



Annual report
2018

An alternative source of income

FS Investment Corporation II

**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, 2018**
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: 814-00926

FS Investment Corporation II
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

80-0741103
(I.R.S. Employer
Identification No.)

19112
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 closed the public offering of its shares of common stock in March 2014. Since the registrant closed its public offering it has continued to issue shares pursuant to its distribution reinvestment plan. The most recent price at which the registrant has issued shares pursuant to the distribution reinvestment plan was \$8.05 per share.

There were 325,279,004 shares of the registrant's common stock outstanding as of March 12, 2019.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement relating to the Registrant's 2019 Annual Meeting of Stockholders, to be filed with the U.S. Securities and Exchange Commission within 120 days following the end of the registrant's fiscal year, are incorporated by reference in Part III of this annual report on Form 10-K as indicated herein.

FS INVESTMENT CORPORATION II

FORM 10-K FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

	<u>Page</u>
PART I	
ITEM 1. BUSINESS	1
ITEM 1A. RISK FACTORS	21
ITEM 1B. UNRESOLVED STAFF COMMENTS	49
ITEM 2. PROPERTIES	49
ITEM 3. LEGAL PROCEEDINGS	50
ITEM 4. MINE SAFETY DISCLOSURES	50
PART II	
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	51
ITEM 6. SELECTED FINANCIAL DATA	52
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	54
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK . .	70
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	72
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	141
ITEM 9A. CONTROLS AND PROCEDURES	141
ITEM 9B. OTHER INFORMATION	142
PART III	
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	143
ITEM 11. EXECUTIVE COMPENSATION	143
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	143
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	143
ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES	143
PART IV	
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES	144
ITEM 16. FORM 10-K SUMMARY	147
SIGNATURES	148

PART I

Many of the amounts and percentages presented in Part I have been rounded for convenience of presentation.

Item 1. Business.

Summary

FS Investment Corporation II, or the Company, which may also be referred to as “we,” “us” or “our,” was incorporated under the general corporation laws of the State of Maryland on July 12, 2011 and formally commenced investment operations on June 18, 2012. We are an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. As such, we are required to comply with certain regulatory requirements. In addition, we have elected to be treated for U.S. federal income tax purposes, and intend to qualify annually, as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. As of December 31, 2018, we had total assets of approximately \$4.6 billion.

We are managed by FS/KKR Advisor, LLC, or the 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 with respect to our portfolio. Our investment objectives are to generate current income and, to a lesser extent, long-term capital appreciation. We seek to meet our investment objectives by:

- utilizing the experience and expertise of the management team of the Advisor;
- 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 middle-market companies, which we define as companies with annual earnings before interest, taxes, depreciation and amortization, or EBITDA, of \$25 million to \$100 million at the time of investment. In many market environments, we believe such a focus offers an opportunity for superior risk adjusted returns;
- investing primarily in established, stable enterprises with positive cash flows; and
- maintaining rigorous portfolio monitoring in an attempt to anticipate and pre-empt negative credit events within our portfolio, such as an event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company.

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

value than deemed warranted by the Advisor's fundamental analysis, which may occur due to general dislocations in the markets, a misunderstanding by the market of a particular company or an industry being out of favor with the broader investment community and may include event driven investments, anchor orders and structured products.

The senior secured loans, second lien secured loans and senior secured bonds in which we invest generally have stated terms of three to seven years and subordinated debt investments that we make generally have stated terms of up to ten years, but the expected average life of such securities is generally between three and seven years. However, there is no limit on the maturity or duration of any security in our portfolio. Our debt investments may be rated by a nationally recognized statistical rating organization, or NRSRO, and, in such case, generally will carry a rating below investment grade (rated lower than "Baa3" by Moody's Investors Service, Inc., or Moody's, or lower than "BBB-" by Standard & Poor's Ratings Services, or S&P). We also invest in non-rated debt securities.

To seek to enhance our returns, we employ leverage as market conditions permit and at the discretion of the Advisor, but in no event will leverage employed exceed the maximum amount permitted by the 1940 Act. With certain limited exceptions, we are only allowed to borrow amounts or issue debt securities if our asset coverage, as calculated pursuant to the 1940 Act, equals at least 200% immediately after such borrowing. The minimum asset coverage requirement applicable to BDCs under the 1940 Act, however, is currently 150% provided that certain disclosure, approval and other requirements are met.

As a BDC, we are subject to certain regulatory restrictions in making our investments. For example, BDCs generally are not permitted to co-invest with certain affiliated entities in transactions originated by the BDC or its affiliates in the absence of an exemptive order from the U.S. Securities and Exchange Commission, or the SEC. However, BDCs are permitted to, and may, simultaneously co-invest in transactions where price is the only negotiated term. In an order dated April 3, 2018, the SEC granted exemptive relief permitting us, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions, including investments originated and directly negotiated by the Advisor or KKR Credit Advisors (US) LLC, or KKR Credit, with our co-investment affiliates. We believe this relief enhances our ability to further our investment objectives and strategy. We believe this relief may also increase favorable investment opportunities for us, in part, by allowing us to participate in larger investments, together with our co-investment affiliates, than would be available to us if such relief had not been obtained.

