

(i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission and by electronic messaging system), each of which will be deemed an original.

(ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation will be entered into as soon as practicable and may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes, by an exchange of electronic messages on an electronic messaging system or by an exchange of e-mails, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex, electronic message or e-mail constitutes a Confirmation.

(f) **No Waiver of Rights.** A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.

(g) **Headings.** The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

(h) **Interest and Compensation.**

(i) **Prior to Early Termination.** Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction:—

(1) *Interest on Defaulted Payments.* If a party defaults in the performance of any payment obligation, it will, to the extent permitted by applicable law and subject to Section 6(c), pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as the overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment (and excluding any period in respect of which interest or compensation in respect of the overdue amount is due pursuant to clause (3)(B) or (C) below), at the Default Rate.

(2) *Compensation for Defaulted Deliveries.* If a party defaults in the performance of any obligation required to be settled by delivery, it will on demand (A) compensate the other party to the extent provided for in the relevant Confirmation or elsewhere in this Agreement and (B) unless otherwise provided in the relevant Confirmation or elsewhere in this Agreement, to the extent permitted by applicable law and subject to Section 6(c), pay to the other party interest (before as well as after judgment) on an amount equal to the fair market value of that which was required to be delivered in the same currency as that amount, for the period from (and including) the originally scheduled date for delivery to (but excluding) the date of actual delivery (and excluding any period in respect of which interest or compensation in respect of that amount is due pursuant to clause (4) below), at the Default Rate. The fair market value of any obligation referred to above will be determined as of the originally scheduled date for delivery, in good faith and using commercially reasonable procedures, by the party that was entitled to take delivery.

(3) *Interest on Deferred Payments.* If:—

(A) a party does not pay any amount that, but for Section 2(a)(iii), would have been payable, it will, to the extent permitted by applicable law and subject to Section 6(c) and clauses (B) and (C) below, pay interest (before as well as after judgment) on that amount to the other party on demand (after such amount becomes payable) in the same currency as that amount, for the period from (and including) the date the amount would, but for Section 2(a)(iii), have been payable to (but excluding) the date the amount actually becomes payable, at the Applicable Deferral Rate;

(B) a payment is deferred pursuant to Section 5(d), the party which would otherwise have been required to make that payment will, to the extent permitted by applicable law, subject to Section 6(c) and for so long as no Event of Default or Potential Event of Default with respect to that party has occurred and is continuing, pay interest (before as well as after judgment) on the amount of the deferred payment to the other party on demand (after such amount becomes payable) in the same currency as the deferred payment, for the period from (and including) the date the amount would, but for Section 5(d), have been payable to (but excluding) the earlier of the date the payment is no longer deferred pursuant to Section 5(d) and the date during the deferral period upon which an Event of Default or Potential Event of Default with respect to that party occurs, at the Applicable Deferral Rate; or

(C) a party fails to make any payment due to the occurrence of an Illegality or a Force Majeure Event (after giving effect to any deferral period contemplated by clause (B) above), it will, to the extent permitted by applicable law, subject to Section 6(c) and for so long as the event or circumstance giving rise to that Illegality or Force Majeure Event

continues and no Event of Default or Potential Event of Default with respect to that party has occurred and is continuing, pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as the overdue amount, for the period from (and including) the date the party fails to make the payment due to the occurrence of the relevant Illegality or Force Majeure Event (or, if later, the date the payment is no longer deferred pursuant to Section 5(d)) to (but excluding) the earlier of the date the event or circumstance giving rise to that Illegality or Force Majeure Event ceases to exist and the date during the period upon which an Event of Default or Potential Event of Default with respect to that party occurs (and excluding any period in respect of which interest or compensation in respect of the overdue amount is due pursuant to clause (B) above), at the Applicable Deferral Rate.

(4) *Compensation for Deferred Deliveries.* If:—

(A) a party does not perform any obligation that, but for Section 2(a)(iii), would have been required to be settled by delivery;

(B) a delivery is deferred pursuant to Section 5(d); or

(C) a party fails to make a delivery due to the occurrence of an Illegality or a Force Majeure Event at a time when any applicable Waiting Period has expired,

the party required (or that would otherwise have been required) to make the delivery will, to the extent permitted by applicable law and subject to Section 6(c), compensate and pay interest to the other party on demand (after, in the case of clauses (A) and (B) above, such delivery is required) if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

(ii) **Early Termination.** Upon the occurrence or effective designation of an Early Termination Date in respect of a Transaction:—

(1) *Unpaid Amounts.* For the purpose of determining an Unpaid Amount in respect of the relevant Transaction, and to the extent permitted by applicable law, interest will accrue on the amount of any payment obligation or the amount equal to the fair market value of any obligation required to be settled by delivery included in such determination in the same currency as that amount, for the period from (and including) the date the relevant obligation was (or would have been but for Section 2(a)(iii) or 5(d)) required to have been performed to (but excluding) the relevant Early Termination Date, at the Applicable Close-out Rate.

(2) *Interest on Early Termination Amounts.* If an Early Termination Amount is due in respect of such Early Termination Date, that amount will, to the extent permitted by applicable law, be paid together with interest (before as well as after judgment) on that amount in the Termination Currency, for the period from (and including) such Early Termination Date to (but excluding) the date the amount is paid, at the Applicable Close-out Rate.

(iii) **Interest Calculation.** Any interest pursuant to this Section 9(h) will be calculated on the basis of daily compounding and the actual number of days elapsed.

10. Offices; Multibranch Parties

(a) If Section 10(a) is specified in the Schedule as applying, each party that enters into a Transaction through an Office other than its head or home office represents to and agrees with the other party that, notwithstanding the place of booking or its jurisdiction of incorporation or organisation, its obligations are the same in terms of recourse against it as if it had entered into the Transaction through its head or home office, except that a party will not have recourse to the head or home office of the other party in respect of any payment or delivery deferred pursuant to Section 5(d) for so long as the payment or delivery is so deferred. This representation and agreement will be deemed to be repeated by each party on each date on which the parties enter into a Transaction.

(b) If a party is specified as a Multibranch Party in the Schedule, such party may, subject to clause (c) below, enter into a Transaction through, book a Transaction in and make and receive payments and deliveries with respect to a Transaction through any Office listed in respect of that party in the Schedule (but not any other Office unless otherwise agreed by the parties in writing).

(c) The Office through which a party enters into a Transaction will be the Office specified for that party in the relevant Confirmation or as otherwise agreed by the parties in writing, and, if an Office for that party is not specified in the Confirmation or otherwise agreed by the parties in writing, its head or home office. Unless the parties otherwise agree in writing, the Office through which a party enters into a Transaction will also be the Office in which it books the Transaction and the Office through which it makes and receives payments and deliveries with respect to the Transaction. Subject to Section 6(b)(ii), neither party may change the Office in which it books the Transaction or the Office through which it makes and receives payments or deliveries with respect to a Transaction without the prior written consent of the other party.

11. Expenses

A Defaulting Party will on demand indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees, execution fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

12. Notices

(a) **Effectiveness.** Any notice or other communication in respect of this Agreement may be given in any manner described below (except that a notice or other communication under Section 5 or 6 may not be given by electronic messaging system or e-mail) to the address or number or in accordance with the electronic messaging system or e-mail details provided (see the Schedule) and will be deemed effective as indicated:—

- (i) if in writing and delivered in person or by courier, on the date it is delivered;
- (ii) if sent by telex, on the date the recipient's answerback is received;
- (iii) if sent by facsimile transmission, on the date it is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);
- (iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date it is delivered or its delivery is attempted;
- (v) if sent by electronic messaging system, on the date it is received; or

(vi) if sent by e-mail, on the date it is delivered,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication will be deemed given and effective on the first following day that is a Local Business Day.

(b) **Change of Details.** Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system or e-mail details at which notices or other communications are to be given to it.

13. Governing Law and Jurisdiction

(a) **Governing Law.** This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) **Jurisdiction.** With respect to any suit, action or proceedings relating to any dispute arising out of or in connection with this Agreement (“Proceedings”), each party irrevocably:—

(i) submits:—

(1) if this Agreement is expressed to be governed by English law, to (A) the non-exclusive jurisdiction of the English courts if the Proceedings do not involve a Convention Court and (B) the exclusive jurisdiction of the English courts if the Proceedings do involve a Convention Court; or

(2) if this Agreement is expressed to be governed by the laws of the State of New York, to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City;

(ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party; and

(iii) agrees, to the extent permitted by applicable law, that the bringing of Proceedings in any one or more jurisdictions will not preclude the bringing of Proceedings in any other jurisdiction.

(c) **Service of Process.** Each party irrevocably appoints the Process Agent, if any, specified opposite its name in the Schedule to receive, for it and on its behalf, service of process in any Proceedings. If for any reason any party’s Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12(a)(i), 12(a)(iii) or 12(a)(iv). Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by applicable law.

(d) **Waiver of Immunities.** Each party irrevocably waives, to the extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction or order for specific performance or recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

14. Definitions

As used in this Agreement:—

“**Additional Representation**” has the meaning specified in Section 3.

“**Additional Termination Event**” has the meaning specified in Section 5(b).

“**Affected Party**” has the meaning specified in Section 5(b).

“**Affected Transactions**” means (a) with respect to any Termination Event consisting of an Illegality, Force Majeure Event, Tax Event or Tax Event Upon Merger, all Transactions affected by the occurrence of such Termination Event (which, in the case of an Illegality under Section 5(b)(i)(2) or a Force Majeure Event under Section 5(b)(ii)(2), means all Transactions unless the relevant Credit Support Document references only certain Transactions, in which case those Transactions and, if the relevant Credit Support Document constitutes a Confirmation for a Transaction, that Transaction) and (b) with respect to any other Termination Event, all Transactions.

“**Affiliate**” means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, “control” of any entity or person means ownership of a majority of the voting power of the entity or person.

“**Agreement**” has the meaning specified in Section 1(c).

“**Applicable Close-out Rate**” means:—

(a) in respect of the determination of an Unpaid Amount:—

- (i) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;
- (ii) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate;
- (iii) in respect of obligations deferred pursuant to Section 5(d), if there is no Defaulting Party and for so long as the deferral period continues, the Applicable Deferral Rate; and
- (iv) in all other cases following the occurrence of a Termination Event (except where interest accrues pursuant to clause (iii) above), the Applicable Deferral Rate; and

(b) in respect of an Early Termination Amount:—

- (i) for the period from (and including) the relevant Early Termination Date to (but excluding) the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable:—
 - (1) if the Early Termination Amount is payable by a Defaulting Party, the Default Rate;
 - (2) if the Early Termination Amount is payable by a Non-defaulting Party, the Non-default Rate; and
 - (3) in all other cases, the Applicable Deferral Rate; and

(ii) for the period from (and including) the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable to (but excluding) the date of actual payment:—

- (1) if a party fails to pay the Early Termination Amount due to the occurrence of an event or circumstance which would, if it occurred with respect to a payment or delivery under a Transaction, constitute or give rise to an Illegality or a Force Majeure Event, and for so long as the Early Termination Amount remains unpaid due to the continuing existence of such event or circumstance, the Applicable Deferral Rate;
- (2) if the Early Termination Amount is payable by a Defaulting Party (but excluding any period in respect of which clause (1) above applies), the Default Rate;
- (3) if the Early Termination Amount is payable by a Non-defaulting Party (but excluding any period in respect of which clause (1) above applies), the Non-default Rate; and
- (4) in all other cases, the Termination Rate.

“Applicable Deferral Rate” means:—

(a) for the purpose of Section 9(h)(i)(3)(A), the rate certified by the relevant payer to be a rate offered to the payer by a major bank in a relevant interbank market for overnight deposits in the applicable currency, such bank to be selected in good faith by the payer for the purpose of obtaining a representative rate that will reasonably reflect conditions prevailing at the time in that relevant market;

(b) for purposes of Section 9(h)(i)(3)(B) and clause (a)(iii) of the definition of Applicable Close-out Rate, the rate certified by the relevant payer to be a rate offered to prime banks by a major bank in a relevant interbank market for overnight deposits in the applicable currency, such bank to be selected in good faith by the payer after consultation with the other party, if practicable, for the purpose of obtaining a representative rate that will reasonably reflect conditions prevailing at the time in that relevant market; and

(c) for purposes of Section 9(h)(i)(3)(C) and clauses (a)(iv), (b)(i)(3) and (b)(ii)(1) of the definition of Applicable Close-out Rate, a rate equal to the arithmetic mean of the rate determined pursuant to clause (a) above and a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount.

“Automatic Early Termination” has the meaning specified in Section 6(a).

“Burdened Party” has the meaning specified in Section 5(b)(iv).

“Change in Tax Law” means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs after the parties enter into the relevant Transaction.

“Close-out Amount” means, with respect to each Terminated Transaction or each group of Terminated Transactions and a Determining Party, the amount of the losses or costs of the Determining Party that are or would be incurred under then prevailing circumstances (expressed as a positive number) or gains of the Determining Party that are or would be realised under then prevailing circumstances (expressed as a negative number) in replacing, or in providing for the Determining Party the economic equivalent of, (a) the material terms of that Terminated Transaction or group of Terminated Transactions, including the payments and deliveries by the parties under Section 2(a)(i) in respect of that Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have been required after that date (assuming satisfaction of the conditions precedent in

Section 2(a)(iii)) and (b) the option rights of the parties in respect of that Terminated Transaction or group of Terminated Transactions.

Any Close-out Amount will be determined by the Determining Party (or its agent), which will act in good faith and use commercially reasonable procedures in order to produce a commercially reasonable result. The Determining Party may determine a Close-out Amount for any group of Terminated Transactions or any individual Terminated Transaction but, in the aggregate, for not less than all Terminated Transactions. Each Close-out Amount will be determined as of the Early Termination Date or, if that would not be commercially reasonable, as of the date or dates following the Early Termination Date as would be commercially reasonable.

Unpaid Amounts in respect of a Terminated Transaction or group of Terminated Transactions and legal fees and out-of-pocket expenses referred to in Section 11 are to be excluded in all determinations of Close-out Amounts.

In determining a Close-out Amount, the Determining Party may consider any relevant information, including, without limitation, one or more of the following types of information:—

- (i) quotations (either firm or indicative) for replacement transactions supplied by one or more third parties that may take into account the creditworthiness of the Determining Party at the time the quotation is provided and the terms of any relevant documentation, including credit support documentation, between the Determining Party and the third party providing the quotation;
- (ii) information consisting of relevant market data in the relevant market supplied by one or more third parties including, without limitation, relevant rates, prices, yields, yield curves, volatilities, spreads, correlations or other relevant market data in the relevant market; or
- (iii) information of the types described in clause (i) or (ii) above from internal sources (including any of the Determining Party's Affiliates) if that information is of the same type used by the Determining Party in the regular course of its business for the valuation of similar transactions.

The Determining Party will consider, taking into account the standards and procedures described in this definition, quotations pursuant to clause (i) above or relevant market data pursuant to clause (ii) above unless the Determining Party reasonably believes in good faith that such quotations or relevant market data are not readily available or would produce a result that would not satisfy those standards. When considering information described in clause (i), (ii) or (iii) above, the Determining Party may include costs of funding, to the extent costs of funding are not and would not be a component of the other information being utilised. Third parties supplying quotations pursuant to clause (i) above or market data pursuant to clause (ii) above may include, without limitation, dealers in the relevant markets, end-users of the relevant product, information vendors, brokers and other sources of market information.

Without duplication of amounts calculated based on information described in clause (i), (ii) or (iii) above, or other relevant information, and when it is commercially reasonable to do so, the Determining Party may in addition consider in calculating a Close-out Amount any loss or cost incurred in connection with its terminating, liquidating or re-establishing any hedge related to a Terminated Transaction or group of Terminated Transactions (or any gain resulting from any of them).

Commercially reasonable procedures used in determining a Close-out Amount may include the following:—

- (1) application to relevant market data from third parties pursuant to clause (ii) above or information from internal sources pursuant to clause (iii) above of pricing or other valuation models that are, at the time of the determination of the Close-out Amount, used by the Determining Party in the regular course of its business in pricing or valuing transactions between the Determining Party and unrelated third parties that are similar to the Terminated Transaction or group of Terminated Transactions; and

(2) application of different valuation methods to Terminated Transactions or groups of Terminated Transactions depending on the type, complexity, size or number of the Terminated Transactions or group of Terminated Transactions.

“**Confirmation**” has the meaning specified in the preamble.

“**consent**” includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

“**Contractual Currency**” has the meaning specified in Section 8(a).

“**Convention Court**” means any court which is bound to apply to the Proceedings either Article 17 of the 1968 Brussels Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters or Article 17 of the 1988 Lugano Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters.

“**Credit Event Upon Merger**” has the meaning specified in Section 5(b).

“**Credit Support Document**” means any agreement or instrument that is specified as such in this Agreement.

“**Credit Support Provider**” has the meaning specified in the Schedule.

“**Cross-Default**” means the event specified in Section 5(a)(vi).

“**Default Rate**” means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

“**Defaulting Party**” has the meaning specified in Section 6(a).

“**Designated Event**” has the meaning specified in Section 5(b)(v).

“**Determining Party**” means the party determining a Close-out Amount.

“**Early Termination Amount**” has the meaning specified in Section 6(e).

“**Early Termination Date**” means the date determined in accordance with Section 6(a) or 6(b)(iv).

“**electronic messages**” does not include e-mails but does include documents expressed in markup languages, and “**electronic messaging system**” will be construed accordingly.

“**English law**” means the law of England and Wales, and “**English**” will be construed accordingly.

“**Event of Default**” has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

“**Force Majeure Event**” has the meaning specified in Section 5(b).

“**General Business Day**” means a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits).

“**Illegality**” has the meaning specified in Section 5(b).

“Indemnifiable Tax” means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organised, present or engaged in a trade or business in such jurisdiction, or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

“law” includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority), and **“unlawful”** will be construed accordingly.

“Local Business Day” means (a) in relation to any obligation under Section 2(a)(i), a General Business Day in the place or places specified in the relevant Confirmation and a day on which a relevant settlement system is open or operating as specified in the relevant Confirmation or, if a place or a settlement system is not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) for the purpose of determining when a Waiting Period expires, a General Business Day in the place where the event or circumstance that constitutes or gives rise to the Illegality or Force Majeure Event, as the case may be, occurs, (c) in relation to any other payment, a General Business Day in the place where the relevant account is located and, if different, in the principal financial centre, if any, of the currency of such payment and, if that currency does not have a single recognised principal financial centre, a day on which the settlement system necessary to accomplish such payment is open, (d) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), a General Business Day (or a day that would have been a General Business Day but for the occurrence of an event or circumstance which would, if it occurred with respect to payment, delivery or compliance related to a Transaction, constitute or give rise to an Illegality or a Force Majeure Event) in the place specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (e) in relation to Section 5(a)(v)(2), a General Business Day in the relevant locations for performance with respect to such Specified Transaction.

“Local Delivery Day” means, for purposes of Sections 5(a)(i) and 5(d), a day on which settlement systems necessary to accomplish the relevant delivery are generally open for business so that the delivery is capable of being accomplished in accordance with customary market practice, in the place specified in the relevant Confirmation or, if not so specified, in a location as determined in accordance with customary market practice for the relevant delivery.

“Master Agreement” has the meaning specified in the preamble.

“Merger Without Assumption” means the event specified in Section 5(a)(viii).

“Multiple Transaction Payment Netting” has the meaning specified in Section 2(c).

“Non-affected Party” means, so long as there is only one Affected Party, the other party.

“Non-default Rate” means the rate certified by the Non-defaulting Party to be a rate offered to the Non-defaulting Party by a major bank in a relevant interbank market for overnight deposits in the applicable currency, such bank to be selected in good faith by the Non-defaulting Party for the purpose of obtaining a representative rate that will reasonably reflect conditions prevailing at the time in that relevant market.

“Non-defaulting Party” has the meaning specified in Section 6(a).

“Office” means a branch or office of a party, which may be such party’s head or home office.

“Other Amounts” has the meaning specified in Section 6(f).

“**Payee**” has the meaning specified in Section 6(f).

“**Payer**” has the meaning specified in Section 6(f).

“**Potential Event of Default**” means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

“**Proceedings**” has the meaning specified in Section 13(b).

“**Process Agent**” has the meaning specified in the Schedule.

“**rate of exchange**” includes, without limitation, any premiums and costs of exchange payable in connection with the purchase of or conversion into the Contractual Currency.

“**Relevant Jurisdiction**” means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organised, managed and controlled or considered to have its seat, (b) where an Office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

“**Schedule**” has the meaning specified in the preamble.

“**Scheduled Settlement Date**” means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

“**Specified Entity**” has the meaning specified in the Schedule.

“**Specified Indebtedness**” means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

“**Specified Transaction**” means, subject to the Schedule, (a) any transaction (including an agreement with respect to any such transaction) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is not a Transaction under this Agreement but (i) which is a rate swap transaction, swap option, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, credit protection transaction, credit swap, credit default swap, credit default option, total return swap, credit spread transaction, repurchase transaction, reverse repurchase transaction, buy/sell-back transaction, securities lending transaction, weather index transaction or forward purchase or sale of a security, commodity or other financial instrument or interest (including any option with respect to any of these transactions) or (ii) which is a type of transaction that is similar to any transaction referred to in clause (i) above that is currently, or in the future becomes, recurrently entered into in the financial markets (including terms and conditions incorporated by reference in such agreement) and which is a forward, swap, future, option or other derivative on one or more rates, currencies, commodities, equity securities or other equity instruments, debt securities or other debt instruments, economic indices or measures of economic risk or value, or other benchmarks against which payments or deliveries are to be made, (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

“**Stamp Tax**” means any stamp, registration, documentation or similar tax.

“**Stamp Tax Jurisdiction**” has the meaning specified in Section 4(e).

“Tax” means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

“Tax Event” has the meaning specified in Section 5(b).

“Tax Event Upon Merger” has the meaning specified in Section 5(b).

“Terminated Transactions” means, with respect to any Early Termination Date, (a) if resulting from an Illegality or a Force Majeure Event, all Affected Transactions specified in the notice given pursuant to Section 6(b)(iv), (b) if resulting from any other Termination Event, all Affected Transactions and (c) if resulting from an Event of Default, all Transactions in effect either immediately before the effectiveness of the notice designating that Early Termination Date or, if Automatic Early Termination applies, immediately before that Early Termination Date.

“Termination Currency” means (a) if a Termination Currency is specified in the Schedule and that currency is freely available, that currency, and (b) otherwise, euro if this Agreement is expressed to be governed by English law or United States Dollars if this Agreement is expressed to be governed by the laws of the State of New York.

“Termination Currency Equivalent” means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the “Other Currency”), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant Close-out Amount is determined as of a later date, that later date, with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value on the relevant Early Termination Date or that later date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.

“Termination Event” means an Illegality, a Force Majeure Event, a Tax Event, a Tax Event Upon Merger or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

“Termination Rate” means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

“Threshold Amount” means the amount, if any, specified as such in the Schedule.

“Transaction” has the meaning specified in the preamble.

“Unpaid Amounts” owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii) or due but for Section 5(d)) to such party under Section 2(a)(i) or 2(d)(i)(4) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date, (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii) or 5(d)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market value of that which was (or would have been) required to be delivered and (c) if the Early Termination Date results from an Event of Default, a Credit Event Upon Merger or an Additional Termination Event in respect of which all outstanding Transactions are Affected Transactions, any Early Termination Amount due prior to such Early Termination Date and which remains unpaid as of such Early Termination Date, in each case together with any amount of interest accrued or other

compensation in respect of that obligation or deferred obligation, as the case may be, pursuant to Section 9(h)(ii)(1) or (2), as appropriate. The fair market value of any obligation referred to in clause (b) above will be determined as of the originally scheduled date for delivery, in good faith and using commercially reasonable procedures, by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it will be the average of the Termination Currency Equivalents of the fair market values so determined by both parties.

“Waiting Period” means:—

(a) in respect of an event or circumstance under Section 5(b)(i), other than in the case of Section 5(b)(i)(2) where the relevant payment, delivery or compliance is actually required on the relevant day (in which case no Waiting Period will apply), a period of three Local Business Days (or days that would have been Local Business Days but for the occurrence of that event or circumstance) following the occurrence of that event or circumstance; and

(b) in respect of an event or circumstance under Section 5(b)(ii), other than in the case of Section 5(b)(ii)(2) where the relevant payment, delivery or compliance is actually required on the relevant day (in which case no Waiting Period will apply), a period of eight Local Business Days (or days that would have been Local Business Days but for the occurrence of that event or circumstance) following the occurrence of that event or circumstance.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

CITIBANK, N.A.
(Name of Party)

ARCH STREET FUNDING LLC
(Name of Party)

By: /s/ Linda Cook
Name: Linda Cook
Title: Vice President, Citibank N.A.
Date:

By: /s/ Gerald F. Stahlecker
Name: Gerald F. Stahlecker
Title: EVP
Date: 3/18/11

SCHEDULE

to the

ISDA 2002 Master Agreement

dated as of March 16, 2011

between

CITIBANK, N.A.,

a national banking association organized under the laws of the United States
("Party A")

and

ARCH STREET FUNDING LLC

a limited liability company formed
under the law of the State of Delaware
("Party B")

Part 1

Termination Provisions

In this Agreement:

(a) "**Specified Entity**" means:

(i) in relation to Party A, for the purpose of Section 5(a)(v) of this Agreement, Citigroup Global Markets Limited, Citigroup Global Markets Inc., Citigroup Forex Inc., Global Markets Commercial Corp., Citicorp Securities Services, Inc., Citibank Europe PLC, Citigroup Financial Products Inc., Citigroup Global Markets Deutschland AG & Co. KGaA, Citigroup Energy Inc., Citibank Canada, Citigroup Energy Canada ULC, and Citibank Japan Ltd., (individually a "**Section 5(a)(v) Affiliate**"), and for all other purposes not applicable; and

(ii) in relation to Party B, for the purpose of Section 5(a)(vi) and 5(b)(v) of this Agreement, FS Investment Corporation, a Maryland corporation (the "**Party B Investor**").

(b) "**Specified Transaction**" will have the meaning specified in Section 14 of this Agreement. For purposes of clause (c) of such definition, Specified Transaction includes any securities options, margin loans, short sales, and any other similar transaction now existing or hereafter entered into between Party A or any Section 5(a)(v) Affiliate, on the one hand, and Party B, on the other hand.

(c) The "**Cross Default**" provisions of Section 5(a)(vi) will apply to Party A and will apply to Party B; *provided* that, notwithstanding the foregoing, an Event of Default shall not occur under either (1) or (2) therein if (a) the event or condition referred to in (1) or the failure to pay referred to in (2) is a failure to pay caused by an error or omission of an administrative or operational nature; (b) funds were available to such party to enable it to make the relevant payment when due; and

(c) such relevant payment is made within three Local Business Days following the discovery of the error or failure.

For purposes of Section 5(a)(vi), the following provisions apply:

“**Specified Indebtedness**” shall have the meaning set forth in Section 14 of this Agreement; *provided* that Specified Indebtedness shall not include deposits received in the course of a party’s ordinary banking business.