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. Furthermore, while our distribution reinvestment and share repurchase prices are subject to adjustment in accordance with the 1940 Act and our pricing policy, because our shares of common stock are not currently listed on a national securities exchange, our stockholders are not subject to the daily share price volatility associated with the public markets. However, the net asset value of our shares of common stock may still be volatile.

For information regarding our share repurchase program, distributions and our distribution reinvestment plan, including certain related tax considerations, see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Share Repurchase Program and Distributions" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—RIC Status and Distributions."

About the Advisor

The Advisor is a Delaware limited liability company, located at 201 Rouse Boulevard, Philadelphia, PA 19112, registered as an investment adviser with the SEC under the Advisers Act. The Advisor is a partnership between an affiliate of Franklin Square Holdings, L.P. (which does business as FS Investments), or FS Investments, and KKR Credit. Our chairman and chief executive officer, Michael C. Forman, serves as the Advisor's chairman and chief executive officer, and Todd C. Builione, our president, serves as the Advisor's president.

The Advisor's management team has significant experience in private lending and private equity investing, and has developed an expertise in using all levels of a firm's capital structure to produce income-generating investments, while focusing on risk management. The team also has extensive knowledge of the managerial, operational and regulatory requirements of publicly registered alternative asset entities, such as BDCs. We believe that the active and ongoing participation by FS Investments, KKR Credit and their respective affiliates in the credit markets, and the depth of experience and disciplined investment approach of the Advisor's management team, will allow the Advisor to successfully execute our investment strategies.

Our board of directors, including a majority of independent directors, oversees and monitors our investment performance, and beginning with the second anniversary of the effective date of the investment advisory and administrative services agreement, by and between us and the Advisor, dated as of April 9, 2018, or the investment advisory and administrative services agreement, will review the investment advisory and administrative services agreement to determine, among other things, whether the fees payable under such agreement are reasonable in light of the services provided.

About FS Investments

FS Investments is a leading asset manager dedicated to helping individuals, financial professionals and institutions design better portfolios. The firm provides access to alternative sources of income and growth, and focuses on setting the industry standards for investor protection, education and transparency. FS Investments is headquartered in Philadelphia with offices in New York, NY, Orlando, FL, and Washington, DC. The firm had approximately \$23 billion in assets under management as of December 31, 2018.

About KKR Credit

KKR Credit is a Delaware limited liability company, located at 555 California Street, 50th Floor, San Francisco, CA 94104, registered as an investment adviser with the SEC under the Advisers Act. It had approximately \$65.6 billion of assets under management as of December 31, 2018 across investment funds, structured finance vehicles, specialty finance companies and separately managed accounts that invest capital in both liquid and illiquid credit strategies on behalf of some of the largest public and private pension plans, global financial institutions, university endowments and other institutional and public market investors. Its investment professionals utilize an industry and thematic approach to investing and benefit from access, where appropriate, to the broader resources and intellectual capital of KKR & Co. Inc., or KKR & Co.

KKR Credit is a subsidiary of KKR & Co., a leading global investment firm with approximately \$194.7 billion in assets under management as of December 31, 2018, that manages investments across multiple asset classes, including private equity, energy, infrastructure, real estate and credit, with strategic manager partnerships that manage hedge funds. KKR & Co. aims to generate attractive investment returns for its fund investors by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation with KKR & Co. portfolio companies. KKR & Co. invests its own capital alongside the capital it manages for fund investors and provides financing solutions and investment opportunities through its capital markets business.

Potential Market Opportunity

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

Attractive Opportunities in Senior Secured and Second Lien Secured Loans

We believe that opportunities in senior secured and second lien secured loans are significant because of the variable rate structure of most senior secured debt issues and because of the strong defensive characteristics of this investment class. Given current market conditions, we believe that debt issues with variable interest rates often offer a superior return profile to fixed-rate securities, since variable interest rate structures are generally less susceptible to declines in value experienced by fixed-rate securities in a rising interest rate environment.

Senior secured debt also provides strong defensive characteristics. Because this debt has priority in payment among an issuer's security holders (i.e., holders are due to receive payment before junior creditors and equity holders), 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. They generally also carry restrictive covenants aimed at ensuring repayment before junior creditors, such as most types of unsecured bondholders, and other security holders and preserving collateral to protect against credit deterioration.