“**Threshold Amount**” means

(i) with respect to Party A, 2% of the stockholders’ equity of Party A; and

(ii) with respect to Party B, the lesser of USD10,000,000 and 2% of the Net Asset Value of the Party B Investor;

including the U.S. Dollar equivalent on the date of any default, event of default or other similar condition or event of any obligation stated in any other currency.

For purposes of the above, stockholders’ equity shall be determined by reference to the relevant party’s most recent consolidated (quarterly, in the case of a U.S. organized party) balance sheet and shall include, in the case of a U.S. organized party, legal capital, paid-in capital, retained earnings and cumulative translation adjustments. Such balance sheet shall be prepared in accordance with accounting principles that are generally accepted in such party’s country of organization.

For purposes of the above, (A) “**Net Asset Value**” means, as of any date, the Total Assets minus Total Liabilities, in each case as of such date, (B) “**Total Assets**” means, at any date, all assets of the Party B Investor which in accordance with generally accepted accounting principles would be classified as assets upon a balance sheet of the Party B Investor prepared as of such date, (C) “**Total Liabilities**” means, at any date, all liabilities of the Party B Investor which in accordance with generally accepted accounting principles would be classified as liabilities upon a balance sheet of the Party B Investor prepared as of such date and (D) Net Asset Value shall be determined by reference to the Party B Investor’s most recent NAV and Performance Statement (as defined in Part 3) delivered to Party A.

(d) The “**Credit Event Upon Merger**” provisions of Section 5(b)(v) of this Agreement will apply to Party A and will apply to Party B (and to the Party B Investor).

(e) The “**Automatic Early Termination**” provisions of Section 6(a) will not apply to Party A and will not apply to Party B; *provided* that, with respect to a party, where the Event of Default specified in Section 5(a)(vii)(1), (3), (4), (5), (6) or, to the extent analogous thereto, (8) is governed by a system of law which does not permit termination to take place after the occurrence of the relevant Event of Default, then the Automatic Early Termination provisions of Section 6(a) will apply to such party.

(f) “**Termination Currency**” means United States Dollars.

(g) “**Additional Termination Event**”: The following shall constitute Additional Termination Events (and Party B will be the sole Affected Party, and all Transactions will be Affected Transactions, with respect to such Additional Termination Events):

(1) Party B or the Party B Investor amends its constituent documents to alter its investment strategy and such amendment has or could reasonably be expected to have a

Material Adverse Effect.

(2) The Party B Investor or any legal successor thereto (the “**Manager**”) ceases to be the investment manager of Party B or ceases to have authority to enter into transactions pursuant to this Agreement on behalf of Party B and shall not have been replaced by another person or entity as to which Party A has not made an objection, having a reasonable basis, in writing within 10 Business Days following notice.

(3) The Party B Investor ceases to be the sole owner, beneficially and of record, of all of the equity ownership interests issued by Party B.

As used herein, “**Material Adverse Effect**” means a material adverse effect on (a) the ability of Party B to perform any of its obligations under this Agreement or any Credit Support Document to which Party B is a party, (b) the rights of or benefits available to Party A under this Agreement or any Credit Support Document to which Party B is a party, (c) the authority of the Manager to act as Party B’s agent in entering into and confirming Transactions and in receiving notices to Party B under this Agreement or (d) whether any Transaction shall be consistent with the then-current and applicable investment policies, trading strategies and/or restrictions of Party B and the Party B Investor.

1. Part 2

Tax Representations

(a) **Payer Representations.** For the purpose of Section 3(e) of this Agreement, Party A will make the following representation and Party B will make the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to make any deduction or withholding for or on account of any Tax from any payment (other than interest under Section 9(h) of this Agreement) to be made by it to the other party under this Agreement. In making this representation, it may rely on (i) the accuracy of any representations made by the other party pursuant to Section 3(f) of this Agreement, (ii) the satisfaction of the agreement contained in Section 4(a)(i) or 4(a)(iii) of this Agreement and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii) of this Agreement and (iii) the satisfaction of the agreement of the other party contained in Section 4(d) of this Agreement, except that it will not be a breach of this representation where reliance is placed on clause (ii) above and the other party does not deliver a form or documents under Section 4(a)(iii) by reason of material prejudice to its legal or commercial position.

(b) **Payee Representations.** For the purpose of Section 3(f) of this Agreement, Party A and Party B make the representations specified below, if any:

The following representations will apply to Party A:

It is a national banking association organized under the laws of the United States, and its U.S. taxpayer identification number is 13-5266470.

It is “exempt” within the meaning of Treasury Regulation sections 1.6041-3(p) and 1.6049-4(c) from information reporting on Form 1099 and backup withholding.

The following representations will apply to Party B:

It is a limited liability company organized under the laws of the State of Delaware.

It is a disregarded entity for U.S. Federal income tax purposes.

The following representations will apply to the Party B Investor:

It is a corporation organized under the laws of the State of Maryland, and its U.S. taxpayer identification number is 26-1630040.

It is a regulated investment company for U.S. Federal income tax purposes.

Part 3
Agreement to Deliver Documents

For the purpose of Section 4(a) of this Agreement:

I. Tax forms, documents or certificates to be delivered are:

<u>Party required to deliver document</u>	<u>Form/Document/Certificate</u>	<u>Date by which to Be delivered</u>
Party A	An executed IRS Form W-9 (or any successor form) (together with any required attachments) with respect to Party A	No later than seven Business Days after the date of this Agreement; and promptly upon learning that any form previously provided by such party has become obsolete or incorrect.
Party B	An executed IRS Form W-9 (or any successor form) (together with any required attachments) with respect to the Party B Investor (and showing Party B as a business name)	No later than seven Business Days after the date of this Agreement; and promptly upon learning that any form previously provided by such party has become obsolete or incorrect.

II. Other documents to be delivered are:

<u>Party required to deliver document</u>	<u>Form/Document/Certificate</u>	<u>Date by which to be delivered</u>	<u>Covered by Section 3(d)</u>
Party A and Party B	Evidence reasonably satisfactory to the other party of the (i) authority of such party to enter into this Agreement and any Transactions and (ii) the authority and genuine signature of the individual signing this Agreement on behalf of such party to execute the same.	No later than seven Local Business Days after the date of this Agreement and, if requested by the other party, as soon as practicable after execution of any Confirmation of any other Transaction.	Yes

Party B	The annual report of the Party B Investor containing audited consolidated financial statements prepared in accordance with accounting principles that are generally accepted in the United States of America and certified by independent certified public accountants for each fiscal year.	As soon as available and in any event within 120 days (or as soon as practicable after becoming publicly available) after the end of each of the Party B Investor's fiscal years.	Yes; <i>provided</i> that the phrase "is, as of the date of the information, true, accurate and complete in every material respect" in Section 3(d) shall be deleted and the phrase "fairly presents, in all material respects, the financial condition and results of operations as of their respective dates and for the respective periods covered thereby" shall be inserted in lieu thereof
Party B	The unaudited consolidated financial statements, the consolidated balance sheet and related statements of income of the Party B Investor for each of the first three fiscal quarters of each fiscal year prepared in accordance with accounting principles that are generally accepted in the United States of America.	As soon as available and in any event within 60 days (or as soon as practicable after becoming publicly available) after the end of each of the Party B Investor's fiscal quarters.	Yes; <i>provided</i> that the phrase "is, as of the date of the information, true, accurate and complete in every material respect" in Section 3(d) shall be deleted and the phrase "fairly presents, in all material respects, the financial condition and results of operations as of their respective dates and for the respective periods covered thereby" shall be inserted in lieu thereof

Party B	Certified copies of (a) the limited liability company agreement of Party B and (b) the investment management agreement between Party B and the Manager.	No later than seven Local Business Days after the date of this Agreement and as soon as practicable after any amendment, supplement or other modification of any thereof to the extent that such amendment, supplement or other modification has or could reasonably be expected to have a Material Adverse Effect.	Yes
Party A and Party B	A duly executed copy of each of the Credit Support Documents specified in Part 4(f) of this Schedule.	Upon execution of this Agreement.	No
Party B	A statement including a calculation of the Party B Investor's Net Asset Value and Performance as of the end of each calendar month (the " NAV and Performance Statement ").	No later than two Business Days after the same is made available by or on behalf of the Party B Investor to any direct or indirect investors in the Party B Investor	Yes
Party B	Such other documents that may be reasonably requested by Party A from time to time.	As per request by Party A.	Yes

**Part 4
Miscellaneous**

(a) **Addresses for Notices.** For the purpose of Section 12(a) of this Agreement:

Address for notices or communications to Party A:

Address: Capital Markets Documentation Unit
388 Greenwich Street, 17th Floor
New York, New York 10013

2. *Attention: Director Derivatives Operations*

Facsimile No.: (212) 657-3992

(For all purposes)

In addition, in the case of notices or communications relating to Section 5, 6, 11 or 13 of this Agreement, a second copy of any such notice or communication shall be addressed to the attention of Party A's legal department as follows:

Address: Legal Department
388 Greenwich Street, 17th Floor
New York, New York 10013

Attention: **Senior Deputy General Counsel, Citi Markets and Banking**

Facsimile No.: (212) 816-5550

Address for notices or communications to Party B:

Address: Arch Street Funding LLC
c/o FS Investment Corporation
Circa Centre
2929 Arch Street, Suite 675
Philadelphia, PA 19104

Attention: William Goebel
Phone: 215-220-4247
Email: bill.goebel@franklinsquare.com

Attention: Ken Miller
Phone: 215-495-1164
Email: ken.miller@franklinsquare.com
Fax: 215-222-4649

With copy to:

GSO Capital Partners
280 Park Ave., 11th Floor
New York, N.Y. 10028

Attention: Angelina Perkovic
Angelina.perkovic@gso.com
Phone: 212-503-2146
Fax: 212-503-6921

- and -

Isabelle Pradel
Isabelle.pradel@gsocap.com
Phone: 212-503-2149
Fax: 212-503-2149

(b) **Process Agent.** For the purpose of Section 13(c) of this Agreement:

Party A appoints as its Process Agent: Not Applicable

Party B appoints as its Process Agent: Not Applicable

(c) **Offices.** The provisions of Section 10(a) will apply to this Agreement.

(d) **Multibranch Party.** For the purpose of Section 10(b) of this Agreement:

Party A is a Multibranch Party and may enter into a Transaction through any of the following offices: New York, London, Singapore and Sydney.

Party B is not a Multibranch Party.

(e) **Calculation Agent.** The Calculation Agent will be Party A unless otherwise specified in a Confirmation in reference to the relevant Transaction.

(f) **Credit Support Document.**

(i) In relation to Party A, the Credit Support Annex dated as of the date hereof and attached hereto between the parties hereto; and

(ii) In relation to Party B, the Credit Support Annex dated as of the date hereof and attached hereto between the parties hereto.

(g) **Credit Support Provider.**

(i) In relation to Party A, none; and

(ii) In relation to Party B, none.

(h) **Governing Law.** This Agreement shall be construed in accordance with, and this Agreement and all matters arising out of or relating in any way whatsoever to this Agreement (whether in contract, tort or otherwise) shall be governed by, the law of the State of New York.

(i) **Jurisdiction.** Section 13(b)(i) of this Agreement is hereby amended by deleting in line 2 of paragraph 2 the word “non-” and by deleting paragraph (iii) thereof. The following shall be added at the end of Section 13(b): “Nothing in this provision shall prohibit a party from bringing an action to enforce a money judgment in any other jurisdiction.”

(j) **“Affiliate”** will have the meaning specified in Section 14 of this Agreement.

(k) **Absence of Litigation.** For the purpose of Section 3(c), “Specified Entity” means in relation to Party A, any Affiliate of Party A, and in relation to Party B, none.

(l) **No Agency.** The provisions of Section 3(g) will apply to this Agreement.

(m) **Additional Representation** will apply. Section 3(a) of this Agreement is hereby amended by the deletion of “and” at the end of Section 3(a)(iv); the substitution of a semi-colon for the period at the end of Section 3(a)(v) and the addition of Sections 3(a)(vi) to (viii), as follows:

“(vi) **Relationship Between Parties.** Each party will be deemed to represent to the other party on the date on which it enters into a Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for that Transaction):

(1) **No Reliance.** It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisors as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. It has not received from the other party any assurance or guarantee as to the expected results of that Transaction.

(2) **Evaluation and Understanding.** It is capable of evaluating and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the financial and other risks of that Transaction.

(3) **Status of Parties.** The other party is not acting as a fiduciary for or an advisor to it in respect of that Transaction.

(vii) **Eligible Contract Participant.** (a) It is an “eligible contract participant” within the meaning of Section 1(a)(12) of the Commodity Exchange Act, as amended (the “CEA”), (b) this Agreement and each Transaction is subject to individual negotiation by each party, and (c) neither this Agreement nor any Transaction will be executed or traded on a “trading facility” within the meaning of Section 1a(33) of the CEA.

(viii) **ERISA.** The assets that are used in connection with the execution, delivery and performance of this Agreement and the Transactions entered into pursuant hereto are not the assets of an employee benefit or other plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), a plan described in Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”), an entity whose underlying assets include “plan assets” by reason of Department of Labor regulation section 2510.3-101, or a governmental plan that is subject to any federal, state, or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code.”

(n) **“Netting of Payments”** Either party may notify the other in writing, not less than one Local Business Day in advance of one or more Scheduled Payment Dates, that with regard to payments due on that date, Multiple Transaction Payment Netting will apply; *provided* that no such notice shall be required with respect to any Transaction if the related Confirmation expressly provides that Multiple Transaction Payment Netting will apply. Except to the extent that such advance written notice shall have been given or as is specified in a related Confirmation, subparagraph Multiple Transaction Payment Netting will not apply for purposes of Section 2(c) of this Agreement.

Part 5 Other Provisions

(a) **Waiver of Right to Trial by Jury.** EACH PARTY HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT THAT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY PROCEEDING. Each party hereby (i) certifies that no representative, agent or attorney of the other has represented, expressly or otherwise, that the other would not, in the event of a Proceeding, seek to enforce the foregoing

waiver and (ii) acknowledges that it has been induced to enter into this Agreement by, among other things, the mutual waivers and certifications in this paragraph.

(b) **Severability.** Except as otherwise provided in Sections 5(b)(i) or 5(b)(ii) in the event that any one or more of the provisions contained in this Agreement should be held invalid, illegal, or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor, in good faith negotiations, to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(c) **Netting.** In the event that any Terminated Transaction cannot be aggregated and netted against all other Terminated Transactions under Section 6(e) of this Agreement, such excluded Terminated Transactions shall be aggregated and netted amongst themselves to the fullest extent permitted by law.

(d) **Escrow Payments.** If by reason of the time difference between the cities in which payments are to be made, it is not possible for simultaneous payments to be made on any date on which both parties are required to make payments hereunder, either party may at its option and in its sole discretion notify the other party that payments on that date are to be made in escrow. In this case the deposit of the payment due earlier on that date shall be made by 2:00 p.m. (local time at the place for the earlier payment) on that date with an escrow agent selected by the party giving the notice, accompanied by irrevocable payment instructions (i) to release the deposited payment to the intended recipient upon receipt by the escrow agent of the required deposit of the corresponding payment from the other party on the same date accompanied by the irrevocable payment instructions to the same effect or (ii) if the required deposit of the corresponding payment is not made on that same date, to return the payment deposited to the party that paid it into escrow. The party that elects to have payments made in escrow shall pay the costs of the escrow arrangements and shall cause those arrangements to provide that the intended recipient of the payment due to be deposited first shall be entitled to interest on that deposited payment for each day in the period of its deposit at the rate offered by the escrow agent for that day for overnight deposits in the relevant currency in the office where it holds that deposited payment (at 11:00 a.m. local time on that day) if that payment is not released by 5:00 p.m. on the date it is deposited for any reason other than the intended recipients' failure to make the escrow deposit it is required to make hereunder in a timely fashion.

(e) **Recording of Conversations.** Each party hereto consents to the recording of its telephone conversations relating to this Agreement or any potential Transaction. To the extent that one party records telephone conversations (the "**Recording Party**") and the other party does not (the "**Non-Recording Party**"), the Recording Party shall, in the event of any dispute, make a complete and unedited copy of such party's tape of the entire day's conversations with the Non-Recording Party's personnel available to the Non-Recording Party. The Recording Party's tapes may be used by either party in any forum in which a dispute is sought to be resolved and the Recording Party will retain tapes for a consistent period of time in accordance with the Recording Party's policy unless one party notifies the other that a particular transaction is under review and warrants further retention.

(f) **Limitation of Liability.** No party shall be required to pay or be liable to the other party for any consequential, indirect or punitive damages, opportunity costs or lost profits.

(g) **2002 Master Agreement Protocol.** The parties agree that the definitions and provisions contained in Annexes 1 to 16 and Section 6 of the 2002 Master Agreement Protocol published by the International Swaps and Derivatives Association, Inc. on 15th July 2003 are incorporated into and apply to this Agreement.

(h) **Additional Party B Covenant.** For purposes of Section 4 of this Agreement, the following shall be added immediately following paragraph (e) thereof:

“(f) **Notification Requirements.** Party B shall notify Party A in writing immediately upon the occurrence of (i) an event set forth in Part 1(g), and (ii) a change in the written investment policies of Party B or the Party B Investor as the same relates to the investment restrictions and/or trading strategies of Party B or the Party B Investor, which change has or could reasonably be expected to have a Material Adverse Effect.”

(i) For purposes of Section 3 of this Agreement, the following shall be added immediately following paragraph (g) thereof:

“(h) **Compliance with Investment Policies.** Party B hereby represents to Party A that the execution, delivery, and performance by it of this Agreement and each Confirmation does not conflict with or violate the investment policies, trading strategies and/or restrictions of Party B as set forth in the offering and organizational documents, in each case as in effect from time to time, of Party B and the Party B Investor.

(i) **Manager Authorized as Agent.** Party B represents and warrants to Party A that the Manager is duly authorized to act as Party B’s agent in entering into and confirming Transactions and receiving notices to Party B under this Agreement, and that the Manager’s entering into or confirmation of any Transaction shall be sufficient to bind Party B, with the result that Party B’s signature shall not be required on any Confirmation.

(j) **Manager Representations.** The following representations shall be made by the Manager in accordance with Section 3 of the Agreement as if the Manager was a party to this Agreement:

“(i) **Manager Representations.** The Manager represents and warrants to Party A (x) that it is duly authorized to act as Party B’s agent in entering into and confirming Transactions and in receiving notices to Party B under this Agreement, and (y) that any Transaction shall be entered into in accordance with the applicable investment policies, trading strategies and/or restrictions of Party B and the Party B Investor as are then in effect.

(ii) **No Investment Advice from Party A.** The Manager represents and agrees that no advice given by Party A or its Affiliates shall form a primary basis for any decision by or on behalf of the Manager relating to any Transaction under or in connection with this Agreement, that neither Party A nor any of its Affiliates is or shall be a fiduciary or advisor with respect to the Manager or Party B and that no amounts paid or to be paid to Party A or its Affiliates are attributable to any advice provided by Party A or its Affiliates.”

(k) **Confirmation Procedures.** Except as otherwise expressly provided in a Confirmation with respect to a Transaction, for each Transaction that Party A and Party B enter hereunder, Party A shall promptly send to Party B a Confirmation setting forth the terms of such Transaction. Party B shall promptly execute and return the Confirmation to Party A or request correction of any error. Failure of Party B to respond within such period shall not affect the validity or enforceability of such Transaction and shall be deemed to be an affirmation and acceptance of such terms.

(l) **Recourse Limited to Party B.** Notwithstanding anything to the contrary contained in the Agreement, the Schedule or any Confirmation or other document issued or delivered in connection with any Transaction entered into under this Agreement, any amounts owed or liabilities incurred by Party B hereunder or in respect of any Transaction entered into under this Agreement, shall be satisfied solely from the assets of Party B and no recourse whether by set-off or otherwise, shall be had to the assets of the Manager or any director, officer or employee or partner of Party B or the

Manager or any of their Affiliates, except that the foregoing will not limit service of process on Party B by delivery of notice on its behalf to Party B.

(m) **Limitation on Damages.** To the fullest extent permitted by applicable law, each party agrees that it shall not assert, and hereby waives, any claim against the other party, on any theory of liability, for special, indirect, consequential or punitive damages; *provided* that the foregoing shall not limit any party's obligation to make any amount otherwise payable in accordance with the express provisions of this Agreement.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

CITIBANK, N.A.

By: /s/ Linda Cook
Name: Linda Cook
Title: Vice President, Citibank, N.A.

ARCH STREET FUNDING LLC

By: /s/ Gerald F. Stahlecker
Name: Gerald F. Stahlecker
Title: EVP

FS INVESTMENT CORPORATION, in its individual capacity in respect of the representations made by the Manager in Part 5(j) of this Schedule.

By: /s/ Gerald F. Stahlecker
Name: Gerald F. Stahlecker
Title: EVP
Date: 3/18/11

ISDA®

International Swaps and Derivatives Association, Inc.

CREDIT SUPPORT ANNEX

to the Schedule to the

2002 ISDA Master Agreement

dated as of March 18, 2011

between

CITIBANK, N.A.
("Party A")

and

ARCH STREET FUNDING LLC.
("Party B")

This Annex supplements, forms part of, and is subject to, the above-referenced Agreement, is part of its Schedule and is a Credit Support Document under this Agreement with respect to each party.

Accordingly, the parties agree as follows:—

Paragraph 1. Interpretation

(a) **Definitions and Inconsistency.** Capitalized terms not otherwise defined herein or elsewhere in this Agreement have the meanings specified pursuant to Paragraph 12, and all references in this Annex to Paragraphs are to Paragraphs of this Annex. In the event of any inconsistency between this Annex and the other provisions of this Schedule, this Annex will prevail, and in the event of any inconsistency between Paragraph 13 and the other provisions of this Annex, Paragraph 13 will prevail.

(b) **Secured Party and Pledgor.** All references in this Annex to the "Secured Party" will be to either party when acting in that capacity and all corresponding references to the "Pledgor" will be to the other party when acting in that capacity; *provided, however*, that if Other Posted Support is held by a party to this Annex, all references herein to that party as the Secured Party with respect to that Other Posted Support will be to that party as the beneficiary thereof and will not subject that support or that party as the beneficiary thereof to provisions of law generally relating to security interests and secured parties.

Paragraph 2. Security Interest

Each party, as the Pledgor, hereby pledges to the other party, as the Secured Party, as security for its Obligations, and grants to the Secured Party a first priority continuing security interest in, lien on and right of Set-off against all Posted Collateral Transferred to or received by the Secured Party hereunder. Upon the Transfer by the Secured Party to the Pledgor of Posted Collateral, the security interest and lien granted hereunder on that Posted Collateral will be released immediately and, to the extent possible, without any further action by either party.

Paragraph 3. Credit Support Obligations

(a) **Delivery Amount.** Subject to Paragraphs 4 and 5, upon a demand made by the Secured Party on or promptly following a Valuation Date, if the Delivery Amount for that Valuation Date equals or exceeds the Pledgor's Minimum Transfer Amount, then the Pledgor will Transfer to the Secured Party Eligible Credit Support having a Value as of the date of Transfer at least equal to the applicable Delivery Amount (rounded pursuant to Paragraph 13). Unless otherwise specified in Paragraph 13, the "**Delivery Amount**" applicable to the Pledgor for any Valuation Date will equal the amount by which:

- (i) the Credit Support Amount exceeds
- (ii) the Value as of that Valuation Date of all Posted Credit Support held by the Secured Party.

(b) **Return Amount.** Subject to Paragraphs 4 and 5, upon a demand made by the Pledgor on or promptly following a Valuation Date, if the Return Amount for that Valuation Date equals or exceeds the Secured Party's Minimum Transfer Amount, then the Secured Party will Transfer to the Pledgor Posted Credit Support specified by the Pledgor in that demand having a Value as of the date of Transfer as close as practicable to the applicable Return Amount (rounded pursuant to Paragraph 13). Unless otherwise specified in Paragraph 13, the "**Return Amount**" applicable to the Secured Party for any Valuation Date will equal the amount by which:

- (i) the Value as of that Valuation Date of all Posted Credit Support held by the Secured Party exceeds
- (ii) the Credit Support Amount.

"**Credit Support Amount**" means, unless otherwise specified in Paragraph 13, for any Valuation Date (i) the Secured Party's Exposure for that Valuation Date plus (ii) the aggregate of all Independent Amounts applicable to the Pledgor, if any, minus (iii) all Independent Amounts applicable to the Secured Party, if any, minus (iv) the Pledgor's Threshold; *provided, however*, that the Credit Support Amount will be deemed to be zero whenever the calculation of Credit Support Amount yields a number less than zero.

Paragraph 4. Conditions Precedent, Transfer Timing, Calculations and Substitutions

(a) **Conditions Precedent.** Each Transfer obligation of the Pledgor under Paragraphs 3 and 5 and of the Secured Party under Paragraphs 3, 4(d)(ii), 5 and 6(d) is subject to the conditions precedent that:

- (i) no Event of Default, Potential Event of Default or Specified Condition has occurred and is continuing with respect to the other party; and
- (ii) no Early Termination Date for which any unsatisfied payment obligations exist has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the other party.

(b) **Transfer Timing.** Subject to Paragraphs 4(a) and 5 and unless otherwise specified, if a demand for the Transfer of Eligible Credit Support or Posted Credit Support is made by the Notification Time, then the relevant Transfer will be made not later than the close of business on the next Local Business Day; if a demand is made after the Notification Time, then the relevant Transfer will be made not later than the close of business on the second Local Business Day thereafter.

(c) **Calculations.** All calculations of Value and Exposure for purposes of Paragraphs 3 and 6(d) will be made by the Valuation Agent as of the Valuation Time. The Valuation Agent will notify each party (or the other party, if the Valuation Agent is a party) of its calculations not later than the Notification Time on the Local Business Day following the applicable Valuation Date (or in the case of Paragraph 6(d), following the date of calculation).

(d) Substitutions.

- (i) Unless otherwise specified in Paragraph 13, upon notice to the Secured Party specifying the items of Posted Credit Support to be exchanged, the Pledgor may, on any Local Business Day, Transfer to the Secured Party substitute Eligible Credit Support (the "Substitute Credit Support"); and
- (ii) subject to Paragraph 4(a), the Secured Party will Transfer to the Pledgor the items of Posted Credit Support specified by the Pledgor in its notice not later than the Local Business Day following the date on which the Secured Party receives the Substitute Credit Support, unless otherwise specified in Paragraph 13 (the "Substitution Date"); *provided* that the Secured Party will only be obligated to Transfer Posted Credit Support with a Value as of the date of Transfer of that Posted Credit Support equal to the Value as of that date of the Substitute Credit Support.