Opportunity in 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 middle market private companies within the United States, is underserved and presents a compelling investment opportunity. We believe that the following characteristics support our belief:

Large Target Market

Middle market companies represent, we believe, a significant portion of the growth segment of the U.S. economy and often require substantial capital investment to grow their businesses. Middle market companies have generated a significant number of investment opportunities for us and investment programs managed by our affiliates over the past several years, and we believe that this market segment will continue to produce significant investment opportunities for us.

Limited Investment Competition

Despite the size of the market, we believe that regulatory changes and other factors have diminished the role of traditional financial institutions in providing financing to middle market companies. As tracked by S&P Capital IQ LCD, U.S. banks' share of senior secured loans to middle market companies represented approximately 4% of overall middle market loan volume in 2018 and 1% of overall middle market loan volume in 2017, down from nearly 25% in 2000. However, the continuation of lower levels of participation by traditional financial institutions in the middle market is uncertain as a result of changing investment opportunities in the broader market and a potentially changing regulatory landscape.

We also believe that lending and originating new loans to 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 from these companies. Further, many investment firms lack the breadth and scale necessary to identify investment opportunities, particularly in regards to directly originated investments in middle market companies, and thus we believe that attractive investment opportunities are often overlooked. In addition, middle market companies may require more active monitoring and participation on the lender's part. We believe that many large financial organizations, which often have relatively high cost structures, are not suited to deal with these factors and instead emphasize services and transactions to larger corporate clients with a consequent reduction in the availability of financing to middle market companies.

Attractive Market Segment

We believe that the underserved nature of such a large segment of the market can at times create a significant opportunity for investment. In many environments, we believe that middle market companies are more likely to offer attractive economics in terms of transaction pricing, up-front and ongoing fees, prepayment penalties and security features in the form of stricter covenants and quality collateral than loans to larger companies. In addition, as compared to larger companies, 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 will 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 Related to Investments in Private Companies

We invest primarily in the debt of private middle market U.S. companies. Investments in private companies pose significantly greater risks than 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. As a result, these companies, which may present greater credit risk than public companies, may be unable to meet the obligations under their debt securities that we hold. Second, the investments themselves may often be illiquid. The securities of most of the companies in which we invest are not publicly-traded or actively-traded on the secondary market and are, instead, traded on a privately negotiated OTC secondary market for institutional investors. In addition, our directly originated investments generally will not be traded on any secondary market and a trading market for such investments may not develop. These securities may also be subject to legal and other restrictions on resale. 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. These investments may also be difficult to value because little public information generally exists about private companies, requiring an experienced due diligence team to analyze and value the potential portfolio company. Finally, these companies often may not have third-party debt ratings or audited financial statements. We must therefore rely on the ability of the Advisor to obtain adequate information through its due diligence efforts to evaluate the creditworthiness of, and risks involved in, investing in these companies, and to determine the optimal time to exit an investment. 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

Our principal focus is to invest in senior secured and second lien secured loans of private middle market U.S. companies, and to a lesser extent, subordinated loans of private U.S. companies. Although we do not expect a significant portion of our portfolio to be comprised of subordinated loans, there is no limit on the amount of such loans in which we may invest. We may purchase interests in loans or make other debt investments, including investments in senior secured bonds, through secondary market transactions in the OTC market or directly from our target companies as primary market or directly originated investments. In connection with our debt investments, we may on occasion receive equity interests such as warrants or options as additional consideration. We may also purchase or otherwise acquire interests in the form of common or preferred equity or equity-related securities, such as rights and warrants that may be converted into or exchanged for common stock or other equity or the cash value of common stock or other equity, in our target companies, generally in conjunction with one of our debt investments or through a co-investment with a financial sponsor, such as an institutional investor or private equity firm. In addition, a portion of our portfolio may be comprised of bonds, structured products, other debt securities and derivatives. The Advisor will seek to tailor our investment focus as market conditions evolve. Depending on market conditions, we may increase or decrease our exposure to less senior portions of the capital structure or otherwise make opportunistic investments, such as where the market price of loans, bonds or other securities reflects a lower value than deemed warranted by the Advisor's fundamental analysis, which may occur due to general dislocations in the markets, a misunderstanding by the market of a particular company or an industry being out of favor with the broader investment community and may include event driven investments, anchor orders and structured products.

When identifying prospective portfolio companies, we focus primarily on the attributes set forth below, which we believe will help us generate higher total returns with an acceptable level of risk. While these criteria provide general guidelines for our investment decisions, we caution investors 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 can protect their competitive advantages through 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 to any significant degree in start-up companies, turnaround situations or companies with speculative business plans.
- *Proven management teams.* We focus on companies that have experienced management teams with an established track record of success. We typically prefer our portfolio companies to have proper incentives in place, which may include non-cash and performance-based compensation, to align management's goals with ours.
- *Private equity sponsorship.* Often, we seek to participate in transactions sponsored by what we believe to be sophisticated and seasoned private equity firms. The Advisor's management team believes that a private equity sponsor's willingness to invest significant sums of equity capital into a company is an endorsement of the quality of the investment. Further, by co-investing with such experienced private equity firms which commit significant sums of equity capital ranking junior in priority of payment to our debt investments, we may benefit from the due diligence review performed by the private equity firm, in addition to our own due diligence review. 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 or financial issues arise, which could provide additional protections for our investments.
- *Allocation among various issuers and industries.* We seek to allocate our portfolio broadly among issuers and industries, thereby attempting to reduce the risk of a downturn in any one company or industry having a disproportionate adverse impact on the value of our portfolio.
- *Viable exit strategy.* While we attempt to invest in securities that may be sold in a privately negotiated OTC market, providing us a means by which we may exit our positions, we expect that a large portion of our portfolio may not be sold on this secondary market. For any investments that are not able to be sold 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, an initial public offering of equity securities, a merger, a sale or a recapitalization, in each case with the potential for capital gains.

Potential Competitive Strengths

We believe that we offer investors the following potential competitive strengths:

Global platform with seasoned investment professionals

We believe that the breadth and depth of the experience of the Advisor's senior management team, which is dedicated to sourcing, structuring, executing, monitoring and harvesting a broad range of private investments, provide us with a significant competitive advantage in sourcing and analyzing attractive investment opportunities.

Long-term investment horizon

Our long-term investment horizon gives us great flexibility, which we believe allows us to maximize returns on our investments. Unlike most private equity and venture capital funds, as well as many private debt funds, we are not required to return capital to our stockholders once we exit a portfolio investment. We believe that freedom from such capital return requirements, which allows us to invest using a longer-term focus, provides us with the opportunity to increase total returns on invested capital, compared to other private company investment vehicles.

Disciplined, income-oriented investment philosophy

The Advisor employs 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 deteriorating credit conditions at portfolio companies which would result in adverse portfolio developments. This strategy is designed to maximize current income and minimize the risk of capital loss while maintaining the potential for long-term capital appreciation.

Investment expertise across all levels of the corporate capital structure

The Advisor believes that its broad expertise and experience investing at all levels of a company's capital structure enable us to manage risk while affording us 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.

International capital markets capabilities

The Advisor leverages the intellectual capital, industry experience and global network of KKR & Co.'s Capital Markets team to support the origination of new private credit investment opportunities. Through KKR & Co.'s Capital Markets franchise, the Advisor benefits from expanded sources of deal flow, real-time market intelligence on pricing trends and continuous dialogue with issuers and sponsors to provide holistic financing solutions to current and prospective portfolio companies. In addition, KKR & Co.'s Capital Markets franchise gives us the ability to access and originate larger transactions and enhances the Advisor's ability to manage risk.

Ability to create bespoke financing solutions through asset based finance

The Advisor believes that there is an expansive and growing opportunity to create customized solutions in underserved and mispriced asset classes, including across the aircraft, consumer finance, real estate and auto and equipment finance sectors. The Advisor will seek to identify investments with strong collateral protection, a low correlation to the broader markets and equity-like upside potential.

Operating and Regulatory Structure

Our investment activities are managed by the Advisor and supervised by our board of directors, a majority of whom are independent. Under the investment advisory and administrative services agreement, we have agreed to pay the Advisor an annual base management fee based on the average weekly value of our gross assets and an incentive fee based on our performance. See Notes 2 and 4 to our consolidated financial statements included in this annual report on Form 10-K for a description of the fees we pay to the Advisor.

From time to time, the Advisor may enter into sub-advisory relationships with registered investment advisers that possess skills or attributes that the Advisor believes will aid it in achieving our investment objectives. The Advisor oversees our day-to-day operations, including the provision of general ledger accounting, fund accounting, legal services, investor relations, certain government and regulatory affairs activities, and other administrative services. The Advisor also performs, or oversees the performance of, our corporate operations and required administrative services, which includes being responsible for the financial records that we are required to maintain and preparing reports for our stockholders and reports filed with the SEC. In addition, the Advisor assists us in calculating our net asset value, overseeing the preparation and filing of tax returns and the printing and dissemination of reports to our stockholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others.

Pursuant to our investment advisory and administrative services agreement, we reimburse the Advisor for expenses necessary to perform services related to our administration and operations, including the Advisor's allocable portion of the compensation and related expenses of certain personnel of FS Investments and KKR Credit providing administrative services to us on behalf of the Advisor. We reimburse the Advisor no less than monthly for expenses necessary to perform services related to our administration and operations. The amount of this reimbursement is set at the lesser of (1) the Advisor's actual costs incurred in providing such services and (2) the amount that we estimate we would be required to pay alternative service providers for comparable services in the same geographic location. The Advisor allocates the cost of such services to us based on factors such as total assets, revenues, time allocations

and/or other reasonable metrics. Our board of directors reviews the methodology employed in determining how the expenses are allocated to us and the proposed allocation of administrative expenses among us and certain affiliates of the Advisor. Our board of directors then assesses the reasonableness of such reimbursements for expenses allocated to us based on the breadth, depth and quality of such services as compared to the estimated cost to us of obtaining similar services from third-party service providers known to be available. In addition, our board of directors considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, our board of directors compares the total amount paid to the Advisor for such services as a percentage of our net assets to the same ratio as reported by other comparable BDCs.