Paragraph 5. Dispute Resolution

If a party (a "Disputing Party") disputes (I) the Valuation Agent's calculation of a Delivery Amount or a Return Amount or (II) the Value of any Transfer of Eligible Credit Support or Posted Credit Support, then (1) the Disputing Party will notify the other party and the Valuation Agent (if the Valuation Agent is not the other party) not later than the close of business on the Local Business Day following (X) the date that the demand is made under Paragraph 3 in the case of (I) above or (Y) the date of Transfer in the case of (II) above, (2) subject to Paragraph 4(a), the appropriate party will Transfer the undisputed amount to the other party not later than the close of business on the Local Business Day following (X) the date that the demand is made under Paragraph 3 in the case of (I) above or (Y) the date of Transfer in the case of (II) above, (3) the parties will consult with each other in an attempt to resolve the dispute and (4) if they fail to resolve the dispute by the Resolution Time, then:

(i) In the case of a dispute involving a Delivery Amount or Return Amount, unless otherwise specified in Paragraph 13, the Valuation Agent will recalculate the Exposure and the Value as of the Recalculation Date by:

- (A) utilizing any calculations of Exposure for the Transactions (or Swap Transactions) that the parties have agreed are not in dispute;
- (B) calculating the Exposure for the Transactions (or Swap Transactions) in dispute by seeking four actual quotations at mid-market from Reference Market-makers for purposes of calculating Market Quotation, and taking the arithmetic average of those obtained; *provided* that if four quotations are not available for a particular Transaction (or Swap Transaction), then fewer than four quotations may be used for that Transaction (or Swap Transaction); and if no quotations are available for a particular Transaction (or Swap Transaction), then the Valuation Agent's original calculations will be used for that Transaction (or Swap Transaction); and
- (C) utilizing the procedures specified in Paragraph 13 for calculating the Value, if disputed, of Posted Credit Support.

(ii) In the case of a dispute involving the Value of any Transfer of Eligible Credit Support or Posted Credit Support, the Valuation Agent will recalculate the Value as of the date of Transfer pursuant to Paragraph 13.

Following a recalculation pursuant to this Paragraph, the Valuation Agent will notify each party (or the other party, if the Valuation Agent is a party) not later than the Notification Time on the Local Business Day following the Resolution Time. The appropriate party will, upon demand following that notice by the Valuation Agent or a resolution pursuant to (3) above and subject to Paragraphs 4(a) and 4(b), make the appropriate Transfer.

Paragraph 6. Holding and Using Posted Collateral

(a) **Care Of Posted Collateral.** Without limiting the Secured Party's rights under Paragraph 6(c), the Secured Party will exercise reasonable care to assure the safe custody of all Posted Collateral to the extent required by applicable law, and in any event the Secured Party will be deemed to have exercised reasonable care if it exercises at least the same degree of care as it would exercise with respect to its own property. Except as specified in the preceding sentence, the Secured Party will have no duty with respect to Posted Collateral, including, without limitation, any duty to collect any Distributions, or enforce or preserve any rights pertaining thereto.

(b) Eligibility to Hold Posted Collateral; Custodians.

(i) **General.** Subject to the satisfaction of any conditions specified in Paragraph 13 for holding Posted Collateral, the Secured Party will be entitled to hold Posted Collateral or to appoint an agent (a "Custodian") to hold Posted Collateral for the Secured Party. Upon notice by the Secured Party to the Pledgor of the appointment of a Custodian, the Pledgor's obligations to make any Transfer will be discharged by making the Transfer to that Custodian. The holding of Posted Collateral by a Custodian will be deemed to be the holding of that Posted Collateral by the Secured Party for which the Custodian is acting.

(ii) **Failure to Satisfy Conditions.** If the Secured Party or its Custodian fails to satisfy any conditions for holding Posted Collateral, then upon a demand made by the Pledgor, the Secured Party will, not later than five Local Business Days after the demand, Transfer or cause its Custodian to Transfer all Posted Collateral held by it to a Custodian that satisfies those conditions or to the Secured Party if it satisfies those conditions.

(iii) **Liability.** The Secured Party will be liable for the acts or omissions of its Custodian to the same extent that the Secured Party would be liable hereunder for its own acts or omissions.

(c) **Use of Posted Collateral.** Unless otherwise specified in Paragraph 13 and without limiting the rights and obligations of the parties under Paragraphs 3, 4(d) (ii), 5, 6(d) and 8, if the Secured Party is not a Defaulting Party or an Affected Party with respect to a Specified Condition and no Early Termination Date has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the Secured Party, then the Secured Party will, notwithstanding Section 9-207 of the New York Uniform Commercial Code, have the right to:

(i) sell, pledge, rehypothecate, assign, invest, use, commingle or otherwise dispose of, or otherwise use in its business any Posted Collateral it holds, free from any claim or right of any nature whatsoever of the Pledgor, including any equity or right of redemption by the Pledgor; and

(ii) register any Posted Collateral in the name of the Secured Party, its Custodian or a nominee for either.

For purposes of the obligation to Transfer Eligible Credit Support or Posted Credit Support pursuant to Paragraphs 3 and 5 and any rights or remedies authorized under this Agreement, the Secured Party will be deemed to continue to hold all Posted Collateral and to receive Distributions made thereon, regardless of whether the Secured Party has exercised any rights with respect to any Posted Collateral pursuant to (i) or (ii) above.

(d) Distributions and Interest Amount.

(i) **Distributions.** Subject to Paragraph 4(a), if the Secured Party receives or is deemed to receive Distributions on a Local Business Day, it will Transfer to the Pledgor not later than the following Local Business Day any Distributions it receives or is deemed to receive to the extent that a Delivery Amount would not be created or increased by that Transfer, as calculated by the Valuation Agent (and the date of calculation will be deemed to be a Valuation Date for this purpose).

(ii) **Interest Amount.** Unless otherwise specified in Paragraph 13 and subject to Paragraph 4(a), in lieu of any interest, dividends or other amounts paid or deemed to have been paid with respect to Posted Collateral in the form of Cash (all of which may be retained by the Secured Party), the Secured Party will Transfer to the Pledgor at the times specified in Paragraph 13 the Interest Amount to the extent that a Delivery Amount would not be created or increased by that Transfer, as calculated by the Valuation Agent (and the date of calculation will be deemed to be a Valuation Date for this purpose). The Interest Amount or portion thereof not Transferred pursuant to this Paragraph will constitute Posted Collateral in the form of Cash and will be subject to the security interest granted under Paragraph 2.

Paragraph 7. Events of Default

For purposes of Section 5(a)(iii)(l) of this Agreement, an Event of Default will exist with respect to a party if:

- (i) that party fails (or fails to cause its Custodian) to make, when due, any Transfer of Eligible Collateral, Posted Collateral or the Interest Amount, as applicable, required to be made by it and that failure continues for two Local Business Days after notice of that failure is given to that party;
- (ii) that party fails to comply with any restriction or prohibition specified in this Annex with respect to any of the rights specified in Paragraph 6(c) and that failure continues for five Local Business Days after notice of that failure is given to that party; or
- (iii) that party fails to comply with or perform any agreement or obligation other than those specified in Paragraphs 7(i) and 7(ii) and that failure continues for 30 days after notice of that failure is given to that party.

Paragraph 8. Certain Rights and Remedies

(a) **Secured Party's Rights and Remedies.** If at any time (1) an Event of Default or Specified Condition with respect to the Pledgor has occurred and is continuing or (2) an Early Termination Date has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the Pledgor, then, unless the Pledgor has paid in full all of its Obligations that are then due, the Secured Party may exercise one or more of the following rights and remedies:

- (i) all rights and remedies available to a secured party under applicable law with respect to Posted Collateral held by the Secured Party;
- (ii) any other rights and remedies available to the Secured Party under the terms of Other Posted Support, if any;
- (iii) the right to Set-off any amounts payable by the Pledgor with respect to any Obligations against any Posted Collateral or the Cash equivalent of any Posted Collateral held by the Secured Party (or any obligation of the Secured Party to Transfer that Posted Collateral); and
- (iv) the right to liquidate any Posted Collateral held by the Secured Party through one or more public or private sales or other dispositions with such notice, if any, as may be required under applicable law, free from any claim or right of any nature whatsoever of the Pledgor, including any equity or right of redemption by the Pledgor (with the Secured Party having the right to purchase any or all of the Posted Collateral to be sold) and to apply the proceeds (or the Cash equivalent thereof) from the liquidation of the Posted Collateral to any amounts payable by the Pledgor with respect to any Obligations in that order as the Secured Party may elect.

Each party acknowledges and agrees that Posted Collateral in the form of securities may decline speedily in value and is of a type customarily sold on a recognized market, and, accordingly, the Pledgor is not entitled to prior notice of any sale of that Posted Collateral by the Secured Party, except any notice that is required under applicable law and cannot be waived.

(b) **Pledgor's Rights and Remedies.** If at any time an Early Termination Date has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the Secured Party, then (except in the case of an Early Termination Date relating to less than all Transactions (or Swap Transactions) where the Secured Party has paid in full all of its obligations that are then due under Section 6(e) of this Agreement):

- (i) the Pledgor may exercise all rights and remedies available to a pledgor under applicable law with respect to Posted Collateral held by the Secured Party;
- (ii) the Pledgor may exercise any other rights and remedies available to the Pledgor under the terms of Other Posted Support, if any;
- (iii) the Secured Party will be obligated immediately to Transfer all Posted Collateral and the Interest Amount to the Pledgor; and
- (iv) to the extent that Posted Collateral or the Interest Amount is not so Transferred pursuant to (iii) above, the Pledgor may:
 - (A) Set-off any amounts payable by the Pledgor with respect to any Obligations against any Posted Collateral or the Cash equivalent of any Posted Collateral held by the Secured Party (or any obligation of the Secured Party to Transfer that Posted Collateral); and
 - (B) to the extent that the Pledgor does not Set-off under (iv)(A) above, withhold payment of any remaining amounts payable by the Pledgor with respect to any Obligations, up to the Value of any remaining Posted Collateral held by the Secured Party, until that Posted Collateral is Transferred to the Pledgor.

(c) **Deficiencies and Excess Proceeds.** The Secured Party will Transfer to the Pledgor any proceeds and Posted Credit Support remaining after liquidation, Set-off and/or application under Paragraphs 8(a) and 8(b) after satisfaction in full of all amounts payable by the Pledgor with respect to any Obligations; the Pledgor in all events will remain liable for any amounts remaining unpaid after any liquidation, Set-off and/or application under Paragraphs 8(a) and 8(b).

(d) **Final Returns.** When no amounts are or thereafter may become payable by the Pledgor with respect to any Obligations (except for any potential liability under Section 2(d) of this Agreement), the Secured Party will Transfer to the Pledgor all Posted Credit Support and the Interest Amount, if any.

Paragraph 9. Representations

Each party represents to the other party (which representations will be deemed to be repeated as of each date on which it, as the Pledgor, Transfers Eligible Collateral) that:

- (i) it has the power to grant a security interest in and lien on any Eligible Collateral it Transfers as the Pledgor and has taken all necessary actions to authorize the granting of that security interest and lien;
- (ii) it is the sole owner of or otherwise has the right to Transfer all Eligible Collateral it Transfers to the Secured Party hereunder, free and clear of any security interest, lien, encumbrance or other restrictions other than the security interest and lien granted under Paragraph 2;
- (iii) upon the Transfer of any Eligible Collateral to the Secured Party under the terms of this Annex, the Secured Party will have a valid and perfected first priority security interest therein (assuming that any central clearing corporation or any third-party financial intermediary or other entity not within the control of the Pledgor involved in the Transfer of that Eligible Collateral gives the notices and takes the action required of it under applicable law for perfection of that interest); and
- (iv) the performance by it of its obligations under this Annex will not result in the creation of any security interest, lien or other encumbrance on any Posted Collateral other than the security interest and lien granted under Paragraph 2.

Paragraph 10. Expenses

(a) **General.** Except as otherwise provided in Paragraphs 10(b) and 10(c), each party will pay its own costs and expenses in connection with performing its obligations under this Annex and neither party will be liable for any costs and expenses incurred by the other party in connection herewith.

(b) **Posted Credit Support.** The Pledgor will promptly pay when due all taxes, assessments or charges of any nature that are imposed with respect to Posted Credit Support held by the Secured Party upon becoming aware of the same, regardless of whether any portion of that Posted Credit Support is subsequently disposed of under Paragraph 6(c), except for those taxes, assessments and charges that result from the exercise of the Secured Party's rights under Paragraph 6(c).

(c) **Liquidation/Application of Posted Credit Support.** All reasonable costs and expenses incurred by or on behalf of the Secured Party or the Pledgor in connection with the liquidation and/or application of any Posted Credit Support under Paragraph 8 will be payable, on demand and pursuant to the Expenses Section of this Agreement, by the Defaulting Party or, if there is no Defaulting Party, equally by the parties.

Paragraph 11. Miscellaneous

(a) **Default Interest.** A Secured Party that fails to make, when due, any Transfer of Posted Collateral or the Interest Amount will be obligated to pay the Pledgor (to the extent permitted under applicable law) an amount equal to interest at the Default Rate multiplied by the Value of the items of property that were required to be Transferred, from (and including) the date that Posted Collateral or Interest Amount was required to be Transferred to (but excluding) the date of Transfer of that Posted Collateral or Interest Amount. This interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(b) **Further Assurances.** Promptly following a demand made by a party, the other party will execute, deliver, file and record any financing statement, specific assignment or other document and take any other action that may be necessary or desirable and reasonably requested by that party to create, preserve, perfect or validate any security interest or lien granted under Paragraph 2, to enable that party to exercise or enforce its rights under this Annex with respect to Posted Credit Support or an Interest Amount or to effect or document a release of a security interest on Posted Collateral or an Interest Amount.

(c) **Further Protection.** The Pledgor will promptly give notice to the Secured Party of, and defend against, any suit, action, proceeding or lien that involves Posted Credit Support Transferred by the Pledgor or that could adversely affect the security interest and lien granted by it under Paragraph 2, unless that suit, action, proceeding or lien results from the exercise of the Secured Party's rights under Paragraph 6(c).

(d) **Good Faith and Commercially Reasonable Manner.** Performance of all obligations under this Annex, including, but not limited to, all calculations, valuations and determinations made by either party, will be made in good faith and in a commercially reasonable manner.

(e) **Demands and Notices.** All demands and notices made by a party under this Annex will be made as specified in the Notices Section of this Agreement, except as otherwise provided in Paragraph 13.

(f) **Specifications of Certain Matters.** Anything referred to in this Annex as being specified in Paragraph 13 also may be specified in one or more Confirmations or other documents and this Annex will be construed accordingly.

Paragraph 12. Definitions as Used in this Annex:

As used in this Annex:-

“**Cash**” means the lawful currency of the United States of America.

“**Credit Support Amount**” has the meaning specified in Paragraph 3.

“**Custodian**” has the meaning specified in Paragraphs 6(b)(i) and 13.

“**Delivery Amount**” has the meaning specified in Paragraph 3(a).

“**Disputing Party**” has the meaning specified in Paragraph 5.

“**Distributions**” means with respect to Posted Collateral other than Cash, all principal, interest and other payments and distributions of cash or other property with respect thereto, regardless of whether the Secured Party has disposed of that Posted Collateral under Paragraph 6(c). Distributions will not include any item of property acquired by the Secured Party upon any disposition or liquidation of Posted Collateral or, with respect to any Posted Collateral in the form of Cash, any distributions on that collateral, unless otherwise specified herein.

“**Eligible Collateral**” means, with respect to a party, the items, if any, specified as such for that party in Paragraph 13.

“**Eligible Credit Support**” means Eligible Collateral and Other Eligible Support.

“**Exposure**” means for any Valuation Date or other date for which Exposure is calculated and subject to Paragraph 5 in the case of a dispute, the amount, if any, that would be payable to a party that is the Secured Party by the other party (expressed as a positive number) or by a party that is the Secured Party to the other party (expressed as a negative number) pursuant to Section 6(e)(ii)(2)(A) of this Agreement as if all Transactions (or Swap Transactions) were being terminated as of the relevant Valuation Time; *provided* that Market Quotation will be determined by the Valuation Agent using its estimates at mid-market of the amounts that would be paid for Replacement Transactions (as that term is defined in the definition of “Market Quotation”).

“**Independent Amount**” means, with respect to a party, the amount specified as such for that party in Paragraph 13; if no amount is specified, zero.

“**Interest Amount**” means, with respect to an Interest Period, the aggregate sum of the amounts of interest calculated for each day in that Interest Period on the principal amount of Posted Collateral in the form of Cash held by the Secured Party on that day, determined by the Secured Party for each such day as follows:

- (x) the amount of that Cash on that day; multiplied by
- (y) the Interest Rate in effect for that day; divided by
- (z) 360.

“**Interest Period**” means the period from (and including) the last Local Business Day on which an Interest Amount was Transferred (or, if no Interest Amount has yet been Transferred, the Local Business Day on which Posted Collateral in the form of Cash was Transferred to or received by the Secured Party) to (but excluding) the Local Business Day on which the current Interest Amount is to be Transferred.

“**Interest Rate**” means the rate specified in Paragraph 13.

“**Local Business Day**,” unless otherwise specified in Paragraph 13, has the meaning specified in the Definitions Section of this Agreement, except that references to a payment in clause (b) thereof will be deemed to include a Transfer under this Annex.

“Minimum Transfer Amount” means, with respect to a party, the amount specified as such for that party in Paragraph 13; if no amount is specified, zero.

“Notification Time” has the meaning specified in Paragraph 13.

“Obligations” means, with respect to a party, all present and future obligations of that party under this Agreement and any additional obligations specified for that party in Paragraph 13.

“Other Eligible Support” means, with respect to a party, the items, if any, specified as such for that party in Paragraph 13.

“Other Posted Support” means all Other Eligible Support Transferred to the Secured Party that remains in effect for the benefit of that Secured Party.

“Pledgor” means either party, when that party (i) receives a demand for or is required to Transfer Eligible Credit Support under Paragraph 3(a) or (ii) has Transferred Eligible Credit Support under Paragraph 3(a).

“Posted Collateral” means all Eligible Collateral, other property, Distributions, and all proceeds thereof that have been Transferred to or received by the Secured Party under this Annex and not Transferred to the Pledgor pursuant to Paragraph 3(b), 4(d)(ii) or 6(d)(i) or released by the Secured Party under Paragraph 8. Any Interest Amount or portion thereof not Transferred pursuant to Paragraph 6(d)(ii) will constitute Posted Collateral in the form of Cash.

“Posted Credit Support” means Posted Collateral and Other Posted Support.

“Recalculation Date” means the Valuation Date that gives rise to the dispute under Paragraph 5; *provided, however*, that if a subsequent Valuation Date occurs under Paragraph 3 prior to the resolution of the dispute, then the “Recalculation Date” means the most recent Valuation Date under Paragraph 3.

“Resolution Time” has the meaning specified in Paragraph 13.

“Return Amount” has the meaning specified in Paragraph 3(b).

“Secured Party” means either party, when that party (i) makes a demand for or is entitled to receive Eligible Credit Support under Paragraph 3(a) or (ii) holds or is deemed to hold Posted Credit Support.

“Specified Condition” means, with respect to a party, any event specified as such for that party in Paragraph 13.

“Substitute Credit Support” has the meaning specified in Paragraph 4(d)(i).

“Substitution Date” has the meaning specified in Paragraph 4(d)(ii).

“Threshold” means, with respect to a party, the amount specified as such for that party in Paragraph 13; if no amount is specified, zero.

“Transfer” means, with respect to any Eligible Credit Support, Posted Credit Support or Interest Amount, and in accordance with the instructions of the Secured Party, Pledgor or Custodian, as applicable:

(i) in the case of Cash, payment or delivery by wire transfer into one or more bank accounts specified by the recipient;

(ii) in the case of certificated securities that cannot be paid or delivered by book-entry, payment or delivery in appropriate physical form to the recipient or its account accompanied by any duly executed instruments of transfer, assignments in blank, transfer tax stamps and any other documents necessary to constitute a legally valid transfer to the recipient;

(iii) in the case of securities that can be paid or delivered by book-entry, the giving of written instructions to the relevant depository institution or other entity specified by the recipient, together with a written copy thereof to the recipient, sufficient if complied with to result in a legally effective transfer of the relevant interest to the recipient; and

(iv) in the case of Other Eligible Support or Other Posted Support, as specified in Paragraph 13.

“**Valuation Agent**” has the meaning specified in Paragraph 13.

“**Valuation Date**” means each date specified in or otherwise determined pursuant to Paragraph 13.

“**Valuation Percentage**” means, for any item of Eligible Collateral, the percentage specified in Paragraph 13.

“**Valuation Time**” has the meaning specified in Paragraph 13.

“**Value**” means for any Valuation Date or other date for which Value is calculated and subject to Paragraph 5 in the case of a dispute, with respect to:

(i) Eligible Collateral or Posted Collateral that is:

(A) Cash, the amount thereof, and

(B) A security, the bid price obtained by the Valuation Agent multiplied by the applicable Valuation Percentage, if any;

(ii) Posted Collateral that consists of items that are not specified as Eligible Collateral, zero; and

(iii) Other Eligible Support and Other Posted Support, as specified in Paragraph 13.

Paragraph 13. Elections and Variables

(a) **Security Interest for “Obligations”.** The term “Obligations” as used in this Annex means, with respect to the Pledgor, all present and future obligations of the Pledgor under this Agreement.

(b) Credit Support Obligations.**(i) Delivery Amount, Return Amount and Credit Support Amount; Addition to Paragraph 3.**

(A) **“Delivery Amount”** has the meaning set forth in Paragraph 3(a).

(B) **“Return Amount”** has the meaning set forth in Paragraph 3(b).

(C) **“Credit Support Amount”** means for any Valuation Date (i) the Secured Party’s Exposure for that Valuation Date plus (ii) the aggregate of all Independent Amounts applicable to the Pledgor, if any, minus (iii) the Pledgor’s Threshold, if any; provided that (x) in the case where the sum of the Independent Amounts applicable to the Pledgor exceeds zero, the Credit Support Amount will not be less than the sum of all Independent Amounts applicable to the Pledgor and (y) in all other cases, the Credit Support Amount will be deemed to be zero whenever the calculation of the Credit Support Amount yields an amount less than zero.

(ii) **Eligible Collateral.** The items set forth on Schedule I hereto will qualify as **“Eligible Collateral”** for the party specified (with the respective Valuation Percentages set forth opposite such items in said Schedule).

(iii) **Other Eligible Support.** Although the parties intend that Transactions entered into under the Confirmation dated March 16, 2011 (the **“Subject Confirmation”**) shall be subject to, and interpreted and performed in accordance with, the representations and warranties made in Clause 7 of the Subject Confirmation, in the event that any such Transaction is for any purpose deemed to be a loan made by Party A to Party B, any Reference Obligation (as defined in the Subject Confirmation) held by any Citibank Holder (as defined in the Subject Confirmation) as a hedge for any Transaction and all proceeds thereof shall be deemed to be Other Eligible Support and Other Posted Support.

(iv) Thresholds.

(A) **“Independent Amount”** means, with respect to Party B, and with regard to any Transaction, the amount as specified in the relevant Confirmation.

(B) **“Threshold”** shall mean, with respect to Party A, not applicable., and with respect to Party B, zero.

(C) **“Minimum Transfer Amount”** for purposes of computing a Delivery Amount pursuant to Paragraph 3(a) and a Return Amount pursuant to Paragraph 3(b), as of any date shall be USD100,000.

(D) **Rounding.** The Delivery Amount and the Return Amount will not be rounded.

(c) Valuation and Timing.

(i) **“Valuation Agent”** means the Secured Party.

(ii) **“Valuation Date”** means each Local Business Day.

(iii) **“Valuation Time”** means, with respect to the determination of Exposure, Value of Eligible Credit Support and Posted Credit Support, the close of business on the Local Business Day immediately before the Valuation Date or date of calculation, as applicable.

(iv) **“Notification Time”** means 10:00 a.m., New York time on a Valuation Date provided, however, that, notwithstanding Paragraph 4(b), if a request for Transfer is made by the Notification Time, then the relevant Transfer shall be made not later than the close of business on such day and, if such request is received after the Notification Time, not later than the close of business on the next Local Business Day following such request.

(v) **Transfer Timing.** Paragraph 4(b) shall be amended by (i) replacing the word “next” appearing in the third line thereof with the word “same” and (ii) by replacing the word “second” appearing in the fifth line thereof with the word “next”.

(d) **Conditions Precedent and Secured Party’s Rights and Remedies.** Each Termination Event specified below with respect to a party will be a **“Specified Condition”** for that party (the specified party being the Affected Party if a Termination Event or Additional Termination Event occurs with respect to such party):

	Party A	Party B
Illegality	<input type="checkbox"/>	<input type="checkbox"/>
Tax Event	<input type="checkbox"/>	<input type="checkbox"/>
Tax Event Upon Merger	<input type="checkbox"/>	<input type="checkbox"/>
Credit Event Upon Merger	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Additional Termination Events specified in the Schedule to this Agreement	<input type="checkbox"/>	<input checked="" type="checkbox"/>

(e) **Substitution.**

(i) **“Substitution Date”** has the meaning specified in Paragraph 4(d)(ii).

(ii) **Transfer.** Notwithstanding anything to the contrary contained in Paragraph 4(d) of the Credit Support Annex, consent of the Secured Party shall be required in order that a party be permitted to Transfer Substitute Credit Support hereunder, provided, however, that such consent shall not be unreasonably withheld or delayed.

(f) **Dispute Resolution.**

(i) **“Resolution Time”** means 1:00 p.m., New York time, on the Local Business Day following the date on which notice is given that gives rise to a dispute under Paragraph 5.

(ii) **Value.** For the purpose of Paragraphs 5(i)(C) and 5(ii), the Value of Posted Credit Support will be calculated as follows: (A) the Value of Posted Credit Support consisting of Cash shall be the amount thereof and (B) the Value of Posted Credit Support consisting of a security shall be the sum of (i) (x) the arithmetic mean of the mid market quotations on the relevant date of three nationally recognized principal market makers (which may include an affiliate of Party A) for such security chosen by the Valuation Agent multiplied by the applicable Valuation Percentage or (y) if no quotations are available from such principal market makers on the relevant date, the arithmetic mean of the closing bid prices on the next preceding date multiplied by the applicable Valuation Percentage plus (ii) the accrued interest on such security (except to the extent Transferred to a party pursuant to any applicable provision of this Agreement or included in the applicable price referred to in (i) of this clause) as of such date.

(iii) **Alternative.** The provisions of Paragraph 5 will apply.

(g) Holding and Using Posted Collateral.

(i) **Eligibility to Hold Posted Collateral; Custodians.** Party A or its Custodian will be entitled to hold Posted Collateral pursuant to Paragraph 6(b) provided that such party is not a Defaulting Party. Initially Party A shall not be using a Custodian.

(ii) **Use of Posted Collateral.** The provisions of Paragraph 6(c) will apply.

(h) Distributions and Interest Amount.

(i) **Interest Rate.** The "Interest Rate" will be (i) the overnight ask rate in effect for such day, as set forth opposite the caption "O/N" under the heading "USD" on Telerate Page 3750 or any successor page thereto on or about 11:00 a.m., New York time, on such day, (ii) if no successor page is quoted, as agreed by the parties.

(ii) **Transfer of Interest Amount.** Transfers of the Interest Amount will be made in arrears on the second Local Business Day of each calendar month.

(iii) **Alternative to Interest Amount.** The provisions of Paragraph 6(d)(ii) will apply, provided, however, that the Interest Amount will compound daily.

(i) Additional Representations.

(i) Notwithstanding anything to the contrary contained herein, ("X") shall be the beneficial owner, within the meaning of the U.S. tax laws, of any securities it shall Transfer as collateral to the other party ("Y") pursuant to the terms hereof.