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

As a BDC, 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 pursuant to the 1940 Act. 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 “—Regulation.” We have elected to be treated for U.S. federal income tax purposes, and intend to qualify annually, as a RIC under Subchapter M of the Code.

Investment Types

We primarily focus on the following investment types:

Senior Secured Loans

Senior secured loans are situated at the top of the capital structure. Because these loans generally 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 over a standard benchmark, such as the prime rate or the London Interbank Offered Rate, or 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, which means that any realization of collateral will generally be applied to pay senior secured loans in full before second lien secured loans are paid and the value of the collateral may not be sufficient to repay in full both senior secured loans and second lien secured loans. 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 subordinated loans. Generally, we expect these loans to carry a fixed rate, or a floating current yield over a standard benchmark. In addition, we may receive additional returns from any warrants we may receive in connection with these investments.

Senior Secured Bonds

Senior secured bonds are generally secured by collateral on a senior, *pari passu* or junior basis with other debt instruments in an issuer’s capital structure and have similar maturities and covenant structures as senior secured loans. Generally, we expect these investments to carry a fixed rate.

Subordinated Debt

In addition to senior secured loans, second lien secured loans and senior secured bonds, we may invest a portion of our assets in subordinated debt. Subordinated debt investments usually rank junior in priority

of payment to senior debt and are often unsecured, but are situated above preferred equity and common equity in the capital structure. In return for their junior status compared to senior debt, subordinated debt investments 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 warrants typically require only a nominal cost to exercise. We generally target subordinated debt with interest-only payments throughout the life of the security, with the principal due at maturity. Typically, subordinated debt investments have maturities of five to ten years. Generally, we expect these securities to carry a fixed rate, or a floating current yield over a standard benchmark. 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, or PIK.

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 investments in preferred or common equity, typically in conjunction with a private equity sponsor we believe to be sophisticated and seasoned. 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 may 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, such as rights and warrants that may be converted into or exchanged for common stock or other equity or the cash value of common stock or other equity, generally obtained in conjunction with one of our debt investments or through a co-investment with a financial sponsor, such as an institutional investor or private equity firm. In 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.

Convertible Securities

We may invest in convertible securities, such as bonds, debentures, notes, preferred stocks or other securities that may be converted into, or exchanged for, a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula.

Non-U.S. Securities

We may invest in non-U.S. securities, which may include securities denominated in U.S. dollars or in non-U.S. currencies and securities of companies in emerging markets, to the extent permitted by the 1940 Act.

Structured Products

We may invest in structured products, which may include collateralized debt obligations, collateralized bond obligations, collateralized loan obligations, structured notes and credit-linked notes. The issuers of such investment products may be structured as trusts or other types of pooled investment vehicles. Such products may also involve the deposit with or purchase by an entity of the underlying investments and the issuance by that entity of one or more classes of securities backed by, or representing interests in, the underlying investments or referencing an indicator related to such investments.

Derivatives

We may also invest from time to time in derivatives, including total return swaps, interest rate swaps, credit default swaps and foreign currency forward contracts. We anticipate that any use of derivatives would primarily be as a substitute for investing in conventional securities or to hedge potential risk that is identified by the Advisor.

Investments in Private Investment Funds

We may invest in, or wholly own, private investment funds, including hedge funds, private equity funds, limited liability companies, real estate investment trusts and other business entities. In particular, we expect

we may invest in asset-based opportunities through joint ventures, investment platforms or build-ups that provide one or more of the following services: origination or sourcing of potential investment opportunities, due diligence and negotiation of potential investment opportunities and/or servicing, development and management (including turnaround) and disposition of investments. Such investments in joint ventures, platforms and build-ups may be in or alongside existing or newly formed operators, consultants and/or managers that pursue such opportunities and may or may not include capital and/or assets contributed by third party investors. Such investments may include opportunities to direct-finance physical assets, such as airplanes and ships, and/or operating assets, such as financial service entities, as opposed to investment securities, or to invest in origination and/or servicing platforms directly. These asset-based opportunities are expected to offer mezzanine-like structural downside protection as well as asset collateral, and equity-like upside that can be achieved through appreciation at the asset-level or, in the case of platforms, through growth of the enterprise value. Key areas of focus include, without limitation, (i) aircraft, (ii) shipping, (iii) renewables, (iv) real estate, (v) consumer finance, and (vi) energy/infrastructure.