(ii) X shall promptly provide to Y, upon written request, any tax documentation reasonably requested by Y to allow Y to make gross interest payments to X in respect of any Posted Collateral Transferred to Y pursuant hereto.

(j) Other Eligible Support and Other Posted Support.

(i) **"Value"** with respect to Other Eligible Support and Other Posted Support shall not be applicable.

(ii) **"Transfer"** with respect to Other Eligible Support and Other Posted Support shall not be applicable.

(k) Demands and Notices.

All demands, specifications and notices under this Annex will be made pursuant to the Notices Section of this Annex, provided, that the address for Party A for such purposes shall be:

Citibank, N.A.
Collateral Management Group
333 West 34th Street, 2nd Floor
New York, NY 10001
Telephone No.: (212) 615-8406
Facsimile No.: (212) 994-0727;

and the address for Party B for such purposes shall be:

As provided in Part 4(a) of the Schedule to the Agreement

(l) Accounts

All Transfers of Cash as Eligible Collateral to Party A shall be made to the following account:

Citibank, N.A.
ABA No.: 021-000-089
Account No: #36001339
Reference: Margin Ops

All Transfers of Posted Credit Support to Party B shall be made to the following account:

To an account at a commercial bank located in the
United States of America most recently
identified for such purchase
by Party B in a notice in Party A

(m) Other Provisions.

(i) **Actions Hereunder.** Either party may take any actions hereunder, including liquidation rights, through its Custodian or other agent.

(ii) **Custodians.** An entity shall be eligible to serve as Custodian if and for so long as it (a) is not affiliated with Party A or Party B, (b) is a trust company or commercial bank with trust powers, organized under the laws of the United States of America or any state thereof and subject to supervision or examination by federal or state authority, having a combined capital and surplus of at least \$500,000,000 and (c) shall have general unsecured short-term obligations rated at least "P-1" by Moody's or "A-1" by S&P or have outstanding long term unsecured unsubordinated debt securities rated at least "Baa2" by Moody's or "BBB" by S&P.

(iii) **Events of Default.** Paragraph 7(i) shall be amended and restated in its entirety as follows: "(i) that party fails (or fails to cause its Custodian) to make, when due any Transfer of Eligible Collateral, Posted Collateral or the Interest Amount as applicable, required to be made by it and that failure continues for one Local Business Day after notice of that failure is given to that party;"

(iv) **Agreement as to Single Secured Party and Pledgor.** Party A and Party B agree that, notwithstanding anything to the contrary in the recital to this Annex, Paragraph 1(b) or Paragraph 2 or the definitions in Paragraph 12, (a) the term "Secured Party" as used in this Annex means only Party A, (b) the term "Pledgor" as used in this Annex means only Party B, (c) only Party B makes the pledge and grant in Paragraph 2, the acknowledgment in the final sentence of Paragraph 8(a) and the representations in Paragraph 9 and (d) only Party B will be required to make Transfers of Eligible Credit Support hereunder.

(v) **Definitions and Inconsistency.** Paragraph 1(a) shall be amended by adding the following language immediately after the last sentence of such paragraph: "In the event of any inconsistency between this Annex and a Confirmation, the Confirmation will prevail in relation to the related Transaction or Transactions."

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

CITIBANK, N.A.

ARCH STREET FUNDING LLC

By: /s/ Linda Cook

By: /s/ Gerald F. Stahlecker

Name: Linda Cook

Name: Gerald F. Stahlecker

Title: Vice President, Citibank, N.A.

Title: EVP

Credit Support Annex – Signature Page

Schedule I

	<u>Party A</u>	<u>Party B</u>	<u>Valuation Percentage</u>
Cash	N/A	X	100%

Citibank, N.A.
390 Greenwich Street
New York, New York 10013



[Execution Copy]

Date: March 18, 2011

To: Arch Street Funding LLC
Cira Centre
2929 Arch Street, Suite 675
Philadelphia, PA 19104
Attention: Gerald F. Stahlecker
Phone: 215-495-1169
Fax: 215-222-4649
Email: jerry.stahlecker@franklinsquare.com

From: Citibank, N.A.
333 West 34th Street
2nd Floor
New York, New York 10001
Attention: Director Derivative Operations
Facsimile: 212-615-8594

Transaction Reference Number: _____

CONFIRMATION

Ladies and Gentlemen:

The purpose of this letter agreement is to set forth the terms and conditions of the Transactions entered into between Citibank, N.A. ("**Citibank**") and Arch Street Funding LLC, a limited liability company formed under the laws of the State of Delaware ("**Counterparty**"), on the Trade Date specified below (each, a "**Transaction**" and, collectively, the "**Transactions**"). This letter constitutes a "Confirmation" as referred to in the Master Agreement specified below.

The definitions and provisions contained in the 2000 ISDA Definitions (the "**Definitions**"), as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and this Confirmation, this Confirmation shall govern. Capitalized terms used but not defined in this Confirmation have the meanings assigned to them in Annex A. Capitalized terms used but not defined in this Confirmation or in Annex A have the meanings assigned to them in the Definitions.

1. AGREEMENT

This Confirmation supplements, forms a part of and is subject to, the ISDA 2002 Master Agreement, dated as of March 16, 2011 (as amended, supplemented and otherwise modified and in effect from time to time, the "**Master Agreement**"), between Citibank and Counterparty. All provisions contained in the Master Agreement govern this Confirmation except as expressly modified below.

2. TERMS OF TRANSACTIONS

The terms of the particular Transactions to which this Confirmation relates are as follows:

General Terms:

Trade Date:	March 16, 2011
Effective Date:	March 16, 2011
Scheduled Termination Date:	The latest date for the final scheduled payment (or, if there is only one scheduled payment, for the scheduled payment) of principal of any Reference Obligation at any time included in the Reference Portfolio.
Termination Date:	The final Scheduled Settlement Date (as defined in the Master Agreement) with respect to all Transactions (other than any Counterparty Third Floating Rate Payer Payment Date). The obligations of the parties to make payments required to be made hereunder shall survive the Termination Date.
Obligation Termination Date:	(a) In relation to any Repaid Obligation, the related Repayment Date; and (b) In relation to any Terminated Obligation, the related Termination Settlement Date.
Reference Portfolio:	As of any date of determination, all Reference Obligations with respect to all Transactions outstanding on such date.
Reference Obligation:	Each obligation listed on Annex I from time to time having a Reference Amount equal to the "Reference Amount" indicated on Annex I for such obligation (and, in the case of a Committed Obligation, having an Outstanding Principal Amount equal to the "Outstanding Principal Amount" indicated on Annex I for such Committed Obligation), in each case, subject to adjustment by the Calculation Agent in accordance with the terms of this Confirmation.

Counterparty may, by notice to Citibank on any Business Day on or after the Trade Date (each, an "**Obligation Trade Date**"), designate that any obligation (each, a "**Reference Obligation**") shall become the subject of a Transaction hereunder. Any such notice shall specify the proposed Reference Obligation and the proposed Reference Amount, Reference Entity and Initial Price in relation to such

Transaction.

Notwithstanding the foregoing, no such designation by Counterparty will be effective unless:

(a) Citibank consents on or prior to the Obligation Trade Date to the relevant Reference Obligation becoming the subject of a Transaction hereunder (having the proposed Reference Amount and Initial Price in the notice of designation from Counterparty);

(b) on the Obligation Trade Date (i) the relevant Reference Obligation satisfies the Obligation Criteria set forth in Annex II and (ii) the Portfolio Criteria set forth in Annex II are satisfied (or, if any Portfolio Criterion is not satisfied immediately prior to such designation, then the extent of compliance with such Portfolio Criterion is improved); and

(c) if the relevant Reference Obligation would be a Specified Reference Obligation, Counterparty gives notice of such fact to Citibank in such notice of designation (provided that any failure to give such notice shall not affect the effectiveness of such designation).

Without limiting the generality of the foregoing clause (a), Citibank may withhold its consent to any such designation based on any legal, accounting, tax or other similar issues that are adverse to Citibank in any material respect and that would or could reasonably be expected to arise as a result of the entry into such Transaction or any purchase by the Citibank Holder of such Reference Obligation as a hedge for such Transaction. In the event that Citibank determines not to hold, or cause to be held, all or any portion of any such Reference Obligation as a hedge for such Transaction on the Obligation Settlement Date for such Transaction, Citibank shall give prompt notice thereof to Counterparty.

The “**Obligation Settlement Date**” for a Transaction shall be the date following the Obligation Trade Date for such Transaction that is customary for settlement of the related Reference Obligation substantially in accordance with the then-current market practice in the principal market for the related Reference Obligation (as determined by the Calculation Agent).

On the Obligation Trade Date for a Transaction, the

Reference Amount of such Transaction shall, for all purposes hereof (including the determination of the “Maximum Portfolio Notional Amount”) other than calculating Rate Payments, be increased by the “Reference Amount” specified in such notice from Counterparty. On the Obligation Settlement Date for a Transaction, the Reference Amount of such Transaction shall, solely for the purposes of calculating Rate Payments, be increased by the “Reference Amount” specified in such notice from Counterparty.

Once a Reference Obligation becomes the subject of a Transaction hereunder, Citibank shall promptly prepare and deliver to Counterparty a revised Annex I reflecting the Reference Portfolio as of the related Obligation Trade Date.

If any payment of interest on a Reference Obligation that would otherwise be made during the period from and including the Obligation Trade Date to but excluding the Termination Trade Date is not made but is capitalized as additional principal (without default), then the amount of interest so capitalized as principal shall become a new Transaction hereunder (a “**PIK Transaction**”) having the same terms and conditions as the Transaction relating to the Reference Obligation in respect of which such interest is capitalized, except that (1) the Initial Price in relation to such PIK Transaction shall be zero, (2) the Obligation Trade Date and Obligation Settlement Date for such PIK Transaction shall be the date on which such interest is capitalized and (3) the Reference Amount of such PIK Transaction will be the amount of interest so capitalized as principal. Citibank shall give notice to Counterparty after a PIK Transaction becomes outstanding as provided above, which notice shall set forth the information in the foregoing clauses (2) and (3).

Reference Entity:

The borrower of the Reference Obligation identified as such in Annex I hereto. In addition, “Reference Entity”, unless the context otherwise requires, shall also refer to any guarantor of or other obligor on the Reference Obligation.

Ramp-Up Period:

The period from and including the Effective Date and ending on and including the date occurring 90 days after the Effective Date.

Ramp-Down Period:	The period from and including the date 30 days prior to the Scheduled Termination Date and ending on and including the Scheduled Termination Date.
Portfolio Notional Amount:	As of any date of determination, the sum of the Notional Amounts for all Reference Obligations as of such date.
Notional Amount:	<p>(a) In relation to any Transaction (other than with respect to any Terminated Obligation or Repaid Obligation), as of any date of determination, the Reference Amount of the related Reference Obligation as of such date <u>multiplied by</u> the Initial Price in relation to such Reference Obligation; and</p> <p>(b) In relation to any Transaction with respect to a Terminated Obligation or Repaid Obligation, the amount of the reduction in the Reference Amount of the related Reference Obligation determined, in the case of a Terminated Obligation, pursuant to Clause 3 or, in the case of a Repaid Obligation, pursuant to Clause 5, in each case <u>multiplied by</u> the Initial Price in relation to the related Reference Obligation.</p>
Outstanding Principal Amount:	In relation to any Reference Obligation as of any date of determination, the outstanding principal amount of such obligation as shown in the then current Annex I, as increased pursuant to this Clause 2 (or, in the case of any Committed Obligation, pursuant to any borrowing in respect of such Committed Obligation after the Obligation Trade Date) and reduced pursuant to Clauses 3 and 5. Except as otherwise expressly provided below with respect to Counterparty First Floating Amounts, the principal amount of any Committed Obligation outstanding on any date shall include the aggregate stated face amount of all letters of credit, bankers' acceptances and other similar instruments issued in respect of such Committed Obligation to the extent that the holder of such Committed Obligation is obligated to extend credit in respect of any drawing or other similar payment thereunder.
Commitment Amount:	In relation to any Reference Obligation that is a Committed Obligation (and the related Transaction) as of any date of determination, the maximum outstanding principal amount of such Reference Obligation that a registered holder thereof would on such date be obligated to fund (including all amounts previously funded and outstanding, whether or not

such amounts, if repaid, may be reborrowed).

Notional Funded Amount:

In relation to any Reference Obligation that is a Committed Obligation (and to the related Transaction) as of any date of determination, the greater of (a) zero and (b) the sum of (i) the Outstanding Principal Amount of such Reference Obligation as of the Obligation Trade Date multiplied by the Initial Price in relation to such Reference Obligation minus (ii) the product of (x) the excess, if any, of the Commitment Amount of such Reference Obligation as of the Obligation Trade Date over the Outstanding Principal Amount of such Reference Obligation as of the Obligation Trade Date multiplied by (y) 100% minus the Initial Price in relation to such Reference Obligation plus (iii) any increase in the Outstanding Principal Amount of such Reference Obligation during the period from but excluding the Obligation Trade Date to and including such date of determination minus (iv) any decrease in the Outstanding Principal Amount of such Reference Obligation during the period from but excluding the Obligation Trade Date to and including such date of determination.

In relation to any Reference Obligation that is a Term Obligation (and the related Transaction) as of any date of determination, the Notional Amount of such Reference Obligation.

Portfolio Notional Funded Amount:

As of any date of determination, the aggregate of all Notional Funded Amounts with respect to all Reference Obligations in the Reference Portfolio on such date of determination.

Reference Amount:

In relation to (a) any Term Obligation, the Outstanding Principal Amount thereof and (b) any Committed Obligation, the Commitment Amount thereof.

Maximum Portfolio Notional Amount:

USD200,000,000

Utilization Amount:

In relation to any Calculation Period, the daily average of the Portfolio Notional Funded Amount during such Calculation Period.

Business Day:

New York

Business Day Convention:

Following (which shall apply to any date specified herein for the making of any payment or determination or the taking of any action which falls

on a day that is not a Business Day).

If any anniversary date specified herein would fall on a day on which there is no corresponding day in the relevant calendar month, then such anniversary date shall be the last day of such calendar month.

Monthly Period:

Each period from but excluding the 25th day of any calendar month to and including the same day of the immediately succeeding calendar month.

Calculation Agent:

Citibank. Unless otherwise specified, the Calculation Agent shall make all determinations, calculations and adjustments required pursuant to this Confirmation in good faith and on a commercially reasonable basis.

Calculation Agent City:

New York

Initial Price:

In relation to any Reference Obligation (and the related Transaction), the Initial Price specified in Annex I. The Initial Price (a) will be expressed exclusive of accrued interest, (b) will be expressed as a percentage of the Reference Amount, (c) will be determined exclusive of Costs of Assignment that would be incurred by a buyer in connection with any purchase of the Reference Obligation and exclusive of any Delay Compensation and (d) will be, as of the related Obligation Trade Date, the "Initial Price" specified by Counterparty to Citibank in the notice of designation referred to above and consented to by Citibank.

Payments by Counterparty

Counterparty First Floating Amounts:

First Floating Amount Payer:

Counterparty

First Floating Amount:

In relation to any First Floating Rate Payer Payment Date, the sum, for each Transaction, of the products of (a) the First Floating Rate Payer Calculation Amount for such Transaction for the related First Floating Rate Payer Calculation Period multiplied by (b) the Floating Rate Option for such Transaction during the related First Floating Rate Payer Calculation Period plus the Spread multiplied by (c) the Floating Rate Day Count Fraction; *provided that*, for purposes of the foregoing calculation, the percentage specified in the foregoing clause (b) shall

	be the Spread (and not the Floating Rate Option <u>plus</u> the Spread) with respect to any portion of a First Floating Rate Payer Calculation Amount constituting the undrawn stated face amount of all letters of credit, bankers' acceptances and other similar instruments issued in respect of a related Committed Obligation.
First Floating Rate Payer Calculation Amount:	In relation to any First Floating Rate Payer Calculation Period and any Transaction, the daily average of the Notional Funded Amount of such Transaction during such First Floating Rate Payer Calculation Period.
First Floating Rate Payer Calculation Period:	In relation to any Transaction, each Monthly Period, except that (a) the initial First Floating Rate Payer Calculation Period will commence on, and include, the related Obligation Settlement Date and (b) the final First Floating Rate Payer Calculation Period will end on, but exclude, the related Obligation Termination Date.
First Floating Rate Payer Payment Date:	(a) In relation to any Transaction (other than with respect to any Terminated Obligation or Repaid Obligation), the seventh Business Day following the last day of any Monthly Period, commencing with the first such date after the Obligation Settlement Date for such Transaction and ending with the last such date occurring prior to the related Obligation Termination Date; and (b) In relation to any Terminated Obligation or Repaid Obligation, the related Total Return Payment Date.
Floating Rate Option:	In relation to any Transaction, USD-LIBOR-BBA.
Designated Maturity:	In relation to any Transaction, one month.
Spread:	1.25%.
Floating Rate Day Count Fraction:	In relation to any Transaction, Actual/360.
Reset Dates:	The first day of each First Floating Rate Payer Calculation Period.
Compounding:	Inapplicable

Counterparty Second Floating Amounts:

Second Floating Amount Payer:

Counterparty

Second Floating Amount:

In relation to any Second Floating Rate Payer Payment Date, the product of (a) the Second Floating Rate Payer Calculation Amount for the related Second Floating Rate Payer Calculation Period multiplied by (b) the Spread multiplied by (c) the Floating Rate Day Count Fraction.

Notwithstanding the foregoing, no Second Floating Amount shall be payable on any Second Floating Rate Payer Payment Date, and no amount shall be payable under Clause 4(c) on any date after the last day of the Ramp-Up Period, following any date on which (a) Counterparty has designated at least 20 Designated Reference Obligations to become the subject of Transactions hereunder (as contemplated opposite the caption "Reference Obligation" above) and (b) the aggregate Notional Amount of all Designated Reference Obligations as to which Citibank has not given its consent to such Designated Reference Obligations becoming the subject of Transactions hereunder (as contemplated opposite the caption "Reference Obligation" above) exceeds 50% of the aggregate Notional Amount of all Designated Reference Obligations that Counterparty has designated are to become the subject of Transactions hereunder (as contemplated opposite the caption "Reference Obligation" above).

Second Floating Rate Payer Calculation Amount:

In relation to any Second Floating Rate Payer Calculation Period, the excess, if any, of (a) 90% of the Maximum Portfolio Notional Amount over (b) the Utilization Amount for such Second Floating Rate Payer Calculation Period.

Second Floating Rate Payer Calculation Period:

Each Monthly Period; *provided* that (a) the initial Second Floating Rate Payer Calculation Period shall begin on the first day following the last day of the Ramp-Up Period and (b) the final Second Floating Rate Payer Calculation Period shall end on the last Second Floating Rate Payer Payment Date.

Second Floating Rate Payer Payment Dates:

The seventh Business Day following the last day of each Monthly Period; *provided* that (a) the initial Second Floating Rate Payer Payment Date will be the first such Business Day after the last day of the Ramp-Up Period and (b) the final Second Floating Rate Payer Payment Date will be the day preceding

	the first day of the Ramp-Down Period.
Spread:	1.25%.
Floating Rate Day Count Fraction:	Actual/360.
Compounding:	Inapplicable
<i>Counterparty Third Floating Amounts</i>	
Third Floating Amount Payer:	Counterparty
Third Floating Amount:	Each Expense or Other Payment.
Third Floating Rate Payer Payment Dates:	In relation to any Transaction, (a) the seventh Business Day following the last day of each Monthly Period, beginning with the first such Business Day after the Obligation Settlement Date for such Transaction, (b) the related Obligation Termination Date and (c) after the related Obligation Termination Date, the seventh Business Day after notice of a Third Floating Amount from Citibank to Counterparty; <i>provided</i> that, prior to the seventh Business Day after the related Obligation Termination Date, if Counterparty has received less than seven Business Days' notice from Citibank that such Third Floating Amount is due and payable, such Third Floating Rate Payer Payment Date shall be the seventh Business Day following the last day of the next succeeding Monthly Period The obligation of Counterparty to pay Third Floating Amounts in respect of any Transaction shall survive the related Obligation Termination Date.
<i>Counterparty Fourth Floating Amounts:</i>	
Fourth Floating Amount Payer:	Counterparty
Fourth Floating Amount:	In relation to any Terminated Obligation or Repaid Obligation, Capital Depreciation, if any.
Fourth Floating Rate Payer Payment Dates:	Each Total Return Payment Date.

Payments by Citibank:

Citibank Fixed Amounts:

Fixed Amount Payer:

Citibank

Fixed Amount:

In relation to any Transaction, the Interest and Fee Amount with respect to such Transaction for the related Fixed Amount Payer Payment Date.

Fixed Amount Payer Calculation Periods:

In relation to each Reference Obligation in the Reference Portfolio, each period from and including any date upon which a payment of interest is made on such Reference Obligation to but excluding the next such date; *provided* that (a) the initial Fixed Amount Payer Calculation Period shall commence on and include the Obligation Settlement Date for such Reference Obligation and (b) the final Fixed Amount Payer Calculation Period shall end on, but exclude, the related Obligation Termination Date.

Fixed Amount Payer Payment Dates:

(a) In relation to any Transaction (other than with respect to any Terminated Obligation or Repaid Obligation), the seventh Business Day following the last day of any Monthly Period, commencing with the first such date after the Obligation Settlement Date for such Transaction and ending with the last such date occurring prior to the related Obligation Termination Date; and
(b) In relation to any Transaction with respect to any Terminated Obligation or Repaid Obligation, the related Total Return Payment Date.

Citibank Floating Amounts:

Floating Amount Payer:

Citibank

Floating Amount:

In relation to any Terminated Obligation or Repaid Obligation, Capital Appreciation, if any.

Floating Rate Payer Payment Dates:

Each Total Return Payment Date.

3. REFERENCE OBLIGATION REMOVAL; ACCELERATED TERMINATION.

Reference Obligation Removal

- (a) A Transaction may be terminated in whole by either party (or in part by Counterparty) in accordance with this Clause 3 by the giving of notice (an “*Accelerated Termination Notice*”) to the other party (each such termination, an “*Accelerated Termination*”).
- (i) Counterparty shall be entitled to terminate any Transaction or any portion thereof by delivering an Accelerated Termination Notice to Citibank that is given (i) no later than the proposed Termination Trade Date and (ii) no more than 30 days, and no less than 10 days, prior to the proposed Termination Settlement Date; *provided that*, except in the case of the termination of all Transactions in connection with the occurrence of the Scheduled Termination Date, (x) the Portfolio Criteria set forth in Annex II would be satisfied on the proposed Termination Trade Date after giving effect to such termination (or, if any Portfolio Criterion is not satisfied immediately prior to such termination, the extent of compliance therewith would be maintained or improved after giving effect to such termination) and (y) the Net Collateral Value Percentage would be greater than or equal to the Termination Threshold (in each case, after giving effect to such termination). The Accelerated Termination Notice shall specify the Reference Obligation that is the subject of such Accelerated Termination, the amount of the Terminated Obligation, the proposed Termination Trade Date and the proposed Termination Settlement Date.
- (ii) Following the occurrence of a Credit Event (as determined by the Calculation Agent) with respect to the related Reference Entity (including any guarantor or other obligor referred to in the definition thereof), Citibank will have the right, but not the obligation, to terminate the related Transaction by delivering an Accelerated Termination Notice to Counterparty no less than 10 days prior to the proposed Termination Trade Date. The Accelerated Termination Notice shall specify the Reference Obligation that is the subject of such Accelerated Termination, the amount of the Terminated Obligation, the proposed Termination Trade Date and the proposed Termination Settlement Date.

Elective Termination by Citibank due to Certain Events

- (b) If:
- (i) any Reference Obligation (including any Exchange Consideration) fails to satisfy the Obligation Criteria at any time,
 - (ii) the Portfolio Criteria are not satisfied at any time,
 - (iii) Counterparty fails to perform when due any obligation to Transfer Eligible Collateral under Clause 9(a), or
 - (iv) Counterparty does not, by the deadline specified therefor in Clause 9(e), effect the Transfer to Citibank as Secured Party of Eligible Collateral contemplated by Clause 9(e),

then Citibank may notify Counterparty in writing of such event. In the case of the foregoing clause (i), if such event continues for 30 days following the delivery of such notice, then Citibank will have the right but not the obligation to terminate the related Transaction. In the case of the foregoing clause (ii), if such event continues for 30 days following the delivery of such notice, then Citibank will have the right but not the obligation to terminate each Transaction that is the subject of this Confirmation. In the case of the

foregoing clause (iii) or (iv), Citibank will have the immediate right but not the obligation to terminate each Transaction that is the subject of this Confirmation. Citibank may exercise this termination right with respect to each Terminated Obligation by delivering an Accelerated Termination Notice to Counterparty that is given, as to any Terminated Obligation, (1) on the proposed Termination Trade Date and (2) no less than 10 days prior to the proposed Termination Settlement Date for the related Terminated Obligation. The Accelerated Termination Notice shall specify each Reference Obligation that is the subject of such Accelerated Termination and, with respect to each such Reference Obligation, the amount of the Terminated Obligation, the proposed Termination Trade Date and the proposed Termination Settlement Date.

Citibank Optional Termination Date

(c) Citibank will have the right, but not the obligation, to terminate each Transaction that is the subject of this Confirmation, effective on any Business Day occurring on or after the second anniversary of the Effective Date (such anniversary date, the “**Citibank Optional Termination Date**”). Citibank can exercise this termination right by delivering an Accelerated Termination Notice to Counterparty that is given no less than 15 days prior to the first proposed Termination Trade Date specified in the related Accelerated Termination Notice. The Accelerated Termination Notice shall specify, as to each Reference Obligation, the amount of the Terminated Obligation, the proposed Termination Trade Date and the proposed Termination Settlement Date. If Citibank does not exercise its right to terminate each Transaction that is the subject of this Confirmation on or before the date occurring 30 days prior to the Citibank Optional Termination Date, then Citibank will have the right, but not the obligation, to propose, by notice to Counterparty, to amend and restate one or more material terms of the Transactions, including, without limitation, the Spread, the Independent Amount Percentage and the application of the Obligation Criteria and Portfolio Criteria to the Transactions. If Citibank provides a notice to Counterparty proposing to amend and restate one or more material terms of the Transactions as provided above and Counterparty does not agree in writing to such amended and restated terms within 10 Business Days after Citibank provides such notice to Counterparty, each Transaction shall terminate, and the Termination Trade Date shall be such tenth Business Day. In the event of any such termination, Citibank shall deliver an Accelerated Termination Notice to Counterparty, which shall specify, as to each Reference Obligation, the amount of the Terminated Obligation, the proposed Termination Trade Date and the proposed Termination Settlement Date. Even if a Termination Trade Date has been designated with respect to each Transaction pursuant to this Clause 3(c), such designation will not prevent Citibank or Counterparty from subsequently designating an earlier Termination Trade Date in relation to any Transaction to the extent Citibank or Counterparty, as the case may be, is entitled to designate such earlier Termination Trade Date pursuant to this Confirmation. Notwithstanding anything in this Confirmation to the contrary:

- (i) if Citibank elects to exercise its termination right under this Clause 3(c), then each reference to the term “Scheduled Termination Date” in Clauses 4 (other than Clause 4(c)) and 5 and in the definitions of “Ramp-Down Period” and “Termination Trade Date” will instead be a reference to the date 30 days after the first proposed Termination Trade Date specified in such notice; and
- (ii) whether or not Citibank elects to exercise its termination right under this Clause 3(c), and in the case of any termination pursuant to any of the paragraphs of this Clause 3, each reference to the term “Scheduled Termination Date” in the provisions of Clause 4(c) dealing with the payment of Counterparty Second Floating Amounts (and the reference to the day preceding the first day of the Ramp-Down Period in the definition of “Counterparty Second Floating Rate Payer Payment Date”) will be a reference to the earlier of (x) the Citibank Optional Termination Date and (y) the first anniversary of the Termination Date.