Investments with Third-Parties

We may co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring jointly-controlled or non-controlling interests in certain investments in conjunction with participation by one or more third parties in such investment. Such joint venture partners or third party managers may include former personnel of the Advisor or its affiliates or associated persons.

Cash and Cash Equivalents

We may maintain a certain level of cash or equivalent instruments, including money market funds, 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 many cases, will not be rated by national rating agencies. When our targeted debt investments do carry ratings from a NRSRO, we believe that such ratings generally will be below investment grade (rated lower than "Baa3" by Moody's or lower than "BBB-" by S&P). 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, allow 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 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 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. Closing fees typically range from 1.0% to 2.0% of the purchase price of an investment. In addition, we may generate revenues in the form of non-recurring commitment, origination, structuring or diligence fees, fees for providing managerial assistance, consulting fees and performance-based fees.

Risk Management

We seek to limit the downside potential of our investment portfolio by, among other things:

- 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;
- allocating our portfolio among various issuers and industries, size permitting, with an adequate number of companies, across different industries, with different types of collateral; and
- negotiating or seeking debt investments with covenants or features that protect us while affording portfolio companies flexibility in managing their businesses consistent with preservation of capital, which 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 the 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 covenants requiring the borrower to maintain adequate insurance, accounting and tax records, and to produce frequent financial reports for the benefit of the lender.

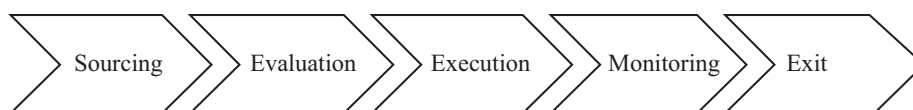
Negative Covenants

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 the Advisor or its affiliates have spent their careers developing the resources necessary to invest in private companies. Our current transaction process is highlighted below.

Our Transaction Process



Sourcing

The relationships of the Advisor and its affiliates provide us with access to a robust and established pipeline of investment opportunities sourced from a variety of different investment channels, including private equity sponsors, non-sponsored corporates, financial advisors, banks, brokers and family offices. In addition, access to KKR & Co.'s Capital Markets and KKR's Principal Finance strategies provide us with additional origination opportunities.

Evaluation

Screening: Once a potential investment has been identified, the Advisor screens the opportunity and makes a preliminary determination concerning whether to proceed with a more comprehensive deal-level due diligence review.

Pipeline/Risk Update: Upon review of the full deal pipeline, the Advisor raises key risks and issues to determine whether or not an investment meets our basic investment criteria and offers an acceptable probability of attractive returns with identifiable downside risk. The objective is for the Advisor to identify a suitable and attractive opportunity for a more comprehensive due diligence review based on the facts and circumstances surrounding the investment.

Deal-level Q&A: After an investment has been identified and preliminary due diligence has been completed, screening memos and a credit research analysis is prepared. These reports are reviewed by the Advisor's investment committee, or the Investment Committee, to discuss key diligence and structuring issues. Following the Advisor's review, the Investment Committee will complete any incremental due diligence prior to formal Investment Committee approval. Though each transaction may involve a somewhat different approach, the Advisor's diligence of each opportunity could 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.

Execution

Following any incremental due diligence, the Investment Committee is presented with a formal recommendation for approval. Once the Investment Committee has determined that the portfolio company is suitable for investment, the Advisor works with the management team of the prospective company to finalize the structure and terms of the investment. We believe that structuring transactions appropriately is a key factor to producing strong investment results. Accordingly, we will actively consider transaction structures and seek to process and negotiate terms that provide the best opportunities for superior risk-adjusted returns.

Post-Investment Monitoring

Portfolio Monitoring. The Advisor monitors our portfolio with a focus toward anticipating negative credit events. To maintain portfolio company performance and help to ensure a successful exit, the Advisor works closely with, as applicable, the lead equity sponsor, loan syndicator, portfolio company management, consultants, advisers and other security holders 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 or similar governing body.

Typically, the Advisor receives 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. The Advisor uses this 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, the Advisor uses an investment rating system to characterize and monitor the expected level of returns on each investment in our portfolio. The Advisor uses an investment rating scale of 1 to 4. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Portfolio Asset Quality" for a description of the conditions associated with each investment rating.

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 such investments in good faith, utilizing the input of our valuation committee, the Advisor and any other professionals or materials that our board of directors deems relevant, including independent third-party pricing services and independent third-party valuation services, if applicable. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Valuation of Portfolio Investments."

Managerial Assistance. As a BDC, we must offer, and 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, the Advisor 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 the Advisor, will retain any fees paid for such assistance.

Exit

While we attempt to invest in securities that may be sold in a privately negotiated OTC market, providing us a means by which we may exit our positions, we expect that a large portion of our portfolio may not be sold on this secondary market. For any investments that are not able to be sold 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, an initial public offering of equity securities, a merger, a sale or a recapitalization, in each case with the potential for capital gains.