Early Termination Date under Master Agreement

(d) If there is effectively designated an Early Termination Date under the Master Agreement, then (i) each Transaction will be terminated in its entirety (but without limiting Clause 4(c)), (ii) notwithstanding any contrary or otherwise inconsistent provision of the Master Agreement, the provisions set forth in Section 6(e) of the Master Agreement shall not apply to any Transaction (except that amounts that become due and payable on or prior to such Early Termination Date with respect to any Transaction as provided in this Confirmation will constitute Unpaid Amounts) and (iii) the Termination Trade Date for each Transaction will be the date specified by the Calculation Agent occurring on or promptly after such Early Termination Date; *provided* that, if such Early Termination Date is designated by reason of an Event of Default as to which Citibank is the Defaulting Party, Counterparty may specify the Termination Trade Date with respect to any Transaction as to which the Calculation Agent has not specified the Termination Trade Date within 10 days after such Early Termination Date. The Calculation Agent shall give notice (an “**Accelerated Termination Notice**”) to each party (such termination, an “**Accelerated Termination**”) on or prior to such Early Termination Date, which Accelerated Termination Notice shall specify each Reference Obligation that is the subject of such Accelerated Termination and, with respect to each such Reference Obligation, the amount of the Terminated Obligation, the proposed Termination Trade Date and the proposed Termination Settlement Date. The amount, if any, payable in respect of such Early Termination Date will be determined in accordance with Clause 4(b) of this Confirmation based upon the delivery of such Accelerated Termination Notice.

Effect of Termination

(e) With respect to any Transaction terminated in whole pursuant to this Clause 3, (i) as of the relevant Termination Trade Date the Reference Amount shall, for all purposes hereof (including the determination of the “Maximum Portfolio Notional Amount”) other than calculating Rate Payments, be reduced to zero (and, in the case of a Committed Obligation, the Outstanding Principal Amount thereof shall be reduced to zero) and (ii) as of the relevant Termination Settlement Date the Reference Amount, for purposes of calculating Rate Payments, shall be reduced to zero (and, in the case of a Committed Obligation, the Outstanding Principal Amount thereof shall be reduced to zero). With respect to any Transaction terminated in part pursuant to this Clause 3, (i) as of the relevant Termination Trade Date the Reference Amount shall, for all purposes hereof (including the determination of the “Maximum Portfolio Notional Amount”) other than calculating Rate Payments, be reduced by the amount of the reduction of the Reference Amount specified in the Accelerated Termination Notice (and, in the case of a Committed Obligation, the Outstanding Principal Amount shall be reduced by an amount equal to the product of the Outstanding Principal Amount in effect immediately prior to such reduction multiplied by the amount of the reduction of the Reference Amount divided by the Reference Amount in effect immediately prior to such reduction) and (ii) as of the relevant Termination Settlement Date the Reference Amount shall, for purposes of calculating Rate Payments, be reduced by the amount of the reduction of the Reference Amount specified in the Accelerated Termination Notice (and, in the case of a Committed Obligation, the Outstanding Principal Amount shall be reduced by an amount equal to the product of the Outstanding Principal Amount in effect immediately prior to such reduction multiplied by the amount of the reduction of the Reference Amount divided by the Reference Amount in effect immediately prior to such reduction). Following any Termination Trade Date (other than the Termination Trade Date in respect of the Termination Date), Citibank shall promptly prepare and deliver to Counterparty a revised Annex I.

4. FINAL PRICE DETERMINATION

Following the termination of any Transaction in whole or in part pursuant to Clause 3 or by reason of the occurrence of the Scheduled Termination Date (other than in connection with a Repayment), the Final Price for the relevant Terminated Obligation will be determined in accordance with this Clause 4.

Determination by Counterparty

(a) In order to determine the Final Price for any Terminated Obligation then held by or on behalf of Citibank as a hedge for the related Transaction if such determination is being made as the result of a termination pursuant to Clause 3(a), Counterparty may arrange for the sale of such Terminated Obligation by giving notice of such sale to Citibank; *provided* that Counterparty shall have no right to arrange a sale of a Terminated Obligation pursuant to this Clause 4(a) if, as a result of such termination and the termination of all other Transactions as to which the Total Return Payment Date has not yet occurred, (i) the aggregate Value (as defined in the Credit Support Annex) of all Posted Credit Support (as so defined) held by Citibank as Secured Party (as so defined) plus the aggregate of all Citibank Floating Amounts payable in connection with such terminations would be less than (ii) the aggregate of all Counterparty Fourth Floating Amounts payable in connection with such terminations. Such notice must be given at least three Business Days prior to the related Termination Settlement Date in the case of any Terminated Obligation and at least 10 days prior to the Scheduled Termination Date if all Transactions are to be terminated in connection with the Scheduled Termination Date. Any sale (i) must be to an Approved Buyer or another buyer approved in advance by Citibank, such approval not to be unreasonably withheld or delayed, and (ii) must be scheduled to occur no later than the date customary for settlement, substantially in accordance with the then-current market practice in the principal market for such Terminated Obligation (as determined by the Calculation Agent), following the Termination Trade Date and prior to the Scheduled Termination Date if all Transactions are to be terminated in connection with the Scheduled Termination Date. If Counterparty so arranges any sale, the net cash proceeds received from the sale of any Terminated Obligation, net of the related Costs of Assignment and adjusted by any Delay Compensation as provided in Clause 6(b), shall be the "**Final Price**" for that Terminated Obligation.

Determination by Calculation Agent

(b) If the Final Price for any Terminated Obligation is not determined according to Clause 4(a), the Calculation Agent shall attempt to obtain Firm Bids for such Terminated Obligation with respect to the applicable Termination Trade Date from two or more Dealers. The Calculation Agent will give Counterparty notice of its intention to obtain Firm Bids pursuant to this Clause 4(b) (such notice to be given telephonically and via electronic mail) not later than two hours prior to the bid submission deadline specified below. By notice to Citibank not later than the bid submission deadline specified below, Counterparty may, but shall not be obligated to, designate up to three Approved Buyers each of which shall provide a Firm Bid (and the Calculation Agent will seek a Firm Bid from any such designee so designated by Counterparty on a timely basis). A "**Firm Bid**" shall be a good and irrevocable bid for value, to purchase all or a portion of the applicable Terminated Obligation, expressed as a percentage of the Reference Amount of such Terminated Obligation and exclusive of accrued interest, for scheduled settlement substantially in accordance with the then-current market practice in the principal market for such Terminated Obligation, as determined by the Calculation Agent, submitted as of 11 a.m. New York time or as soon as practicable thereafter. If there is more than one Terminated Obligation at any time, then the Calculation Agent shall obtain Firm Bids solely with respect to each separate Terminated Obligation (but not with respect to any group or groups of such Terminated Obligations). Citibank may, but is not obligated to, sell or cause the sale of any portion of any Terminated Obligation to any Dealer that provides a Firm Bid.

If the Calculation Agent is unable to obtain from Dealers at least one Firm Bid or combination of Firm Bids for all of the Reference Amount of any Terminated Obligation with respect to the relevant Termination Trade Date, the Calculation Agent will attempt to obtain a Firm Bid or combination of Firm Bids for all of the Reference Amount of such Terminated Obligation from two or more Dealers until the earlier of (i) the second Business Day (inclusive) following such Termination Trade Date and (ii) the date

a Firm Bid or combination of Firm Bids is obtained for all of the Reference Amount of such Terminated Obligation.

If the Calculation Agent is able to obtain at least one Firm Bid or combination of Firm Bids for all or any portion of the Reference Amount of any Terminated Obligation, the Final Price for such Terminated Obligation or portion thereof shall be determined by reference to such Firm Bid or Firm Bids pursuant to the last paragraph of this Clause 4(b). If no Firm Bids are obtained on or before such second Business Day for all or a portion of the applicable Terminated Obligation, the Final Price shall be deemed to be zero with respect to each portion of such Terminated Obligation for which no Firm Bid was obtained. The Calculation Agent will conduct the bid process in accordance with the procedures set forth in this Clause 4(b) and otherwise in good faith and in a commercially reasonable manner. Other than in the case of a termination pursuant to Clause 3(b) or 3(d), Citibank and Counterparty will make commercially reasonable efforts to accomplish the assignment to Counterparty (free of payment by Counterparty) of the related Terminated Obligation or portion thereof held by or on behalf of Citibank as a hedge for the related Transaction for which the Final Price is deemed to be zero (including as provided below); *provided* that Citibank shall not be liable for any losses related to any delay in or failure of such assignment beyond its control.

Notwithstanding anything to the contrary herein,

- (i) the Calculation Agent shall be entitled to disregard any Firm Bid submitted by a Dealer if, in the Calculation Agent's commercially reasonable judgment, (x) such Dealer is ineligible to accept assignment or transfer of the related Terminated Obligation or portion thereof, as applicable, substantially in accordance with the then-current market practice in the principal market for the Terminated Obligation, as determined by the Calculation Agent, or (y) as a result of the terms of any agreement or instrument governing the related Terminated Obligation or any order of a court of competent jurisdiction relating to such Terminated Obligation, such Dealer is prohibited or restricted from obtaining any consent required for the assignment or transfer of the related Terminated Obligation or portion thereof, as applicable, to it; and
- (ii) if the Calculation Agent determines that the highest Firm Bid obtained in connection with any Termination Trade Date is not *bona fide* as a result of (x) the occurrence of an Event of Default described in Section 5(a)(vii) with respect to the bidder, (y) the inability, failure or refusal of the bidder to settle the purchase of the related Terminated Obligation or portion thereof, as applicable, or otherwise settle transactions in the relevant market or perform its obligations generally or (z) the Calculation Agent not having pre-approved trading lines with the bidder that would permit settlement of the purchase of the related Terminated Obligation or portion thereof, as applicable, that Firm Bid shall be disregarded and the next highest Firm Bid that is not disregarded shall be used to determine the Final Price.

If there is no such Firm Bid, then the Calculation Agent shall designate a new Termination Trade Date; *provided* that the Calculation Agent shall designate a new Termination Trade Date pursuant to this paragraph only once. If the highest Firm Bid for any portion of the related Terminated Obligation determined in connection with the second Termination Trade Date is disregarded pursuant to this paragraph, the Calculation Agent shall have no obligation to obtain further bids, and the applicable "**Final Price**" for the portion which was so disregarded shall be deemed to be zero.

If Citibank transfers, or causes the transfer of, all or any portion of the Terminated Obligation to the Dealer or Dealers providing the highest Firm Bid or highest combination of Firm Bids for such Terminated Obligation (or portion thereof) or to such other party as provided above, the net cash proceeds received from the sale of such Terminated Obligation or portion thereof (which sale shall be scheduled to

settle substantially in accordance with the then-current market practice in the principal market for the related Reference Obligation as determined by the Calculation Agent), net of the related Costs of Assignment and adjusted by any Delay Compensation as provided in Clause 6(b), shall be the “**Final Price**” for that Terminated Obligation (or the portion thereof that is sold).

If Citibank has determined not to hold, or cause to be held, all or any portion of any Terminated Obligation as a hedge for the related Transaction or otherwise determines, in its sole discretion, not to sell or cause the sale of any portion of any Terminated Obligation to a Dealer providing the highest Firm Bid or combination of Firm Bids, the “**Final Price**” for such Terminated Obligation or portion thereof shall be equal to the highest Firm Bid (or highest combination of Firm Bids) for such Terminated Obligation (or portion thereof) multiplied by the Reference Amount of such Terminated Obligation (or the respective portions of the Reference Amount to which such Firm Bids relate). The Calculation Agent may perform any of its duties under this Clause 4(b) through any Affiliate designated by it, but no such designation shall relieve the Calculation Agent of its duties under this Clause 4(b).

Early Termination of Facility

(c) For the avoidance of doubt (and subject to paragraph (ii) of the last sentence of Clause 3(c)), if the Termination Date occurs prior to the Citibank Optional Termination Date, each Counterparty Second Floating Amount shall continue to be payable by Counterparty on each subsequent Second Floating Rate Payer Payment Date occurring on or prior to the Scheduled Termination Date; *provided* that, if either party shall so specify in writing to the other party prior to any final Termination Trade Date, then on such final Termination Trade Date (i) the obligation of Counterparty to continue to pay each Counterparty Second Floating Amount on each subsequent Second Floating Rate Payer Payment Date occurring on or prior to the Scheduled Termination Date shall terminate and be replaced by the obligation in the following clause and (ii) Counterparty shall pay to Citibank an amount equal to the present value (as calculated by the Calculation Agent with discounting on a continuous basis) discounted to such final Termination Trade Date of each Counterparty Second Floating Amount payable (without regard to the termination of such obligation under the foregoing clause) on each subsequent Second Floating Rate Payer Payment Date occurring on or prior to the Scheduled Termination Date, at a discount rate per annum equal to the Discount Rate. For this purpose, the “**Discount Rate**” means the zero coupon swap rate (as determined by the Calculation Agent) implied by the fixed rate offered to be paid by Citibank under a fixed for floating interest rate swap transaction with a remaining Term equal to the period from such final Termination Trade Date to the Scheduled Termination Date in exchange for the receipt of payments indexed to USD-LIBOR-BBA.

5. REPAYMENT.

If all or a portion of the Reference Amount of any Reference Obligation is repaid or otherwise reduced (in the case of a Committed Obligation, only if the Reference Amount thereof is permanently reduced) (including, without limitation, through any exercise of any right of set-off, reduction, or counterclaim that results in the satisfaction of the obligations of such Reference Entity to pay any principal owing in respect of such Reference Obligation) on or prior to the Scheduled Termination Date (the amount of such repayment or other reduction, a “**Repayment**”; the portion of the related Reference Obligation so repaid or otherwise reduced, a “**Repaid Obligation**”; and the date of such Repayment, the “**Repayment Date**”):

- (a) the Total Return Payment Date with respect to the Repaid Obligation will be the seventh Business Day next succeeding the last day of the Monthly Period in which the Repayment Date occurred;
- (b) as of the related Repayment Date, the Reference Amount of such Reference Obligation shall be decreased by an amount equal to the principal amount of the Repaid Obligation; and

(c) the related Final Price in relation to the Repaid Obligation shall be (i) in the case of a Committed Obligation, the portion of the Reference Amount that is permanently reduced (excluding any such reduction below the Outstanding Principal Amount thereof) on such Repayment Date and (ii) in the case of a Term Obligation, the amount of principal and premium in respect of principal paid by such Reference Entity on the Repaid Obligation to holders thereof (or the amount by which the Reference Obligation was otherwise reduced) on such Repayment Date. Following any Repayment Date, Citibank shall promptly prepare and deliver to Counterparty a revised Annex I showing the revised Reference Amount for the related Reference Obligation.

6. ADJUSTMENTS.

(a) If any Reference Obligation or portion thereof is irreversibly converted or exchanged into or for any securities, obligations or other assets or property ("**Exchange Consideration**"), thereafter such Exchange Consideration will constitute such Reference Obligation or portion thereof, and, unless Citibank shall otherwise agree in writing, (i) if such Exchange Consideration fails to satisfy the Obligation Criteria, then Clause 3(b)(i) shall apply and (ii) if the Portfolio Criteria set forth in Annex II would not be satisfied after giving effect to such exchange, then Clause 3(b)(ii) shall apply.

(b) Delay Compensation (as defined below) shall result in an adjustment (i) as contemplated by the definition of "Interest and Fee Amount" in connection with the establishment by the Citibank Holder of a related hedge in respect of a Transaction, if the actual settlement of the purchase of the related hedge occurs after the Obligation Settlement Date and (ii) of a Final Price with respect to a Terminated Obligation in connection with the termination by the Citibank Holder of a related hedge, if the actual settlement of the sale of the related hedge occurs after the Termination Settlement Date. "**Delay Compensation**" shall accrue (x) in the case of clause (i) above, from and including the Obligation Settlement Date to but excluding the actual settlement of the purchase effected to establish the related hedge (and, during such period, (A) the Counterparty First Floating Amount shall be calculated by reference to the Spread and not the Floating Rate Option and (B) Interest and Fee Amounts will be determined without regard to payments in respect of the interest rate index, but will be determined inclusive of the applicable spread above such interest rate index, used in the Reference Obligation Credit Agreement to calculate interest payments in respect of the related Reference Obligation and in effect during such period) and (y) in the case of clause (ii) above, from and including the Termination Settlement Date to but excluding the actual settlement of the sale effected to terminate the related hedge (and, during such period, (A) the Counterparty First Floating Amount shall be calculated by reference to the Floating Rate Option and not the Spread and (B) Interest and Fee Amounts shall be reduced by interest accrued during such period in excess of the interest rate index used in the Reference Obligation Credit Agreement to calculate interest payments in respect of the related Reference Obligation and in effect during such period). In connection with any adjustment by reason of Delay Compensation, (i) any initial Payment Date in this Confirmation determined by reference to the "Obligation Settlement Date" shall be determined as if the Obligation Settlement Date were the actual settlement of the purchase of the related hedge and (ii) any final Payment Date in this Confirmation determined by reference to the "Termination Settlement Date" shall be determined as if the Termination Settlement Date were the actual settlement of the termination of the related hedge.

(c) If (i) Citibank elects to establish a hedge as a result of the addition or increase in the Reference Amount of any Reference Obligation that is the subject of a Transaction and (ii) the Citibank Holder is unable after using commercially reasonable efforts to effect the settlement of such hedge, then, by notice to Counterparty, Citibank may in its sole discretion, specify that such addition or increase in the Reference Amount of such Reference Obligation shall be of no force or effect (retroactive to the Obligation Trade Date or the Obligation Settlement Date, as the case may be).

7. REPRESENTATIONS, WARRANTIES AND AGREEMENTS.

(a) Each party hereby agrees as follows, so long as either party has or may have any obligation under any Transaction.

- (i) Non-Reliance. It is acting for its own account, and it has made its own independent decisions to enter into such Transaction and as to whether such Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisors as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into such Transaction; it being understood that information and explanations related to the terms and conditions of such Transaction shall not be considered investment advice or a recommendation to enter into such Transaction. It has not received from the other party any assurance or guarantee as to the expected results of such Transaction;
- (ii) Evaluation and Understanding. It is capable of evaluating and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of such Transaction. It is also capable of assuming, and assumes, the financial and other risks of such Transaction;
- (iii) Status of Parties. The other party is not acting as a fiduciary or an advisor for it in respect of such Transaction; and
- (iv) Reliance on its Own Advisors. Without limiting the generality of the foregoing, in making its decision to enter into, and thereafter to maintain, administer or terminate, such Transaction, it will not rely on any communication from the other party as, and it has not received any representation or other communication from the other party constituting, legal, accounting, business or tax advice, and it will consult its own legal, accounting, business and tax advisors concerning the consequences of such Transaction.

(b) Each party acknowledges and agrees that, so long as either party has or may have any obligation under any Transaction:

- (i) such Transaction does not create any direct or indirect obligation of any Reference Entity or any direct or indirect participation in any Reference Obligation or any other obligation of any Reference Entity;
- (ii) each party and its Affiliates may deal in any Reference Obligation and may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with any Reference Entity, any Affiliate of any Reference Entity, any other person or entity having obligations relating to any Reference Entity and may act with respect to such business in the same manner as if such Transaction did not exist and may originate, purchase, sell, hold or trade, and may exercise consensual or remedial rights in respect of, obligations, securities or other financial instruments of, issued by or linked to any Reference Entity, regardless of whether any such action might have an adverse effect on such Reference Entity, the value of the related Reference Obligation or the position of the other party to such Transaction or otherwise;
- (iii) except as provided in Clause 7(d)(iii), each party and its Affiliates and the Calculation Agent may, whether by virtue of the types of relationships described herein or otherwise, at the date hereof or at any time hereafter, be in possession of information regarding any Reference Entity or any Affiliate of any Reference Entity that is or may be material in the context of such Transaction

and that may or may not be publicly available or known to the other party. In addition, except as provided in Clause 7(b)(vii), this Confirmation does not create any obligation on the part of such party and its Affiliates to disclose to the other party any such relationship or information (whether or not confidential);

- (iv) neither Citibank nor any of its Affiliates shall be under any obligation to hedge such Transaction or to own or hold any Reference Obligation as a result of such Transaction, and Citibank and its Affiliates may establish, maintain, modify, terminate or re-establish any hedge position or any methodology for hedging at any time without regard to Counterparty. Counterparty acknowledges and agrees that it is not relying on any representation, warranty or statement by Citibank or any of its Affiliates as to whether, at what times, in what manner or by what method Citibank or any of its Affiliates may engage in any hedging activities;
- (v) notwithstanding any other provision in this Confirmation or any other document, Citibank and Counterparty (and each employee, representative, or other agent of Citibank or Counterparty) may each disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided to them relating to such U.S. tax treatment and U.S. tax structure (as those terms are used in Treasury Regulations under Sections 6011, 6111 and 6112 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”)), other than any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws. To the extent not inconsistent with the previous sentence, Citibank and Counterparty will each keep confidential (except as required by law) all information unless the other party has consented in writing to the disclosure of such information;
- (vi) if Citibank chooses to hold a Reference Obligation as a result of any Transaction, Citibank shall hold such Reference Obligation directly or through an Affiliate (the “**Citibank Holder**”). The Citibank Holder may deal with such Reference Obligation as if the related Transaction did not exist, *provided* that, so long as the Citibank Holder remains the lender of record with respect to such Reference Obligation, upon any occasion permitting the Citibank Holder to exercise any right in relation to such Reference Obligation to give or withhold consent (an “**Election**”) to an action proposed to be taken (or to be refrained from being taken), the Citibank Holder shall, insofar as permitted under (x) applicable laws, rules and regulations and (y) each provision of any agreement or instrument evidencing or governing such Reference Obligation (and, in the case of any participation interest, governing such participation interest), give its consent to the action proposed to be taken (or to be refrained from being taken), unless (A) Counterparty, by timely notice to Citibank, requests (a “**Counterparty Election Request**”) that the Citibank Holder withhold such consent and (B) the Citibank Holder, in its sole discretion, elects to withhold such consent in accordance with the Counterparty Election Request. Notwithstanding the foregoing: (1) the Citibank Holder shall have no obligation to respond to, or consult with Counterparty in relation to, a Counterparty Election Request (failure to respond to a Counterparty Election Request being deemed a denial); (2) the Citibank Holder shall have no other duties or obligations to Counterparty of any nature with respect to any Election or any Counterparty Election Request; (3) the Citibank Holder shall not be liable to Counterparty or any of its Affiliates for the consequences of any consent given or withheld by the Citibank Holder in connection with such Reference Obligation (whether or not pursuant to a Counterparty Election Request); and (4) if the Citibank Holder elects in its sole discretion to withhold its consent in accordance with a Counterparty Election Request, the Citibank Holder may subsequently determine to give such consent at any time without notice to Counterparty; and

- (vii) in connection with each Reference Obligation that is held by a Citibank Holder as a result of any Transaction, the Citibank Holder will promptly (and in any event within one Business Day after receipt) deliver or cause to be delivered to Counterparty the following information and documentation, in each case, to the extent actually received by the Citibank Holder from the Reference Entity or its agents under the related Reference Obligation Credit Agreement: all notices of any borrowings, prepayments and interest rate settings, all amendments, consents, waivers and other modifications (whether final or proposed) in relation to the terms of the Reference Obligation; and all notices given by the Reference Entity to the lenders or their agent or by the lenders or their agent to the Reference Entity in relation to the exercise of remedies.
- (c) Each of the parties hereby represents that, on each date on which a Transaction is entered into hereunder:
- (i) it is entering into such Transaction for investment, financial intermediation, hedging or other commercial purposes; and
 - (ii) (x) it is an “eligible contract participant” as defined in Section 1a(12) of the U.S. Commodity Exchange Act, as amended (the “CEA”), (y) the Master Agreement and each Transaction are subject to individual negotiation by each party, and (z) neither the Master Agreement nor any Transaction will be executed or traded on a “trading facility” within the meaning of Section 1a(33) of the CEA.
- (d) Counterparty hereby represents to Citibank that:
- (i) its financial condition is such that it has no need for liquidity with respect to its investment in any Transaction and no need to dispose of any portion thereof to satisfy any existing or contemplated undertaking or indebtedness. Its investments in and liabilities in respect of any Transaction, which it understands is not readily marketable, is not disproportionate to its net worth, and it is able to bear any loss in connection with any Transaction, including the loss of its entire investment in such Transaction;
 - (ii) it understands no obligations of Citibank to it hereunder will be entitled to the benefit of deposit insurance and that such obligations will not be guaranteed by any Affiliate of Citibank or any governmental agency;
 - (iii) as of (x) the relevant Obligation Trade Date and (y) any date on which a sale is effected pursuant to Clause 4(a) or on which the Calculation Agent solicits Firm Bids pursuant to Clause 4(b), neither Counterparty nor any of its Affiliates, whether by virtue of the types of relationships described herein or otherwise, is on such date in possession of information regarding any related Reference Entity or any Affiliate of such Reference Entity that is or may be material in the context of such Transaction or the purchase or sale of any related Reference Obligation unless such information either (x) is publicly available or (y) has been made available to each registered owner of such Reference Obligation on a basis that permits such registered owner to disclose such information to any assignee of or participant (whether on a funded or unfunded basis) in, or any prospective assignee of or participant (whether on a funded or unfunded basis) in, any rights or obligations under the related Reference Obligation Credit Agreement;
 - (iv) Counterparty is a wholly owned subsidiary of a United States person, within the meaning of Section 7701(a)(30) of the Code, and has elected to be treated as a disregarded entity for U.S. Federal income tax purposes;

- (v) it has delivered to Citibank on or prior to the Trade Date (and it will, prior to any expiration of any such form previously so delivered, deliver to Citibank) a United States Internal Revenue Service Form W-9 (or applicable successor form), properly completed and signed (which representation shall also be made for purposes of Section 3(f) of the Master Agreement);
- (vi) it could have received all payments on the Reference Obligation without U.S. Federal or foreign withholding tax if it owned the Reference Obligation (which representation shall also be made for purposes of Section 3(f) of the Master Agreement); and
- (vii) it is not, for U.S. Federal income tax purposes, a tax-exempt organization.

(e) Except for disclosure authorized pursuant to Clause 7(b)(v), Counterparty agrees to be bound by the confidentiality provisions of the related Reference Obligation Credit Agreement with respect to all information and documentation in relation to a Reference Entity or a Reference Obligation delivered to Counterparty hereunder. Counterparty acknowledges that such information may include material non-public information concerning the Reference Entity or its securities and agrees to use such information in accordance with applicable law, including Federal and State securities laws.

(f) Multiple Transaction Payment Netting under Section 2(c) of the Master Agreement will apply to the Transactions to which this Confirmation relates.

(g) Notwithstanding anything in the Master Agreement to the contrary, Citibank will not be required to pay any additional amount under Section 2(d)(i) of the Master Agreement in respect of any deduction or withholding for or on account of any Tax in relation to any payment under any Transaction that is determined by reference to interest or fees payable with respect to any Reference Obligation. If Citibank is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding for or on account of any Tax in relation to any payment under any Transaction that is determined by reference to interest or fees payable with respect to any Reference Obligation and Citibank does not so deduct or withhold, then Section 2(d)(ii) of the Master Agreement shall be applicable.

8. ADJUSTMENTS RELATING TO CERTAIN UNPAID OR RESCINDED PAYMENTS.

(a) If (i) Citibank makes any payment to Counterparty as provided under Clause 2 and the corresponding Interest and Fee Amount is not paid (in whole or in part) when due or (ii) any Interest and Fee Amount in respect of a Reference Obligation is required to be returned (in whole or in part) by a holder of such Reference Obligation (including, without limitation, the Citibank Holder) to the applicable Reference Entity or paid to any other person or entity or is otherwise rescinded pursuant to any bankruptcy or insolvency law or any other applicable law, then Counterparty will pay to Citibank, upon request by Citibank, such amount (or portion thereof) so not paid or so required to be returned, paid or otherwise rescinded. If such returned, paid or otherwise rescinded amount is subsequently paid, Citibank shall pay such amount (subject to Clause 8(c)) to Counterparty within seven Business Days after the date of such subsequent payment.

(b) If, with respect to any Repaid Obligation, the corresponding payment of principal of the Repaid Obligation is required to be returned (in whole or in part) by a holder thereof (including, without limitation, the Citibank Holder) to the applicable Reference Entity or paid to any other person or entity or is otherwise rescinded pursuant to any bankruptcy or insolvency law or any other applicable law, then (i) the parties hereto shall be restored severally and respectively to their former positions hereunder and thereafter all rights and obligations of the parties hereunder shall continue as though no Repayment had occurred and (ii) without limiting the generality of the foregoing, if either party has made a payment to

the other party in respect of Capital Appreciation or Capital Depreciation related to such Repayment as provided under Clause 2, then the party that received the payment in respect of such Capital Appreciation or Capital Depreciation, as applicable, shall repay such amount (subject to Clause 8(c)) to the other party. If such returned, paid or otherwise rescinded amount is subsequently paid by the related Reference Entity or any such other person or entity, then the relevant party shall pay the amount of such Capital Appreciation or Capital Depreciation, as applicable, within seven Business Days after the date of such subsequent payment.

(c) Amounts payable pursuant to this Clause 8 shall be subject to adjustment by the Calculation Agent in good faith and on a commercially reasonable basis, as agreed by Citibank and Counterparty, in order to preserve for the parties the intended economic risks and benefits of the relevant Transaction.

(d) The payment obligations of Citibank and Counterparty pursuant to this Clause 8 shall survive the termination of all Transactions.

9. CREDIT SUPPORT.

Notwithstanding anything in the Credit Support Annex (the “**Credit Support Annex**”) to the Schedule to the Master Agreement to the contrary, the following collateral terms shall apply to each Transaction to which this Confirmation relates (capitalized terms used in this Clause 9 but not otherwise defined in this Confirmation have the respective meanings given to such terms in the Credit Support Annex):

- (a) With respect to each Transaction to which this Confirmation relates, a single “Independent Amount” shall be applicable to Counterparty in an amount equal to the Notional Amount with respect to such Transaction (or, in the case of any increase of the Notional Amount under any Transaction, the amount of such increase) multiplied by the percentage set forth in Clause 9(b) under the caption “Independent Amount Percentage”. Not later than the Effective Date, Counterparty as Pledgor will Transfer to Citibank as Secured Party Eligible Collateral having a Value as of the date of Transfer equal to the aggregate of all Independent Amounts determined pursuant this Clause 9(a). If the aggregate of all Independent Amounts on any date would increase as a result of an increase in the Portfolio Notional Amount, or any change in the Diversity Score, on such date and the aggregate Value of Eligible Collateral Transferred to Citibank pursuant to this Clause 9(a) prior to such date is less than the aggregate of all Independent Amounts as so increased, then Counterparty as Pledgor will Transfer to Citibank as Secured Party Eligible Collateral having a Value as of the date of Transfer equal to the greater of (i) USD1,000,000 and (ii) the amount of such shortfall.
- (b) With respect to each Transaction to which this Confirmation relates, the “Independent Amount Percentage” applicable to such Transaction will be equal to:

<u>Condition</u>	<u>Independent Amount Percentage</u>
(i) With respect to any Transaction not relating to a Specified Reference Obligation on any date on which the Diversity Score is less than 15:	25%
(i) With respect to any Transaction not relating to a Specified Reference Obligation on any date on which the Diversity Score is greater	20%

than or equal to 15:

(iii) With respect to any Transaction relating to a Specified Reference Obligation

Such percentage as Citibank shall specify on or prior to the Obligation Trade Date for such Transaction

- (c) In no event shall Citibank as Secured Party be obligated to Transfer Posted Credit Support in respect of a Return Amount to Counterparty as Pledgor if the Value as of any Valuation Date of all Posted Credit Support held by Citibank as Secured Party would be less than the aggregate of all Independent Amounts determined pursuant to Clause 9(a).
- (d) Solely for the purpose of determining any Delivery Amount or Return Amount pursuant to the Credit Support Annex, (i) in no event shall Counterparty as a Secured Party have any positive "Exposure" to Citibank with respect to the Transactions (in aggregate) to which this Confirmation relates or (ii) without limiting Clause 3(b) or 9(e), in no event shall Citibank as a Secured Party have any positive "Exposure" to Counterparty with respect to the Transactions (in aggregate) to which this Confirmation relates.
- (e) If (i) the Net Collateral Value Percentage on any Valuation Date is less than the Termination Threshold on such Valuation Date and (ii) Citibank gives notice thereof to Counterparty on any Business Day, Counterparty shall, no later than one Business Day after the date of such notice from Citibank, effect the Transfer to Citibank as Secured Party of Eligible Collateral such that the Net Collateral Value Percentage after giving effect to such Transfer is at least equal to the Cure Threshold. In addition, Counterparty may, on any Business Day, effect the Transfer to Citibank as Secured Party of any additional Eligible Collateral.
- (f) If Counterparty enters into any Transaction under the Master Agreement other than the Transactions contemplated by this Confirmation (each, a "**Separate Transaction**"), then the Credit Support Amount with respect to Counterparty as Pledgor shall never be less than the "Credit Support Amount" with respect to Counterparty as Pledgor calculated (i) solely with reference to all Separate Transactions and (ii) without regard to the aggregate of all Independent Amounts applicable to Counterparty as Pledgor under this Confirmation.
- (g) Each Business Day shall be a Valuation Date.
- (h) The "**Interest Rate**" will be (i) the overnight ask rate in effect for such day, as set forth opposite the caption "O/N" under the heading "USD" on Reuters Page LIBOR01 or any successor page thereto on or about 11:00 a.m., New York time, on such day, or (ii) if no successor page is quoted, the rate in effect for such day, as set forth in H.15(519) for that day opposite the caption "Federal Funds (Effective)" and if the rate is not yet published in H.15(519), the rate for such day will be the rate set forth in Composite 3:30 p.m. Quotations for U.S. Government Securities for that day under the caption "Federal Funds/Effective Rate". If on any day the appropriate rate for such day is not published in either H.15(519) or Composite 3:30 p.m. Quotations for U.S. Government Securities, the rate for such day will be the arithmetic mean of the rate for the last transaction in overnight U.S. Dollar Federal funds arranged by three leading brokers of U.S. Dollar federal funds transactions in New York City selected by Citibank in good faith prior to 9:00 a.m., New York City time on such day. "**H.15(519)**" means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System. "**Composite 3:30 p.m. Quotations for U.S. Government Securities**"

means the daily statistical release designated as such, or any successor publication, published by the Federal Reserve Bank of New York, or (iii) if such Federal funds rate is not available, any page agreed by the parties. Transfers of the Interest Amount will be made in arrears on the seventh Business Day following the last day of each Monthly Period.

- (i) Any Transfer required to be made pursuant to this Clause 9 shall be a Transfer made under the Credit Support Annex (and not a payment or delivery made under Section 2(a)(i) of the Master Agreement).

10. NOTICE AND ACCOUNT DETAILS.

Notices to Citibank:

Citibank, N.A., New York Branch
390 Greenwich Street, 4th Floor
New York, New York 10013
Tel: (212) 723-6181
Fax: (646) 291-5779
Attn: Mitali Sohoni

with a copy to:

Office of the General Counsel
Fixed Income and Derivatives Sales and Trading
Citibank, N.A., New York Branch
388 Greenwich Street, 17th Floor
New York, New York 10013
Tel: (212) 816-2121
Fax: (646) 862-8431
Attn: Craig Seledede

Notices to Counterparty:

As set forth in Part 4 of the Schedule to the Master Agreement

Payments to Citibank:

Citibank, N.A., New York
ABA No.: 021-000-089
Account No.: 00167679
Ref: Financial Futures

Payments to Counterparty:

Any payment to be made to Counterparty shall be subject to the condition that Citibank shall have received notice of the account to which such payment is to be made not less than three Local Business Days prior to the date of such payment.

11. OFFICES.

- (a) The Office of Citibank for each Transaction:
New York, NY
- (b) The Office of Counterparty for each Transaction:
Philadelphia, PA

Please confirm that the foregoing correctly sets forth the terms of our agreement by having a duly authorized officer of Counterparty execute this Confirmation and return the same by facsimile to the attention of the individual at Citibank indicated on the first page hereof.

Very truly yours,

CITIBANK, N.A.

By: /s/ David Santos

Name: David Santos

Title: Authorized Signatory

CONFIRMED AND AGREED

AS OF THE DATE FIRST ABOVE WRITTEN:

ARCH STREET FUNDING LLC

By: /s/ Gerald F. Stahlecker

Name: Gerald F. Stahlecker

Title: EVP

ADDITIONAL DEFINITIONS

“**Affiliate**”, for purposes of this Confirmation only, has the meaning given to such term in Rule 405 under the Securities Act of 1933, as amended.

“**Approved Buyer**” means (a) any entity listed in Annex III hereto (as such Annex may be amended by mutual written consent of the parties hereto from time to time) so long as its long-term unsecured and unsubordinated debt obligations on the “trade date” for the related purchase or submission of a Firm Bid contemplated hereby are rated at least “A2” by Moody’s and at least “A” by S&P and (b) if an entity listed in Annex III hereto is not the principal banking or securities Affiliate within a financial holding company group, the principal banking or securities Affiliate of such listed entity within such financial holding company group so long as such obligations of such Affiliate have the rating indicated in clause (a) above.

“**Capital Appreciation**” and “**Capital Depreciation**” mean, for any Total Return Payment Date, the amount determined according to the following formula for the applicable Terminated Obligation or Repaid Obligation:

$$\text{Final Price} - \text{Applicable Notional Amount}$$

where

“**Final Price**” means (a) in the case of any Terminated Obligation, the amount determined pursuant to Clause 4, and (b) in the case of any Repaid Obligation, the amount determined pursuant to Clause 5, and

“**Applicable Notional Amount**” means the Notional Funded Amount (determined immediately prior to the related Repayment Date or Termination Trade Date) for such Terminated Obligation or Repaid Obligation, as applicable.

If such amount is positive, such amount is “**Capital Appreciation**” and if such amount is negative, the absolute value of such amount is “**Capital Depreciation**”.

“**Committed Obligation**” means (a) any Delayed Drawdown Reference Obligation and (b) any Revolving Reference Obligation.

“**Costs of Assignment**” means, in the case of any Terminated Obligation, the sum of (a) any actual costs of transfer or assignment paid by the seller under the terms of any Terminated Obligation or otherwise actually imposed on the seller by any applicable administrative agent, borrower or obligor incurred in connection with the sale of such Terminated Obligation and (b) any reasonable expenses incurred by the seller in connection with such sale and, if transfers of the Terminated Obligation are subject to the Standard Terms and Conditions for Distressed Trade Confirmations, as published by the LSTA and as in effect on the Obligation Trade Date, reasonable legal costs incurred by the seller in connection with such sale, in each case to the extent not already reflected in the Final Price.

“**Credit Event**” means the occurrence of a Bankruptcy or Failure to Pay. For purposes of the determination of whether a Credit Event has occurred, the Obligation Category will be Borrowed Money, the Payment Requirement will be USD1,000,000 and no Obligation Characteristics will be specified. Capitalized terms used in this definition but not defined in this Confirmation shall have the meanings specified in the 2003 ISDA Credit Derivatives Definitions.

“**Cure Threshold**” means (a) with respect to the first Valuation Date (if any) on which the Net Collateral Value Percentage is less than the Termination Threshold and for the period thereafter until the Net Collateral Value Percentage is at least equal to 20%, but only if the Diversity Score at the end of such period is greater than or equal to 15, 20% and (b) otherwise, 25%.

“**Current Price**” means, with respect to any Reference Obligation on any date of determination, the Calculation Agent’s determination of the net cash proceeds that would be received from the sale on such date of determination of such Reference Obligation, net of the related Costs of Assignment. If Counterparty disputes the Calculation Agent’s determination of the Current Price of any Reference Obligation, then Counterparty may, no later than two hours after Counterparty is given notice of such determination, (a) designate two Dealers of credit standing acceptable to Citibank in the exercise of its reasonable discretion and (b) provide to Citibank within such two-hour period with respect to each such Dealer a Firm Bid with respect to the entire Reference Amount of the Reference Obligation. The highest of such two Firm Bids will be the Current Price. The “Current Price” shall be expressed as a percentage of par and will be determined exclusive of accrued interest.

“**Dealer**” means (a) any nationally recognized independent dealer in the related Reference Obligation chosen by the Calculation Agent or its designated Affiliate, (b) any Approved Buyer or other entity designated by the Calculation Agent and having a credit standing acceptable to Citibank and (c) any Approved Buyer designated by Counterparty pursuant to Clause 4(b).

“**Delayed Drawdown Reference Obligation**” means a Reference Obligation that (a) requires the holder thereof to make one or more future advances to the borrower under the instrument or agreement pursuant to which such Reference Obligation was issued or created, (b) specifies a maximum amount that can be borrowed on one or more fixed borrowing dates and (c) does not permit the re-borrowing of any amount previously repaid; *provided* that, on any date on which all commitments by the holder thereof to make advances to the borrower under such Delayed Drawdown Reference Obligation expire or are terminated or reduced to zero, such Reference Obligation shall cease to be a Delayed Drawdown Reference Obligation.

“**Designated Reference Obligation**” means any Reference Obligation that (a) is not a Specified Reference Obligation, (b) has as of the Obligation Trade Date a Moody’s Rating of at least B2 and an S&P Rating of at least B, (c) is on the Obligation Trade Date part of a fungible class of debt obligations (as to issuance date and all economic terms) of at least USD500,000,000, (d) has an Initial Price as of the Obligation Trade Date of at least 90% and (e) is on the Obligation Trade Date the subject of at least five bid quotations from nationally recognized independent dealers in the related obligation as reported on a nationally recognized pricing service.

“**Diversity Score**” means the sum of each of the Industry Diversity Scores and is calculated as follows:

- (i) For the purposes of the calculation of the Diversity Score, all affiliates of each obligor shall be treated as a single obligor together with such obligor. For this purpose, affiliation shall not result solely from ownership by a common Financial Sponsor.
- (ii) The **Industry Diversity Score** is calculated as follows:
 - (a) An **Issuer Reference Amount** is calculated for each Reference Entity represented in the Reference Portfolio by summing the Reference Amounts of all the Reference Obligations with respect to such Reference Entity.

- (b) An **Average Reference Amount** is calculated by summing the Reference Amounts of all the Reference Obligations in the Reference Portfolio and dividing such amount by the sum of the number of Reference Entities in the Reference Portfolio.
- (c) An **Equivalent Unit Score** is calculated for each Reference Entity as the lesser of (A) one and (B) the Issuer Reference Amount for such Reference Entity divided by the Average Reference Amount.
- (d) An **Aggregate Industry Equivalent Unit Score** is then calculated for each of the Moody's Industry Classification Groups, by summing the Equivalent Unit Scores for each Reference Entity in each such Moody's Industry Classification Group.
- (e) An **Industry Diversity Score** is then established by reference to the Diversity Score Table shown below for the related Aggregate Industry Equivalent Unit Score; **provided** that if any Aggregate Industry Equivalent Unit Score falls between any two such scores then the applicable Industry Diversity Score will be the lower of the two Industry Diversity Scores in the Diversity Score Table.

"Diversity Score Table":

Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score
0.0000	0.0000	5.0500	2.7000	10.1500	4.0200	15.2500	4.5300
0.0500	0.1000	5.1500	2.7333	10.2500	4.0300	15.3500	4.5400
0.1500	0.2000	5.2500	2.7667	10.3500	4.0400	15.4500	4.5500
0.2500	0.3000	5.3500	2.8000	10.4500	4.0500	15.5500	4.5600
0.3500	0.4000	5.4500	2.8333	10.5500	4.0600	15.6500	4.5700
0.4500	0.5000	5.5500	2.8667	10.6500	4.0700	15.7500	4.5800
0.5500	0.6000	5.6500	2.9000	10.7500	4.0800	15.8500	4.5900
0.6500	0.7000	5.7500	2.9333	10.8500	4.0900	15.9500	4.6000
0.7500	0.8000	5.8500	2.9667	10.9500	4.1000	16.0500	4.6100
0.8500	0.9000	5.9500	3.0000	11.0500	4.1100	16.1500	4.6200
0.9500	1.0000	6.0500	3.0250	11.1500	4.1200	16.2500	4.6300
1.0500	1.0500	6.1500	3.0500	11.2500	4.1300	16.3500	4.6400
1.1500	1.1000	6.2500	3.0750	11.3500	4.1400	16.4500	4.6500
1.2500	1.1500	6.3500	3.1000	11.4500	4.1500	16.5500	4.6600
1.3500	1.2000	6.4500	3.1250	11.5500	4.1600	16.6500	4.6700
1.4500	1.2500	6.5500	3.1500	11.6500	4.1700	16.7500	4.6800
1.5500	1.3000	6.6500	3.1750	11.7500	4.1800	16.8500	4.6900
1.6500	1.3500	6.7500	3.2000	11.8500	4.1900	16.9500	4.7000
1.7500	1.4000	6.8500	3.2250	11.9500	4.2000	17.0500	4.7100
1.8500	1.4500	6.9500	3.2500	12.0500	4.2100	17.1500	4.7200
1.9500	1.5000	7.0500	3.2750	12.1500	4.2200	17.2500	4.7300
2.0500	1.5500	7.1500	3.3000	12.2500	4.2300	17.3500	4.7400
2.1500	1.6000	7.2500	3.3250	12.3500	4.2400	17.4500	4.7500
2.2500	1.6500	7.3500	3.3500	12.4500	4.2500	17.5500	4.7600
2.3500	1.7000	7.4500	3.3750	12.5500	4.2600	17.6500	4.7700
2.4500	1.7500	7.5500	3.4000	12.6500	4.2700	17.7500	4.7800
2.5500	1.8000	7.6500	3.4250	12.7500	4.2800	17.8500	4.7900
2.6500	1.8500	7.7500	3.4500	12.8500	4.2900	17.9500	4.8000
2.7500	1.9000	7.8500	3.4750	12.9500	4.3000	18.0500	4.8100
2.8500	1.9500	7.9500	3.5000	13.0500	4.3100	18.1500	4.8200
2.9500	2.0000	8.0500	3.5250	13.1500	4.3200	18.2500	4.8300
3.0500	2.0333	8.1500	3.5500	13.2500	4.3300	18.3500	4.8400
3.1500	2.0667	8.2500	3.5750	13.3500	4.3400	18.4500	4.8500
3.2500	2.1000	8.3500	3.6000	13.4500	4.3500	18.5500	4.8600

3.3500	2.1333	8.4500	3.6250	13.5500	4.3600	18.6500	4.8700
3.4500	2.1667	8.5500	3.6500	13.6500	4.3700	18.7500	4.8800
3.5500	2.2000	8.6500	3.6750	13.7500	4.3800	18.8500	4.8900
3.6500	2.2333	8.7500	3.7000	13.8500	4.3900	18.9500	4.9000
3.7500	2.2667	8.8500	3.7250	13.9500	4.4000	19.0500	4.9100
3.8500	2.3000	8.9500	3.7500	14.0500	4.4100	19.1500	4.9200
3.9500	2.3333	9.0500	3.7750	14.1500	4.4200	19.2500	4.9300
4.0500	2.3667	9.1500	3.8000	14.2500	4.4300	19.3500	4.9400
4.1500	2.4000	9.2500	3.8250	14.3500	4.4400	19.4500	4.9500
4.2500	2.4333	9.3500	3.8500	14.4500	4.4500	19.5500	4.9600
4.3500	2.4667	9.4500	3.8750	14.5500	4.4600	19.6500	4.9700
4.4500	2.5000	9.5500	3.9000	14.6500	4.4700	19.7500	4.9800
4.5500	2.5333	9.6500	3.9250	14.7500	4.4800	19.8500	4.9900
4.6500	2.5667	9.7500	3.9500	14.8500	4.4900	19.9500	5.0000
4.7500	2.6000	9.8500	3.9750	14.9500	4.5000		
4.8500	2.6333	9.9500	4.0000	15.0500	4.5100		
4.9500	2.6667	10.0500	4.0100	15.1500	4.5200		

“Expense or Other Payment” means the aggregate amount of any payments (other than extensions of credit) due from the lender(s) in respect of any Reference Obligation, including, without limitation, (a) any expense associated with any amendment, modification or waiver of the provisions of a credit agreement, (b) any reimbursement of any agents under the provisions of a credit agreement, and (c) any indemnity or other similar payment, including amounts owed on or after the related Obligation Termination Date in respect of amounts incurred or any event that occurred before the related Obligation Termination Date.

“Financial Sponsor” means any entity, including any subsidiary of another entity, whose principal business activity is acquiring, holding and selling investments (including controlling interests) in otherwise unrelated companies that each are distinct legal entities with separate management, books and records and bank accounts, whose operations are not integrated one with another and whose financial condition and creditworthiness are independent of the other companies so owned by such entity.

“Interest and Fee Amount” means, for any Citibank Fixed Amount Payer Payment Date and any Transaction, the aggregate amount of interest (including interest breakage costs), fees (including, without limitation, amendment, consent, tender, facility, letter of credit and other similar fees) and other amounts (other than in respect of principal and premium paid in respect of principal) paid with respect to the related Reference Obligation (after deduction of any withholding taxes for which the Reference Entities are not obligated to reimburse holders of the related Reference Obligation, if applicable) during the relevant Citibank Fixed Amount Payer Calculation Period; *provided that* Interest and Fee Amounts:

- (a) in the case of “Interest and Accruing Fees” (as defined in the “Standard Terms and Conditions for Par/Near Par Trade Confirmations” or “Standard Terms and Conditions for Distressed Trade Confirmations”, as applicable to the relevant Reference Obligation, most recently published by the LSTA prior to the Trade Date), shall not include any amounts that accrue prior to the Obligation Settlement Date for the related Reference Obligation or that accrue on or after the Obligation Termination Date for the related Reference Obligation or portion thereof,
- (b) in the case of “Non-Recurring Fees” (as so defined), shall not include any amounts that (i) accrue prior to the Obligation Trade Date for the related Reference Obligation or that accrue on or after the Termination Trade Date for the related Reference Obligation or portion thereof or (ii) to the extent that such amounts are payable contingent upon whether a consent is given or withheld by the record owner of the related Reference Obligation, accrue with respect to the related Reference Obligation that is not held by or on behalf of Citibank as a hedge for the related Transaction,

- (c) shall be determined after deducting any Costs of Assignment that would be incurred by a buyer in connection with any purchase of the Reference Obligation as a hedge for such Transaction and, in connection with the establishment by the Citibank Holder of a related hedge in respect of such Transaction, shall be adjusted by any Delay Compensation as provided in Clause 6(b); and
- (d) in the case of any Transaction as to which the related Reference Obligation is a Committed Obligation, shall include only 75% of fees that are stated to accrue on or in respect of the unfunded portion of any Commitment Amount.

“**Loan**” means any obligation for the payment or repayment of borrowed money that is documented by a term loan agreement, revolving loan agreement or other similar credit agreement.

“**LSTA**” means The Loan Syndications and Trading Association, Inc. and any successor thereto.

“**Moody’s**” means Moody’s Investors Service, Inc. or any successor thereto.

“**Moody’s Rating**” means, with respect to a Reference Obligation, as of any date of determination:

- (i) if the Reference Obligation itself is rated by Moody’s (including pursuant to any credit estimate), such rating,
- (ii) if the foregoing paragraph is not applicable, then, if the Reference Obligation is a Loan and the related Reference Entity has a corporate family rating by Moody’s, the rating specified in the applicable row of the table below under “Relevant Rating” opposite the row in the table below that describes such Loan:

<u>Loan</u>	<u>Relevant Rating</u>
The Loan is a secured obligation, but is not a Second Lien Obligation and is not Subordinate	The rating by Moody’s that is one rating subcategory above such corporate family rating
The Loan is an unsecured obligation or is a Second Lien Obligation, but is not Subordinate	The rating by Moody’s that is one rating subcategory below such corporate family rating
The Loan is Subordinate	The rating by Moody’s that is two rating subcategories below such corporate family rating

- (iii) if the foregoing paragraphs are not applicable, but there is a rating by Moody’s on a secured obligation of the Reference Entity that is not a Second Lien Obligation and is not Subordinate (the “other obligation”), the rating specified in the applicable row of the table below under “Relevant Rating” opposite the row in the table below that describes such Reference Obligation:

<u>Reference Obligation</u>	<u>Relevant Rating</u>
The Reference Obligation is a secured obligation, but is not a Second Lien Obligation and is not Subordinate	The rating assigned by Moody’s to the other obligation
The Reference Obligation is an unsecured obligation or is a Second Lien Obligation, but is not	The rating by Moody’s that is one rating subcategory below the rating assigned by Moody’s

Subordinate

The Reference Obligation is Subordinate

to the other obligation

The rating by Moody's that is two rating subcategories below the rating assigned by Moody's to the other obligation

- (iv) if the foregoing paragraphs are not applicable, but there is a rating by Moody's on an unsecured obligation of the Reference Entity (or, failing that, an obligation that is a Second Lien Obligation) but is not Subordinate (the "other obligation"), the rating specified in the applicable row of the table below under "Relevant Rating" opposite the row in the table below that describes such Reference Obligation:

Reference Obligation

Relevant Rating

The Reference Obligation is a secured obligation, but is not a Second Lien Obligation and is not Subordinate

The rating by Moody's that is one rating subcategory above the rating assigned by Moody's to the other obligation

The Reference Obligation is an unsecured obligation or is a Second Lien Obligation, but is not Subordinate

The rating assigned by Moody's to the other obligation

The Reference Obligation is Subordinate

The rating by Moody's that is one rating subcategory below the rating assigned by Moody's to the other obligation

- (v) if the foregoing paragraphs are not applicable, but there is a rating by Moody's on an obligation of the Reference Entity that is Subordinate (the "other obligation"), the rating specified in the applicable row of the table below under "Relevant Rating" opposite the row in the table below that describes such Reference Obligation:

Reference Obligation

Relevant Rating

The Reference Obligation is a secured obligation, but is not a Second Lien Obligation and is not Subordinate

The rating by Moody's that is two rating subcategories above the rating assigned by Moody's to the other obligation

The Reference Obligation is an unsecured obligation or is a Second Lien Obligation, but is not Subordinate

The rating by Moody's that is one rating subcategory above the rating assigned by Moody's to the other obligation

The Reference Obligation is Subordinate

The rating assigned by Moody's to the other obligation

- (vi) if a rating cannot be assigned pursuant to clauses (i) through (v), the Moody's Rating may be determined using any of the methods below:

- (A) for up to 5% of the Portfolio Target Amount, Counterparty may apply to Moody's for a shadow rating or public rating of such Reference Obligation, which shall then be the Moody's Rating (and Counterparty may deem the Moody's Rating of such Reference Obligation to be "B3" pending receipt of such shadow rating or public rating, as the case may be); *provided* that (x) a Reference Obligation will not be included in the 5% limit of the Portfolio Target Amount if Counterparty has assigned a rating to such Reference Obligation in accordance with clause (B) below and (y) upon receipt of a shadow rating or public rating, as the case may be, such Reference Obligation will not be included in the 5% limit of the Portfolio Target Amount;
- (B) for up to 5% of the Portfolio Target Amount, if there is a private rating of an obligor that has been provided by Moody's to Citibank and Counterparty, Counterparty may impute a Moody's Rating that corresponds to such private rating; *provided* that a Reference Obligation will not be included in the 5% limit of the Portfolio Target Amount if Counterparty has applied to Moody's for a shadow rating; or
- (C) for up to 10% of the Portfolio Target Amount, the Moody's Rating may be determined in accordance with the methodologies for establishing the S&P Rating except that the Moody's Rating of such obligation will be (1) one sub-category below the Moody's equivalent of the S&P Rating if such S&P Rating is "BBB-" or higher and (2) two sub-categories below the Moody's equivalent of the S&P Rating if such S&P Rating is "BB+" or lower.