Regulation

We have elected to be regulated as a BDC under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates, principal underwriters and affiliates of those affiliates or underwriters. The 1940 Act requires that a majority of our 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 BDC 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 per share, after deducting underwriting commissions and discounts, that is below our net asset value per share. See “Item 1A. Risk Factors—Risks Related to Business Development Companies—Regulations governing our operation as a BDC and a 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 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 per share in rights offerings to existing stockholders, in payment of dividends and in certain other limited circumstances.

As a BDC, we are subject to certain regulatory restrictions in making our investments. For example, BDCs generally are not permitted to co-invest with certain affiliated entities in transactions originated by the BDC or its affiliates in the absence of an exemptive order from the SEC. However, BDCs are permitted to, and may, simultaneously co-invest in transactions where price is the only negotiated term. In an order dated April 3, 2018, the SEC granted exemptive relief permitting us, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions, including investments originated and directly negotiated by the Advisor or KKR Credit, with our co-investment affiliates. Under the terms of this relief, a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objectives and strategy and any criteria established by our board of directors.

Qualifying Assets

Under the 1940 Act, a BDC 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 BDC) 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 BDC or a group of companies including a BDC and the BDC 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.

In addition, a BDC 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 BDC, 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, including money market funds, 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 maintain our qualification as a RIC for U.S. federal income tax purposes as described below under “—Taxation as a RIC.” Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. The 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 purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see “Item 1A. Risk Factors—Risks Related to Debt Financing” and “Item 1A. Risk Factors—Risks Related to Business Development Companies.”

Code of Ethics

We and the Advisor have each adopted a code of ethics pursuant to Rule 17j-1 promulgated under the 1940 Act that, among other things, establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the codes 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 each code’s requirements. Each code of ethics is available on our website at www.fsinvestments.com and on the EDGAR Database on the SEC’s Internet site at www.sec.gov.

Compliance Policies and Procedures

We and the 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 and the chief compliance officer of the Advisor are responsible for administering these policies and procedures.

Proxy Voting Policies and Procedures

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

As an investment adviser registered under the Advisers Act, the 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 the Advisor are intended to comply with Section 206 of, and Rule 206(4)-6 promulgated under, the Advisers Act.

The 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 the 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 the 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 the Advisor intends to vote on a proposal in order to reduce any attempted influence from interested parties.

You may obtain information, without charge, regarding how the Advisor voted proxies with respect to our portfolio securities by making a written request for proxy voting information to: Chief Compliance Officer, FS Investment Corporation II, 201 Rouse Boulevard, Philadelphia, Pennsylvania 19112 or by calling us collect at (215) 495-1150.

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 BDC, 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 promulgated under 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;
- pursuant to Rule 13a-15 promulgated under the Exchange Act, our management is required to prepare a report regarding its assessment of our internal control over financial reporting; and
- pursuant to Item 308 of Regulation S-K, our auditors must attest to, and report on, our management's 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.

Taxation as a RIC

We have elected to be subject to tax as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we timely distribute each tax year as distributions to our stockholders. To qualify for and 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 tax year, distributions generally of an amount at least equal to 90% of our "investment company taxable income," which is generally the sum of our net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses, determined without regard to any deduction for distributions paid, or the Annual Distribution Requirement.

If we:

- qualify as a RIC; and
- satisfy the Annual Distribution Requirement;

then we will not be subject to U.S. federal income tax on the portion of our income or capital gains we distribute (or are deemed to distribute) as distributions to our 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) as distributions to our stockholders.

As a RIC, we will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute distributions in a timely manner to our stockholders generally of an amount at least equal to the sum of (1) 98% of our net ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income, which is the excess of capital gains in excess of capital losses, or "capital gain net income" (as adjusted for certain ordinary losses), for the one-year period ending October 31 of that calendar year and (3) any net ordinary income and capital gain net

income for the preceding years that were not distributed during such years and on which we paid no U.S. federal income tax, or the Excise Tax Avoidance Requirement. Any distribution declared by us during October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following calendar year, will be treated as if it had been paid by us, as well as received by our U.S. stockholders, on December 31 of the calendar year in which the distribution was declared.

We have previously incurred, and may incur in the future, such excise tax on a portion of our income and capital gains. While we intend to distribute income and capital gains to minimize exposure to the 4% excise tax, we may not be able to, or may choose not to, distribute amounts sufficient to avoid the imposition of the tax entirely. In that event, we generally will be liable for the excise tax only on the amount by which we do not meet the excise tax avoidance requirement.

In order to qualify as a RIC for U.S. federal income tax purposes, we must, among other things:

- continue to qualify as a BDC under the 1940 Act at all times during each tax year;
- derive in each tax 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 other securities, or the 90% Income Test; and
- diversify our holdings so that at the end of each quarter of the tax 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 such 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.