For purposes of the foregoing, a "private rating" shall refer to a rating obtained by Citibank, by Counterparty or by or on behalf of an obligor on a Reference Obligation that is not disseminated publicly; whereas a "shadow rating" shall refer to a credit estimate obtained upon application of Counterparty or a holder of a Reference Obligation. Any private rating or shadow rating shall be required to be refreshed annually. If Counterparty applies to Moody's for a shadow rating or public rating of a Reference Obligation, Counterparty shall provide evidence to Citibank of such application and shall notify Citibank of the expected rating. Counterparty shall notify Citibank of the shadow rating or public rating assigned by Moody's to a Reference Obligation.

"Net Collateral Value" means, as of any date of determination, an amount equal to (a) the aggregate Value (as defined in the Credit Support Annex) on such date of all Posted Credit Support (as so defined) held by Citibank as Secured Party (as so defined) plus (b) the aggregate of all Unrealized Capital Gains on such date with respect to the Reference Portfolio minus (c) the aggregate of all Unrealized Capital Losses on such date with respect to the Reference Portfolio.

"Net Collateral Value Percentage" means, as of any date of determination, an amount (expressed as a percentage) equal to (a) the Net Collateral Value on such date divided by (b) the Portfolio Notional Amount on such date.

"Portfolio Target Amount" means (a) during the Ramp-Up Period and the Ramp-Down Period, the Maximum Portfolio Notional Amount, (b) at any other time, the Portfolio Notional Amount.

"Rate Payments" means Counterparty First Floating Amounts, Counterparty Second Floating Amounts and Citibank Fixed Amounts.

"Revolving Reference Obligation" means a Reference Obligation that (a) requires the holder thereof to make one or more future advances to the borrower under the instrument or agreement pursuant to which such Reference Obligation was issued or created, (b) specifies a maximum aggregate amount that can be

borrowed and (c) permits, during any period on or after the date on which the holder thereof acquires such Reference Obligation, the re-borrowing of any amount previously repaid; *provided* that, on the date that all commitments by the holder thereof to make advances to the borrower under such Revolving Reference Obligation expire or are terminated or reduced to zero, such Reference Obligation shall cease to be a Revolving Reference Obligation.

“**S&P**” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, or any successor thereto.

S&P Rating means, with respect to a Reference Obligation:

- (i) if the Reference Obligation itself is rated by S&P (including pursuant to any credit estimate), such rating,
- (ii) if the foregoing paragraph is not applicable, then, if the Reference Obligation is a Loan and the related Reference Entity has a corporate issuer rating by S&P, the rating specified in the applicable row of the table below under “Relevant Rating” opposite the row in the table below that describes such Loan:

<u>Loan</u>	<u>Relevant Rating</u>
The Loan is a secured obligation, but is not a Second Lien Obligation and is not Subordinate	The rating by S&P that is one rating subcategory above such corporate issuer rating
The Loan is an unsecured obligation or is a Second Lien Obligation, but is not Subordinate	The rating by S&P that is one rating subcategory below such corporate issuer rating
The Loan is Subordinate	The rating by S&P that is two rating subcategories below such corporate issuer rating

- (iii) if the foregoing paragraphs are not applicable, but there is a rating by S&P on a secured obligation of the Reference Entity that is not a Second Lien Obligation and is not Subordinate (the “other obligation”), the rating specified in the applicable row of the table below under “Relevant Rating” opposite the row in the table below that describes such Reference Obligation:

<u>Reference Obligation</u>	<u>Relevant Rating</u>
The Reference Obligation is a secured obligation, but is not a Second Lien Obligation and is not Subordinate	The rating assigned by S&P to the other obligation
The Reference Obligation is an unsecured obligation or is a Second Lien Obligation, but is not Subordinate	The rating by S&P that is one rating subcategory below the rating assigned by S&P to the other obligation
The Reference Obligation is Subordinate	The rating by S&P that is two rating subcategories below the rating assigned by S&P to the other obligation

- (iv) if the foregoing paragraphs are not applicable, but there is a rating by S&P on an unsecured obligation of the Reference Entity (or, failing that, an obligation that is a Second Lien Obligation) but is not Subordinate (the “other obligation”), the rating specified in the applicable row of the table below under “Relevant Rating” opposite the row in the table below that describes such Reference Obligation:

<u>Reference Obligation</u>	<u>Relevant Rating</u>
The Reference Obligation is a secured obligation, but is not a Second Lien Obligation and is not Subordinate	The rating by S&P that is one rating subcategory above the rating assigned by S&P to the other obligation
The Reference Obligation is an unsecured obligation or is a Second Lien Obligation, but is not Subordinate	The rating assigned by S&P to the other obligation
The Reference Obligation is Subordinate	The rating by S&P that is one rating subcategory below the rating assigned by S&P to the other obligation

- (v) if the foregoing paragraphs are not applicable, but there is a rating by S&P on an obligation of the Reference Entity that is Subordinate (the “other obligation”), the rating specified in the applicable row of the table below under “Relevant Rating” opposite the row in the table below that describes such Reference Obligation:

<u>Reference Obligation</u>	<u>Relevant Rating</u>
The Reference Obligation is a secured obligation, but is not a Second Lien Obligation and is not Subordinate	The rating by S&P that is two rating subcategories above the rating assigned by S&P to the other obligation
The Reference Obligation is an unsecured obligation or is a Second Lien Obligation, but is not Subordinate	The rating by S&P that is one rating subcategory above the rating assigned by S&P to the other obligation
The Reference Obligation is Subordinate	The rating assigned by S&P to the other obligation

- (vi) if the foregoing paragraphs are not applicable, then the S&P Rating shall be “CC”; **provided** that:

(A) if application has been made to S&P to rate a Reference Obligation and such Reference Obligation has a Moody’s Rating, then the S&P Rating with respect to such Reference Obligation shall, pending the receipt of such rating from S&P, be equal to the S&P Rating that is equivalent to such Moody’s Rating and (y) Reference Obligations in the Reference Portfolio constituting no more, by aggregate Notional Amount, than 10% of the Portfolio Target Amount may be given a S&P Rating based on a rating given by Moody’s as provided in clause (x) (after giving effect to the addition of the relevant Reference Obligation, if applicable); and

(B) for up to 10% of the Portfolio Target Amount, the S&P Rating may be determined in accordance with the methodologies for establishing the Moody’s Rating except that the S&P

Rating of such obligation will be (1) one sub-category below the S&P equivalent of the Moody's Rating if such Moody's Rating is "Baa3" or higher and (2) two sub-categories below the S&P equivalent of the Moody's Rating if such Moody's Rating is "Ba1" or lower.

"Second Lien Obligation" means a Loan that is secured by collateral, but as to which the beneficiary or beneficiaries of such collateral security agree for the benefit of the holder or holders of other indebtedness secured by the same collateral ("**First Lien Debt**") as to one or more of the following: (1) to defer their right to enforce such collateral security either permanently or for a specified period of time while First Lien Debt is outstanding, (2) to permit a holder or holders of First Lien Debt to sell such collateral free and clear of the security in favor of such beneficiary or beneficiaries, (3) not to object to sales of assets by the obligor on such Loan following the commencement of a bankruptcy or other insolvency proceeding with respect to such obligor or to an application by the holder or holders of First Lien Debt to obtain adequate protection in any such proceeding and (4) not to contest the creation, validity, perfection or priority of First Lien Debt.

"Specified Reference Obligation" means any Reference Obligation whose inclusion in the Reference Portfolio (other than as a "Specified Reference Obligation") would not on the related Obligation Trade Date satisfy one or more of clauses (ix) through (xiii) of the Obligation Criteria.

"Subordinate" means, with respect to an obligation (the "**Subordinated Obligation**") and another obligation of the obligor thereon to which such obligation is being compared (the "**Senior Obligation**"), a contractual, trust or similar arrangement (without regard to the existence of preferred creditors arising by operation of law or to collateral, credit support, lien or other credit enhancement arrangements or provisions regarding the application of proceeds of any of the foregoing) providing that (i) upon the liquidation, dissolution, reorganization or winding up of the obligor, claims of the holders of the Senior Obligation will be satisfied prior to the claims of the holders of the Subordinated Obligation or (ii) the holders of the Subordinated Obligation will not be entitled to receive or retain payments in respect of their claims against the obligor at any time that the obligor is in payment arrears or is otherwise in default under the Senior Obligation.

"Term Obligation" means any Reference Obligation that is not a Committed Obligation.

"Terminated Obligation" means any Reference Obligation or portion of any Reference Obligation that is terminated pursuant to Clause 3.

"Termination Settlement Date" means, for any Terminated Obligation, the date customary for settlement, substantially in accordance with the then-current market practice in the principal market for such Terminated Obligation (as determined by the Calculation Agent), of the sale of such Terminated Obligation with the trade date for such sale occurring on the related Termination Trade Date.

"Termination Threshold" means (a) on any date on which the Diversity Score is greater than or equal to 15, 17.5% and (b) otherwise, 20%.

"Termination Trade Date" means, with respect to any Terminated Obligation, the date so designated in the related Accelerated Termination Notice; *provided that*:

- (a) except as provided in the following clause (b), if the related Final Price is not determined in accordance with Clause 4(a), the "Termination Trade Date" will be the bid submission deadline for the Firm Bid or combination of Firm Bids for all of the Reference Amount of such Terminated Obligation that are to be the basis for determining the Final Price of such Terminated Obligation as designated by the Calculation Agent in order to cause the related Total Return

Payment Date to occur as promptly as practicable (in the discretion of the Calculation Agent) after the date originally designated as the “Termination Trade Date” in the related Accelerated Termination Notice; and

- (b) in respect of the Scheduled Termination Date, if the related Final Price is not determined in accordance with Clause 4(a), the “Termination Trade Date” will be the date so designated by the Calculation Agent in its discretion, occurring during the 30 calendar days preceding the Scheduled Termination Date (or earlier in the case of any Terminated Obligation determined by the Calculation Agent in its sole discretion to be a distressed loan or other obligation) in a manner reasonably likely to cause the final Total Return Payment Date to occur on the Scheduled Termination Date.

The Calculation Agent shall notify the parties of any Termination Trade Date designated by it pursuant to the foregoing proviso.

“**Total Return Payment Date**” means, with respect to any Terminated Obligation or Repaid Obligation, the seventh Business Day next succeeding the last day of the Monthly Period during which the related Obligation Termination Date occurs.

“**Unrealized Capital Gain**” means, with respect to any Reference Obligation, if the Current Price of such Reference Obligation is greater than the Initial Price in relation to such Reference Obligation, then (a) such Current Price minus such Initial Price multiplied by (b) the Reference Amount of such Reference Obligation. For purposes of computing any Unrealized Capital Gain, a Repaid Obligation or Terminated Obligation will be deemed to continue to be outstanding in an amount equal to its Reference Amount until (but excluding) the related Total Return Payment Date (and after the determination of the related Final Price will have a Current Price equal to such Final Price).

“**Unrealized Capital Loss**” means, with respect to any Reference Obligation, if the Initial Price in relation to such Reference Obligation is greater than the Current Price of such Reference Obligation, then (a) such Initial Price minus such Current Price multiplied by (b) the Reference Amount of such Reference Obligation. For purposes of computing any Unrealized Capital Loss, a Repaid Obligation or Terminated Obligation will be deemed to continue to be outstanding in an amount equal to its Reference Amount until (but excluding) the related Total Return Payment Date (and after the determination of the related Final Price will have a Current Price equal to such Final Price).

ANNEX I

Reference Obligation	Reference Entity	Reference Amount	Outstanding Principal Amount	Initial Price (%)	Obligation Trade Date	Obligation Settlement Date
---------------------------------	-----------------------------	-----------------------------	---	----------------------------------	--------------------------------------	---

ANNEX II

OBLIGATION CRITERIA

The "**Obligation Criteria**" are as follows:

- (i) The obligation is a Loan.
- (ii) The obligation is denominated in USD.
- (iii) The obligation is secured.
- (iv) The obligation is not Subordinate.
- (v) The obligation constitutes a legal, valid, binding and enforceable obligation of the applicable Reference Entity, enforceable against such person in accordance with its terms.
- (vi) Except for any Delayed Drawdown Reference Obligation or Revolving Reference Obligation, the obligation does not require any future advances to be made to the related issuer or obligor on or after the relevant Obligation Trade Date.
- (vii) On the relevant Obligation Trade Date for the Transaction relating to the obligation, the obligation is in the form of, and is treated as, indebtedness for U.S. Federal income tax purposes.
- (viii) Transfers thereof on the Obligation Trade Date may be effected pursuant to the Standard Terms and Conditions for Par/Near Par Trade Confirmations and not the Standard Terms and Conditions for Distressed Trade Confirmations, in each case as published by the LSTA and as in effect on the Obligation Trade Date.
- (ix) Except for any Specified Reference Obligation, the obligation is not a Second Lien Obligation.
- (x) Except for any Specified Reference Obligation, on the Obligation Trade Date the obligation is part of a fungible class of debt obligations (as to issuance date and all economic terms) of at least USD125,000,000.
- (xi) Except for any Specified Reference Obligation, the obligation has as of the Obligation Trade Date a Moody's Rating of at least B3 and an S&P Rating of at least B-.
- (xii) Except for any Specified Reference Obligation, the obligation has an Initial Price as of the Obligation Trade Date of at least 60%.
- (xiii) Except for any Specified Reference Obligation, either (x) the obligation is on the Obligation Trade Date the subject of at least two bid quotations from nationally recognized independent dealers in the related obligation as reported on a nationally recognized pricing service or (y) the obligation satisfies each of the following four conditions: (A) the obligation was originated not more than 30 days prior to the Obligation Trade Date, (B) the obligation is on the Obligation Trade Date the subject of at least one bid quotation from a nationally recognized independent dealer in the related obligation as reported on a nationally recognized pricing service, (C) on the Obligation Trade Date the obligation is part of a fungible class of debt obligations (as to issuance date and all economic

terms) of at least USD150,000,000 and (D) the obligation has as of the Obligation Trade Date a Moody's Rating of at least B2 and an S&P Rating of at least B.

PORTFOLIO CRITERIA

The “*Portfolio Criteria*” are as follows:

- (i) The Portfolio Notional Amount does not exceed the Maximum Portfolio Notional Amount.
- (ii) The sum of the Notional Amounts for all Reference Obligations that are Specified Reference Obligations does not exceed 25% of the Portfolio Target Amount.
- (iii) The sum of the Notional Amounts for all Reference Obligations that are Committed Obligations does not exceed 10% of the Portfolio Target Amount.
- (iv) The sum of the Notional Amounts for Reference Obligations of any single Reference Entity or any of its Affiliates does not exceed 5% of the Portfolio Target Amount.
- (v) The sum of the Notional Amounts for Reference Obligations of Reference Entities in any single Moody’s Industry Classification Group does not exceed 15% of the Portfolio Target Amount.
- (vi) After the Ramp-Up Period and prior to the Ramp-Down Period, the Reference Portfolio has a Weighted Average Rating of at most 3,000.

For purposes hereof:

“*Moody’s Industry Classification Groups*” means each of the categories set forth in Table 1 below.

“*Weighted Average Rating*” means, as of any date of determination, the number obtained by (a) multiplying the Notional Amount of each Reference Obligation by the applicable Rating Factor (as set forth in Table 2 below) for the related Reference Entity; (b) summing the products obtained in clause (a) for all Reference Obligations; and (c) dividing the sum obtained in clause (b) by the aggregate of the Notional Amounts of all Reference Obligations.

TABLE 1

MOODY'S INDUSTRY CLASSIFICATION GROUPS

Aerospace & Defense
Automotive
Banking, Finance, Insurance and Real Estate
Beverage, Food, & Tobacco
Capital Equipment
Chemicals, Plastics, & Rubber
Construction & Building
Consumer goods: durable
Consumer goods: non-durable
Containers, Packaging, & Glass
Energy: Electricity
Energy: Oil & Gas
Environmental Industries
Forest Products & Paper
Healthcare & Pharmaceuticals
High Tech Industries
Hotel, Gaming, & Leisure
Media: Advertising, Printing & Publishing
Media: Broadcasting & Subscription
Media: Diversified & Production
Metals & Mining
Retail
Services: Business
Services: Consumer
Sovereign & Public Finance
Telecommunications
Transportation: Cargo
Transportation: Consumer
Utilities: Electric
Utilities: Oil & Gas
Utilities: Water
Wholesale

TABLE 2
RATING FACTORS

Moody's Rating	Rating Factor
Aaa	1
Aa1	10
Aa2	20
Aa3	40
A1	70
A2	120
A3	180
Baa1	260
Baa2	360
Baa3	610
Ba1	940
Ba2	1,350
Ba3	1,766
B1	2,220
B2	2,720
B3	3,490
Caa1	4,770
Caa2	6,500
Caa3	8,070
Ca or below	10,000

APPROVED BUYERS

Bank of America, NA
The Bank of Montreal
The Bank of New York Mellon, N.A.
Barclays Bank plc
BNP Paribas
Calyon
Citibank, N.A.
Credit Agricole S.A.
Canadian Imperial Bank of Commerce
Credit Suisse
Deutsche Bank AG
Dresdner Bank AG
Goldman Sachs & Co.
HSBC Bank
JPMorgan Chase Bank, N.A.
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Morgan Stanley & Co.
Natixis
Northern Trust Company
Royal Bank of Canada
The Royal Bank of Scotland plc
Societe Generale
The Toronto-Dominion Bank
UBS AG
U.S. Bank, National Association
Wachovia Bank National Association
Wells Fargo Bank, National Association

ARCH STREET FUNDING LLC
as Company

and

FS INVESTMENT CORPORATION
as Investment Manager

INVESTMENT MANAGEMENT AGREEMENT

Dated as of March 18, 2011

INVESTMENT MANAGEMENT AGREEMENT, dated as of March 18, 2011 (this "Agreement"), between ARCH STREET FUNDING LLC, a Delaware limited liability company (the "Company"), and FS INVESTMENT CORPORATION, a Maryland corporation (in such capacity, the "Investment Manager").

WHEREAS, the Company desires to engage the Investment Manager to provide the services described herein, and the Investment Manager desires to provide such services; and

WHEREAS, capitalized terms used herein that are not otherwise defined herein shall have the respective meanings ascribed thereto in the ISDA 2002 Master Agreement, dated as of March 18, 2011 (together with the Schedule, Credit Support Annex and Confirmation related thereto, as amended, modified, extended, supplemented or restated from time to time, collectively, the "Swap Agreement"), between the Company and Citibank, N.A. ("Citibank").

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

1. Management Services.

The Investment Manager will provide the Company with the following services (in accordance with and subject to the applicable requirements of, and the restrictions and limitations set forth in, the Swap Agreement and the Company's limited liability company agreement (the "LLC Agreement")):

(a) selecting the specific Reference Obligations to be included in the portfolio of obligations subject to the Swap Agreement (the "Portfolio");

(b) with respect to any action submitted to a vote of the holders of the applicable Reference Obligations as to which the Investment Manager and/or the Company is opposed, to the extent Citibank holds such Reference Obligations, requesting on behalf of the Company that Citibank vote against such action (or otherwise withhold its consent);

(c) with respect to Citibank's exercise (including but not limited to any waiver) of any rights (including but not limited to voting rights and rights arising in connection with the bankruptcy or insolvency of an underlying obligor of any Reference Obligation (each, an "Underlying Obligor") or the consensual or non-judicial restructuring of the debt or equity of an Underlying Obligor) or remedies in connection with any Reference Obligations held by Citibank and participating in the committees (official or otherwise) or other groups formed by creditors of an Underlying Obligor, requesting or electing not to request on behalf of the Company that Citibank exercise such rights or remedies;

(d) from time to time on or after the termination of the Swap Agreement, determining the specific debt obligations or other assets to be purchased or sold by the Company;

- (e) from time to time on or after the termination of the Swap Agreement, effecting the purchase and sale of debt obligations or other assets to be purchased or sold by the Company;
- (f) monitoring the ratings of the Reference Obligations;
- (g) determining whether each Loan to be included in the Portfolio meets the Obligation Criteria;
- (h) determining whether the Portfolio of Reference Obligations meets the Portfolio Criteria;
- (i) monitoring the Reference Obligations on an ongoing basis;
- (j) causing the Company to deliver Eligible Collateral to Citibank in such amounts and at such times as may be required by the Swap Agreement;
- (k) determining whether to terminate one or all of the Transactions;
- (l) notifying Citibank and the Company in writing of an Event of Default or Termination Event under the Swap Agreement within one (1) Business Day after the Investment Manager has actual knowledge of the occurrence thereof;
- (m) arranging for the sale of any Reference Obligations held by Citibank to the extent provided by Clause 4(A) of the Confirmation constituting part of the Swap Agreement;
- (n) delivering notices and instructions to Citibank as required by the Swap Agreement; and
- (o) directing the Company to comply with such other duties and responsibilities as may be expressly required of the Company by the Swap Agreement.

The Company agrees for the benefit of the Investment Manager and Citibank to follow the lawful instructions and directions of the Investment Manager in connection with the Investment Manager's services hereunder.

The Investment Manager shall use reasonable care in rendering its services hereunder, using a degree of skill and attention no less than that which the Investment Manager exercises with respect to comparable assets that it manages for itself and for others in accordance with its existing practices and procedures which the Investment Manager reasonably believes to be consistent with those followed by institutional managers of national standing relating to assets of the nature and character of the Reference Obligations, except as expressly provided otherwise in this Agreement or the Swap Agreement. Subject to the immediately preceding sentence, the Investment Manager shall follow its customary standards, policies, and procedures in performing its duties hereunder and under the Swap Agreement. The Investment Manager shall comply with and perform all the duties and functions that have been specifically delegated to it under this Agreement and the Swap Agreement. The Investment Manager shall not be bound to follow any

amendment to the Swap Agreement, however, until it has received a copy of the amendment from the Company or Citibank and, in addition, the Investment Manager shall not be bound by any amendment to the Swap Agreement which adversely affects in any material respects the obligations of the Investment Manager unless the Investment Manager shall have consented thereto in writing. The Company agrees that it will not permit any amendment to the Swap Agreement that adversely affects the duties or liabilities of the Investment Manager to become effective unless the Investment Manager has been given prior written notice of such amendment and consented thereto in writing.

To the extent necessary or appropriate to perform all of the duties to be performed by it hereunder, the Investment Manager shall have the power to negotiate, execute and deliver all necessary documents and instruments on behalf of the Company with respect to the rights and obligations of the Company under the Swap Agreement.

The Investment Manager shall have no obligation to perform any duties other than those specified herein or in the Swap Agreement.

2. Brokerage.

The Investment Manager shall use reasonable efforts to obtain the best prices and execution for all sales arranged with respect to any Reference Obligations pursuant to the Swap Agreement, and all assets of the Company, considering all circumstances. Subject to the objective of obtaining best prices and execution, the Investment Manager may take into consideration research and other brokerage services furnished to the Investment Manager or its Affiliates by brokers and dealers which are not Affiliates of the Investment Manager. Such services may be used by the Investment Manager or its Affiliates in connection with its other advisory activities or investment operations. The Investment Manager may aggregate sales and purchase orders of securities placed with respect to the Reference Obligations, and all assets of the Company, with similar orders being made simultaneously for other accounts managed by the Investment Manager or with accounts of the Affiliates of the Investment Manager, if in the Investment Manager's sole judgment such aggregation shall result in an overall economic benefit to the Company taking into consideration the selling or purchase price, brokerage commission and other expenses. In accounting for such aggregated order price, commission and other expenses shall be averaged on a per position basis.

The Company acknowledges that the determination of any such economic benefit by the Investment Manager is subjective and represents the Investment Manager's evaluation at the time that the Company will be benefited by better purchase or sales prices, lower commission expenses and beneficial timing of transactions or a combination of these and other factors. When any aggregate sales or purchase orders occur, the objective of the Investment Manager (and any of its Affiliates involved in such transactions) shall be to allocate the executions among the accounts in an equitable manner.

Subject to the Investment Manager's execution obligations described herein, the Investment Manager is hereby authorized to effect client cross-transactions where the Investment Manager causes a transaction to be effected between the Company and another account advised by it or any of its Affiliates; provided that, if and to the extent required by the Advisers Act, such

authorization is terminable at the Company's option without penalty, effective upon receipt by the Investment Manager of written notice from the Company. In addition, the Company hereby consents to, and authorizes the Investment Manager to enter into, agency cross-transactions where it or any of its Affiliates acts as broker for the Company and for the other party to the transaction, to the extent permitted under applicable law; provided that the Company shall have the right to revoke such consent at any time by written notice to the Investment Manager.

3. The Representations and Warranties of the Company.

The Company represents and warrants to the Investment Manager that:

(a) the Company has been duly organized and is validly existing under the laws of Delaware, has the full power and authority to own its assets and the obligations proposed to be owned by it and to transact the business in which it is presently engaged and is duly qualified under the laws of each jurisdiction where its ownership or lease of property or the conduct of its business requires, or the performance of its obligations under this Agreement and the Swap Agreement would require, such qualification, except for failures to be so qualified, authorized or licensed that would not in the aggregate have a material adverse effect on the business, operations, assets or financial condition of the Company;

(b) the Company has full corporate power and authority to execute, deliver and perform this Agreement, the Swap Agreement and all obligations required hereunder and under the Swap Agreement, and the performance of all obligations imposed upon it hereunder and thereunder;

(c) this Agreement has been duly authorized, executed and delivered by it and constitutes its valid and binding obligation, enforceable in accordance with its terms except that the enforceability thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, receivership, conservatorship or other similar laws now or hereafter in effect relating to creditors' rights and (ii) general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law);

(d) no consent, approval, authorization or order of or declaration or filing with any government, governmental instrumentality or court or other person is required for the performance by the Company of its duties hereunder, except such as have been duly made or obtained;

(e) neither the execution and delivery of this Agreement nor the fulfillment of the terms hereof conflicts with or results in a material breach or violation of any of the material terms or provisions of or constitutes a material default under (i) the Company's certificate of formation, operating agreement or other constituent documents, (ii) the terms of any material indenture, contract, lease, mortgage, deed of trust, note, agreement or other evidence of indebtedness or other material agreement, obligation, condition, covenant or instrument to which the Company is a party or is bound, (iii) any statute applicable to the Company, or (iv) any law, decree, order, rule or regulation

applicable to the Company of any court or regulatory, administrative or governmental agency, body or authority or arbitrator having or asserting jurisdiction over the Company or its properties, and which would have a material adverse effect upon the performance by the Company of its duties under this Agreement;

(f) neither the Company nor any of its Affiliates are in violation of any U.S. federal or state securities law or regulation promulgated thereunder and there is no charge, investigation, action, suit or proceeding before or by any court or regulatory agency pending or, to the best knowledge of the Company, threatened that would have a material adverse effect upon the performance by the Company of its duties under this Agreement;

(g) the Company has not engaged in any transaction that would result in the violation of, or require registration as an investment company under, the Investment Company Act;

(h) the Company is not required to register as an “investment company” under the Investment Company Act; and

(i) there is no charge, investigation, action, suit or proceeding before or by any court pending or, to the best knowledge of the Company, threatened that, if determined adversely to the Company, would have a material adverse effect upon the performance by the Company of its duties under, or on the validity or enforceability of, this Agreement or the provisions of the Swap Agreement applicable to the Company thereunder.

4. Representations and Warranties of the Investment Manager.

The Investment Manager represents and warrants to the Company that:

(a) the Investment Manager is duly organized and validly existing under the laws of Maryland and has the full power and authority to transact the business in which it is presently engaged and is duly qualified under the laws of each jurisdiction where the conduct of its business requires, or the performance of its obligations under this Agreement and the provisions of the Swap Agreement applicable to the Investment Manager would require, such qualification, except for failures to be so qualified, authorized or licensed which would not in the aggregate have a material adverse effect on the business, operations, assets or financial condition of the Investment Manager, or on the ability of the Investment Manager to perform its obligations under, or on the validity or enforceability of, this Agreement and the applicable provisions of the Swap Agreement;

(b) the Investment Manager has full power and authority to execute and deliver this Agreement and to perform all of its obligations hereunder and under the Swap Agreement;

(c) this Agreement has been duly authorized, executed and delivered by the Investment Manager and constitutes a valid and binding agreement of the

Investment Manager, enforceable against it in accordance with its terms, except that the enforceability thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights and (ii) general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law);

(d) neither the Investment Manager nor any of its Affiliates is in violation of any federal or state securities law or regulation promulgated thereunder or any material listing requirements of any exchange on which it is listed and there is no charge, investigation, action, suit or proceeding before or by any court, exchange or regulatory agency pending or, to the best knowledge of the Investment Manager, threatened, that in either case would have a material adverse effect upon the performance by the Investment Manager of its duties under this Agreement;

(e) neither the execution and delivery of this Agreement, nor the performance of the terms hereof or the provisions of the Swap Agreement applicable to the Investment Manager, conflicts with or results in a material breach or violation of any of the material terms or provisions of, or constitutes a material default under, (i) its articles of organization, operating agreement or other constituent document, (ii) the terms of any material indenture, contract, lease, mortgage, deed of trust, note agreement or other evidence of indebtedness or other material agreement, obligation, condition, covenant or instrument to which the Investment Manager is a party or is bound, (iii) any statute applicable to the Investment Manager, or (iv) any law, decree, order, rule or regulation applicable to the Investment Manager of any court or regulatory, administrative or governmental agency, body or authority or arbitrator having or asserting jurisdiction over the Investment Manager or its properties, and which would have, in the case of any of clauses (ii) through (iv) of this paragraph (e), a material adverse effect upon the performance by the Investment Manager of its duties under this Agreement or the provisions of the Swap Agreement applicable to the Investment Manager; and

(f) no consent, approval, authorization or order of or declaration or filing with any government, governmental instrumentality or court or other person is required for the performance by it of its duties hereunder, except such as have been duly made or obtained.

5. Expenses.

The Investment Manager shall pay all expenses and costs (including salaries, rent and other overhead) incurred by it in connection with its services under this Agreement; *provided* that the Investment Manager shall not be liable for and the Company shall be responsible for the payment of (i) expenses and costs of legal advisers (including reasonable expenses and costs associated with the use of internal legal counsel of the Investment Manager), consultants and other professionals retained by the Company or by the Investment Manager, on behalf of the Company, in connection with the services provided by the Investment Manager pursuant to this Agreement and the Swap Agreement, (ii) the reasonable cost of asset pricing and asset rating services, and accounting, programming and data entry services that are retained in connection with services of the Investment Manager under this Agreement, (iii) travel expenses (airfare,

meals, lodging and other transportation) incurred by the Investment Manager as is reasonably necessary in connection with the selection of Reference Obligations to be included in the Portfolio and the negotiation, documentation, default or restructuring of any Reference Obligation held by Citibank, and (iv) any extraordinary costs and expenses incurred by the Investment Manager in the performance of its obligations under this Agreement and the Swap Agreement. To the extent that such expenses are incurred in connection with obligations that are also held by the Investment Manager, the Investment Manager shall allocate the expenses among the accounts in a fair and equitable manner. Any amounts payable pursuant to this Section 5 shall be reimbursed by the Company to the extent funds are available therefor.

6. Fees.

(a) The Company shall pay to the Investment Manager, for services rendered and performance of its obligations under this Agreement fees which are payable in arrears on the fifth Business Day following the last day of each Quarterly Period (subject to availability of funds) in an amount equal to 0.35% per annum of the Portfolio Notional Amount measured as of the last day of the related Quarterly Period immediately preceding such payment date (the "Management Fees"). The Management Fees will be calculated on the basis of a calendar year consisting of 360 days and the actual number of days elapsed.

(b) The Investment Manager may, in its sole discretion, (i) waive all or any portion of the Management Fees or (ii) defer all or any portion of the Management Fees. Such deferred amounts will become payable on the next Payment Date in the same manner and priority as their original characterization would have required unless deferred again.

(c) If this Agreement is terminated pursuant to Section 11 hereof or otherwise, the Management Fees calculated as provided in Section 6(a) hereof shall be prorated for any partial periods between Payment Dates during which this Agreement was in effect and shall be due and payable, along with any deferred Management Fees, on the first Payment Date following the effective date of such termination.

(d) The Management Fees will be payable from the assets of the Company. If on any payment date there are insufficient funds to pay the Management Fees then due in full, the amount not so paid shall be deferred without interest and shall be payable on the next payment date, if any, on which any funds are available therefor.

(e) The Investment Manager hereby agrees not to cause the filing of a petition in bankruptcy against the Company for any reason whatsoever, including, without limitation, the non-payment of the Management Fees, except in accordance with the provisions of Section 20 hereof.

7. Non-Exclusivity.

The services of the Investment Manager to the Company are not to be deemed exclusive, and the Investment Manager shall be free to render asset management or management services to other Persons (including Affiliates, other investment companies, and clients having

objectives similar to those of the Company). It is understood and agreed that the officers and directors of the Investment Manager may engage in any other business activity or render services to any other Person or serve as partners, officers or directors of any other firm or corporation. Notwithstanding the foregoing, it is understood and agreed that the Investment Manager will at no time render any services to, or in any way participate in the organization or operation of, any investment company or other entity if such actions would require the Company to register as an "investment company" under the Investment Company Act. Subject to Section 9 hereof, it is understood and agreed that information or advice received by the Investment Manager and officers or directors of the Investment Manager hereunder shall be used by such organization or such persons to the extent permitted by applicable law.

8. Conflicts of Interest.

The Investment Manager may, subject to applicable legal requirements, direct the Company (i) to select any Reference Obligations to be included in the Portfolio, (ii) to notify Citibank of its election to terminate one or more Transactions, or (iii) to acquire any Reference Obligations from Citibank in connection with the termination of the Swap Agreement to the extent permitted by Clause 4 of the Confirmation constituting part of the Swap Agreement.

Notwithstanding the provisions of the preceding paragraph, various potential and actual conflicts of interest may arise from the overall investment activity of the Investment Manager and its Affiliates. The Investment Manager, its Affiliates and their respective clients may invest in obligations that would be appropriate for inclusion in the Portfolio. Such investments may be different from the Reference Obligations selected by the Company under the Swap Agreement. The Investment Manager and its Affiliates may have ongoing relationships with, and may own equity or debt obligations issued by, companies that are the Underlying Obligors of the Reference Obligations. The Investment Manager and its Affiliates and the clients of the Investment Manager or its Affiliates may invest in obligations that are senior to, or have interests different from or adverse to, the Reference Obligations. The Investment Manager may serve as Investment Manager for, invest in, or be affiliated with, other entities organized to enter into total return swap transactions. The Investment Manager may at certain times be simultaneously seeking to purchase or sell investments for other entities for which it serves as Investment Manager, or for its clients and Affiliates, and selecting such investments as Reference Obligations to be included in the Portfolio. Furthermore, the Investment Manager and/or its Affiliates may make an investment on their behalf or on behalf of any account that they manage or advise without selecting such investment opportunity as a Reference Obligation to be included in the Portfolio.

The Company hereby acknowledges the various potential and actual conflicts of interest that may exist with respect to the Investment Manager; *provided* that nothing in this Section 8 shall be construed as altering the duties of the Investment Manager as set forth in this Agreement, the Swap Agreement or the requirements of any law, rule, or regulation applicable to the Investment Manager.

9. Records; Confidentiality.

The Investment Manager shall maintain appropriate books of account and records

relating to services performed hereunder, and such books of account and records shall be accessible for inspection by a representative of the Company, Citibank, and independent accountants appointed by the Company at a mutually agreed time during normal business hours and upon not less than three (3) Business Days' prior notice.

At no time will the Investment Manager make a public announcement concerning the Swap Agreement, the Investment Manager's role hereunder or any other aspect of the transactions contemplated by this Agreement and the Swap Agreement absent the written consent of the Company.

The Investment Manager shall, and shall cause its Affiliates to, keep confidential any and all information obtained in connection with the services rendered hereunder and shall not disclose any such information to non-affiliated third parties except (i) with the prior written consent of the Company, (ii) as required by law, regulation, court order or the rules or regulations of any self regulating organization, body or official having jurisdiction over the Investment Manager, (iii) to its professional advisers, (iv) such information as shall have been publicly disclosed other than in violation of this Agreement, (v) the identification of the Company as a client of the Investment Manager, (vi) information related to the performance of the Investment Manager, (vii) information furnished in connection with any successor investment manager or assignee, or any agent that has been assigned duties in accordance with this Agreement, or (viii) such information that was or is obtained by the Investment Manager on a non-confidential basis; *provided* that the Investment Manager does not know or have reason to know, after due inquiry, of any breach by such source of any confidentiality obligations with respect thereto. For purposes of this Section 9, Citibank shall in no event be considered a "non-affiliated third party," and the Investment Manager may disclose any of the aforementioned information to Citibank insofar as such information relates to the Company's performance of its obligations under the Swap Agreement.

10. Term.

This Agreement shall become effective on the date hereof and shall continue unless terminated as hereinafter provided.

11. Termination.

(a) This Agreement may be terminated, and the Investment Manager may be removed, without payment to the Investment Manager of any penalty, for cause upon prior written notice by the Company, acting with the consent of Citibank; *provided* that such notice may be waived by the Investment Manager. For this purpose, "cause" will mean the occurrence of any of the following events or circumstances:

(i) the Investment Manager's breach, in any respect, of any provision of this Agreement or the Swap Agreement applicable to it (except for any breach that has not had, and could not reasonably be expected to have, a material adverse effect on the Company or Citibank) and the Investment Manager's failure to cure such breach within 30 days of its becoming aware of, or receiving notice of, the occurrence of such breach;

(ii) the Investment Manager's intentional breach of (a) any provision of this Agreement or the Swap Agreement applicable to it relating to the Investment Manager's or the Company's obligation to cause the Reference Obligations to comply with the Obligation Criteria and the Portfolio Criteria or (b) any other material provision of this Agreement or the Swap Agreement applicable to it, and the Investment Manager's failure to cure such breach within 15 days of the occurrence of such breach;

(iii) the failure of any representation, warranty, certification or statement made or delivered by the Investment Manager in or pursuant to this Agreement or the Swap Agreement to be correct in any material respect when made, which failure (a) could reasonably be expected to have a material adverse effect on Citibank and (b) is not corrected by the Investment Manager within 30 days of its receipt of notice from the Company or Citibank of such failure, unless, if such failure is not capable of being cured in 30 days but is curable within 90 days, the Investment Manager has taken action that the Investment Manager in good faith believes will remedy, and does in fact remedy, such failure within 90 days after notice of such failure being given to the Investment Manager;

(iv) the Investment Manager (1) is dissolved (other than pursuant to a consolidation, amalgamation or merger), (2) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (3) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due, (4) makes a general assignment, arrangement or composition with or for the benefit of its creditors, (5) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property or (6) is adjudicated as insolvent or bankrupt, or a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Investment Manager, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of the Investment Manager or of any substantial part of its property, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days;

(v) the occurrence of an Event of Default or Termination Event under the Swap Agreement that results from any breach by the Investment Manager of its duties under the Swap Agreement or this Agreement; or

(vi) the occurrence of an act by the Investment Manager that constitutes fraud or criminal activity in the performance of its obligations under this Agreement, or the Investment Manager being indicted for a criminal offense materially related to its business of providing asset management services.

If any such event occurs, the Investment Manager shall give prompt written notice thereof to the Company and Citibank promptly upon the Investment Manager becoming

aware of the occurrence of such event.

(b) The Investment Manager shall have the right to terminate this Agreement only upon 90 days prior written notice to the Company and Citibank, and this Agreement shall terminate automatically in the event of its assignment by the Investment Manager which is not made in accordance with Sections 13 and 17 of this Agreement.

(c) This Agreement shall be automatically terminated in the event that the Company determines in good faith that the Company or the Company's asset portfolio has become required to be registered under the provisions of the Investment Company Act.

(d) Within 30 days of the resignation or removal of the Investment Manager, the Company may appoint a successor investment manager; provided that Citibank may reject such appointment within 15 days of notice of such appointment and, if so rejected, Citibank may appoint a successor investment manager.

12. Action Upon Termination.

(a) Upon the effective termination of this Agreement, the Investment Manager shall as soon as practicable:

(i) deliver to the Company all property and documents of the Company or otherwise relating to the Transactions then in the custody of the Investment Manager; and

(ii) deliver to Citibank an account with respect to the books and records delivered to Citibank or the successor investment manager appointed pursuant to Section 11(d).

Notwithstanding such termination, the Investment Manager shall remain liable to the extent set forth herein (but subject to Section 13 hereof) for its acts or omissions hereunder arising prior to termination and for any expenses, losses, damages, liabilities, demands, charges and claims (including reasonable attorney's fees) in respect of or arising out of a breach of the representations and warranties made by the Investment Manager in Section 4 hereof or from any failure of the Investment Manager to comply with the provisions of this Section 12.

(b) The Investment Manager agrees that, notwithstanding any termination, it shall reasonably cooperate in any suit, action or proceeding relating to this Agreement (each, a "Proceeding") arising in connection with this Agreement, the Swap Agreement or any of the Company's assets (excluding any such Proceeding in which claims are asserted against the Investment Manager or any Affiliate of the Investment Manager) so long as the Investment Manager shall have been offered reasonable security, indemnity or other provisions against the cost, expenses and liabilities that might be incurred in connection therewith and a reasonable per diem fee.

13. Liability of Investment Manager; Delegation.

(a) The Investment Manager assumes no responsibility under this Agreement other than to render the services called for hereunder and under the terms of the Swap Agreement made applicable to it pursuant to the terms of this Agreement. The Investment Manager shall not be responsible for any action of the Company in declining to follow any advice, recommendation, or direction of the Investment Manager. The Investment Manager shall have no liability to Citibank or other creditors of the Company, for any error of judgment, mistake of law, or for any loss arising out of any investment, or for any other act or omission in the performance of its obligations to the Company except for liability to which it would be subject by reason of willful misfeasance, bad faith, gross negligence in performance, or reckless disregard, of its obligations hereunder. The Investment Manager may delegate to an agent selected with reasonable care, which shall include any Person that is party to a sub-advisory agreement with the Investment Manager or any of its Affiliates as of the date hereof, any or all duties (other than its asset selection or trade execution duties) assigned to the Investment Manager hereunder; *provided* that no such delegation by the Investment Manager of any of its duties hereunder shall relieve the Investment Manager of any of its duties hereunder nor relieve the Investment Manager of any liability with respect to the performance of such duties. For the avoidance of doubt, asset selection duties shall include the services described in Section 1(a) hereof.

Notwithstanding the above and Section 17, the Investment Manager shall be permitted to assign any or all of its rights and delegate any or all of its obligations to an Affiliate reasonably acceptable to Citibank that (i) will professionally and competently perform duties similar to those imposed upon the Investment Manager under this Agreement and (ii) is legally qualified and has the capacity to act as the Investment Manager under this Agreement. The Investment Manager shall not be liable for any consequential damages hereunder.

(b) The Company shall reimburse, indemnify and hold harmless the Investment Manager, its directors, officers, agents and employees and any of its Affiliates from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including reasonable attorneys' fees and expenses), as are incurred in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation with respect to any pending or threatened litigation caused by, or arising out of or in connection with, any acts or omissions of the Investment Manager, its directors, officers, stockholders, agents and employees made in good faith and in the performance of the Investment Manager's duties under this Agreement or the Swap Agreement except to the extent resulting from such person's bad faith, willful misfeasance, gross negligence or reckless disregard of its duties hereunder or thereunder. The Investment Manager, its directors, officers, stockholders, agents and employees may consult with counsel and accountants with respect to the affairs of the Company and shall be fully protected and justified, to the extent allowed by law, in acting, or failing to act, if such action or failure to act is taken or made in good faith and is in accordance with the advice or opinion of such counsel or accountants. Notwithstanding anything contained

herein to the contrary, the obligations of the Company under this Section 13(b) shall be payable from the Company's assets and are subject to the availability of funds.

(c) The Investment Manager shall reimburse, indemnify and hold harmless the Company, its members, manager, officers, agents and employees from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including reasonable attorneys' fees and expenses), as are incurred in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation with respect to any pending or threatened litigation caused by, or arising out of or in connection with, (i) any acts or omissions of the Investment Manager constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties under this Agreement or under the Swap Agreement and (ii) any breach of the representations and warranties made by the Investment Manager in Section 4 hereof.

14. Obligations of Investment Manager.

Unless otherwise required by any provision of the Swap Agreement or this Agreement or by applicable law, the Investment Manager shall not intentionally take any action, which it knows or should know would (a) materially adversely affect the Company for purposes of United States federal or state law or any other law known to the Investment Manager to be applicable to the Company, (b) require registration of the Company or the Company's assets as an "investment company" under the Investment Company Act, (c) not be permitted under the Company's operating agreement or certificate of formation (including, but not limited to, Section 9 thereof), (d) cause the Company to violate the terms of the Swap Agreement, (e) subject the Company to federal, state or other income taxation, or (f) adversely affect the interests of Citibank in any material respect (other than as permitted or required hereunder or under the Swap Agreement, including, without limitation, as may result from the performance of any Reference Obligation), it being understood that in connection with the foregoing the Investment Manager will not be required to make any independent investigation of any facts or laws not otherwise known to it in connection with its obligations under this Agreement and the Swap Agreement or the conduct of its business generally. The Investment Manager covenants that it shall comply in all material respects with all laws and regulations applicable to it in connection with the performance of its duties under this Agreement and the Swap Agreement. Notwithstanding anything in this Agreement, the Investment Manager shall not take any discretionary action that would reasonably be expected to cause an Event of Default or Termination Event under the Swap Agreement. The Investment Manager covenants that it shall not fail to correct any known misunderstandings regarding the separate identity of the Company and shall not identify itself as a division or department of the Company.

15. No Partnership or Joint Venture.

The Company and the Investment Manager are not partners or joint venturers with each other and nothing herein shall be construed to make them such partners or joint venturers or impose any liability as such on either of them. The Investment Manager's relation to the Company shall be deemed to be that of an independent contractor.

16. Notices.

Any notice under this Agreement shall be in writing and sent by facsimile, confirmed by telephonic communication, or addressed and delivered or mailed postage paid to the other party at such address as such other party may designate for the receipt of such notice. Until further notice to the other party it is agreed that the address of the Company and Citibank for this purpose shall be as set forth in the Schedule to the Swap Agreement, and the address of the Investment Manager for this purpose shall be:

FS Investment Corporation
Cira Centre
2929 Arch Street, Suite 675
Philadelphia, Pennsylvania 19104
Attention: Gerald F. Stahlecker
Telephone: (215) 495-1169
Facsimile: (215) 222-4649
Electronic Mail: jerry.stahlecker@franklinsquare.com

All notices are to be effective in accordance with Section 12 of the Swap Agreement.

17. Succession/Assignment.

This Agreement shall inure to the benefit of and be binding upon the successors to the parties hereto. No assignment of this Agreement by the Investment Manager (including, without limitation, a change in control or management of the Investment Manager which would be deemed an "assignment" under the United States Advisers Act of 1940, as amended) shall be made without the consent of the Company and Citibank.

18. Conflicts with the Swap Agreement.

Subject to the provisions of Section 1 hereof pertaining to the binding effect of certain amendments to the Swap Agreement on the Investment Manager, in the event that this Agreement requires any action to be taken with respect to any matter and the Swap Agreement requires that a different action be taken with respect of such matter, and such actions are mutually exclusive, the provisions of the Swap Agreement in respect thereof shall control.

19. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of laws principles. With respect to any Proceeding, each party irrevocably (i) submits to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City and (ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party. Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction, nor will the

bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(b) THE PARTIES HERETO IRREVOCABLY CONSENT TO THE SERVICE OF ANY AND ALL PROCESS IN ANY ACTION OR PROCEEDING BY THE MAILING OR DELIVERY OF COPIES OF SUCH PROCESS TO EACH SUCH PARTY AT THE ADDRESS SPECIFIED IN SECTION 16 HEREOF. THE PARTIES HERETO AGREE THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW.

(c) EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

(d) No failure on the part of either party hereto to exercise and no delay in exercising, and no course of dealing with respect to, any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof nor shall any single or partial exercise of any right, remedy, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

(e) The captions in this Agreement are included for convenience only and in no way define or limit any of the provisions hereof or otherwise affect their construction or effect.

(f) In the event any provision of this Agreement shall be held invalid or unenforceable, by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provisions hereof.

(g) This Agreement may not be amended or modified or any provision thereof waived except by an instrument in writing signed by the parties hereto.

(h) This Agreement and the Swap Agreement contain the entire understanding and agreement between the parties and supersedes all other prior understandings and agreements, whether written or oral, between the parties concerning this subject matter. The express terms of this Agreement control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms hereof.

(i) The Investment Manager (i) consents to, and agrees to perform, the provisions of the Swap Agreement applicable to the Investment Manager, and (ii) agrees

that all of the representations, covenants and agreements made by the Investment Manager in this Agreement are also for the benefit of Citibank.

(j) This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed an original, but all such counterparts shall together constitute but one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

(k) Each representation and warranty made or deemed to be made herein or pursuant hereto, and each indemnity provided for hereby, shall survive the execution and delivery and any termination or assignment of this Agreement or resignation or removal of the Investment Manager.

(l) The Company hereby acknowledges and accepts all actions that were taken by the Investment Manager and/or recommended to the Company by the Investment Manager prior to the Closing Date, including all actions and recommendations that were otherwise consistent with the services to be provided by the Investment Manager to the Company pursuant to Section 1 of this Agreement prior to the Closing Date, in each case, as if this Agreement had been in effect at the time that such actions were taken or such recommendations were made.

20. Non-Petition.

The Investment Manager shall continue to serve as Investment Manager under this Agreement notwithstanding that the Investment Manager shall not have received amounts due to it under this Agreement because sufficient funds were not then available to the Company to pay such amounts, and agrees not to cause the filing of an involuntary petition in bankruptcy against the Company for any reason whatsoever, including, without limitation, the non-payment to the Investment Manager, until the payment in full of all amounts payable to Citibank or otherwise under the Swap Agreement and the expiration of a period equal to one year and one day (or, if longer, the applicable preference period then in effect) following all such payments; *provided* that nothing in this clause shall preclude, or be deemed to estop, the Investment Manager (A) from taking any action prior to the expiration of the aforementioned one year and one day (or, if longer, the applicable preference period then in effect) period in (x) any case or proceeding voluntarily filed or commenced by the Company or (y) any involuntary insolvency proceeding filed or commenced against the Company, by a Person other than the Investment Manager or its Affiliates, or (B) from commencing against the Company or any properties of the Company any legal action which is not a bankruptcy, reorganization, arrangement, insolvency, moratorium or liquidation proceeding. The provisions of this Section 20 shall survive the termination of this Agreement for any reason whatsoever.

21. No Recourse.

The Investment Manager hereby acknowledges and agrees that the Company's obligations hereunder will be solely the corporate obligations of the Company, and the Investment Manager will not have any recourse to any of the directors, officers, employees,

holders of the membership interest of Company with respect to any claims, losses, damages, liabilities, indemnities or other obligations in connection with any transactions contemplated hereby. Recourse in respect of any obligations of the Company hereunder will be limited to the Company's assets and on the exhaustion thereof all claims against the Company arising from this Agreement or any transactions contemplated hereby shall be extinguished. The provisions of this Section 21 shall survive the termination of this Agreement for any reason whatsoever.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this INVESTMENT MANAGEMENT AGREEMENT to be executed by their respective authorized representatives on the day and year first above written.

ARCH STREET FUNDING LLC

By: /s/ Gerald F. Stahlecker

Name: Gerald F. Stahlecker

Title: EVP

FS INVESTMENT CORPORATION

By: /s/ Gerald F. Stahlecker

Name: Gerald F. Stahlecker

Title: EVP

List of Subsidiaries

Name of Subsidiary

Arch Street Funding LLC
Broad Street Funding LLC

Jurisdiction

Delaware
Delaware

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2010 (the "Report") of FS Investment Corporation (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Michael C. Forman, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ MICHAEL C. FORMAN

Name: Michael C. Forman
Date: March 24, 2011

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2010 (the "Report") of FS Investment Corporation (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Charles M. Jacobson, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ CHARLES M. JACOBSON

Name: Charles M. Jacobson
Date: March 24, 2011