A RIC is limited in its ability to deduct expenses in excess of its investment company taxable income. If our expenses in a given tax year exceed our investment company taxable income, we may experience a net operating loss for that tax year. However, a RIC is not permitted to carry forward net operating losses to subsequent tax years and such net operating losses do not pass through to its stockholders. In addition, deductible expenses can be used only to offset investment company taxable income, not net capital gain. A RIC may not use any net capital losses (that is, the excess of realized capital losses over realized capital gains) to offset its investment company taxable income, but may carry forward such net capital losses, and use them to offset future capital gains, indefinitely. Due to these limits on deductibility of expenses and net capital losses, we may for tax purposes have aggregate taxable income for several years that we are required to distribute and that is taxable to our stockholders even if such taxable income is greater than the net income we actually earn during those years.

For U.S. 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 instruments 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 tax 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 tax 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 have elected to amortize market discount and include such amounts in our taxable income in the current tax year, instead of upon their disposition, as an election not to do so would limit our ability to deduct interest expense for tax purposes.

We invest a portion of our net assets in below investment grade instruments. Investments in these types of instruments may present special tax issues for us. U.S. federal income tax rules are not entirely clear about issues such as when we may cease to accrue interest, original issue discount or market discount, when and to what extent deductions may be taken for bad debts or worthless instruments, how payments received on obligations in default should be allocated between principal and income and whether exchanges of debt instruments in a bankruptcy or workout context are taxable. We will address these and other issues to the extent necessary in order to seek to ensure that we distribute sufficient income to avoid any material U.S. federal income or excise tax.

Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the tax 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 maintain RIC tax treatment under Subchapter M of the Code. We may have to sell or otherwise dispose of 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 or otherwise dispose of 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 coverage” tests are met. See “—Regulation—Senior Securities.” Moreover, our ability to sell or otherwise dispose of assets to meet the Annual Distribution Requirement 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 sell or otherwise 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.

A portfolio company in which we invest may face financial difficulties that require us to work-out, modify or otherwise restructure our investment in the portfolio company. Any such transaction could, depending upon the specific terms of the transaction, result in unusable capital losses and future non-cash income. Any such transaction could also result in our receiving assets that give rise to non-qualifying income for purposes of the 90% Income Test or otherwise would not count toward satisfying the Diversification Tests.

Some of the income that we might otherwise earn, such as fees for providing managerial assistance, certain fees earned with respect to our investments, income recognized in a work-out or restructuring of a portfolio investment, or income recognized from an equity investment in an operating partnership, may not satisfy the 90% Income Test. To manage the risk that such income might disqualify us as a RIC for failure to satisfy the 90% Income Test, one or more subsidiary entities treated as U.S. corporations for entity-level income tax purposes may be employed to earn such income and (if applicable) hold the related asset. Such subsidiary entities will be required to pay U.S. federal income tax on their earnings, which ultimately will reduce the yield to our stockholders on such fees and income.

Competition

Our primary competitors for investments include other BDCs and investment funds (including private equity funds, mezzanine funds and CLO funds). In addition, alternative investment vehicles, such as hedge funds, have begun to invest in areas in which they have not traditionally invested, including making investments in middle market private U.S. companies. We also compete with traditional financial services companies such as commercial banks. We believe we will be able to compete with these entities for financing opportunities on the basis of, among other things, the experience of the Advisor’s senior management team. Furthermore, while we believe that regulatory changes and other factors have diminished the role of traditional financial institutions and certain other capital providers in providing financing to middle market private U.S. companies, we are not certain whether this trend will continue as a result of the potentially changing regulatory landscape. For additional information, see “—Potential Market Opportunity” and “—Potential Competitive Strengths.”

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 us. 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 BDC. For additional information concerning the competitive risks we face, see “Item 1A. Risk Factors—Risks Related to Our Business and Structure—We may face increasing competition for investment opportunities, which could delay deployment of our capital, reduce returns and result in losses.”

Employees

We do not currently have any employees. Each of our executive officers is a principal, officer or employee of the Advisor or its affiliates, which manages and oversees our investment operations. In the future, the Advisor may retain additional investment personnel based upon its needs.

Available Information

For so long as our charter requires, within 60 days after the end of each fiscal quarter, we will distribute our quarterly report on Form 10-Q to all stockholders of record and to the state securities administrator in each state in which we offer or sell securities. In addition, for so long as our charter requires, we will distribute our annual report on Form 10-K to all stockholders and to the state securities administrator in each state in which we offer or sell securities within 120 days after the end of each fiscal year. These reports will also be available on our website at www.fsinvestments.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 stockholders should not consider information contained on our website to be part of this annual report on Form 10-K.

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information is available free of charge by calling us collect at (215) 495-1150 or on our website at www.fsinvestments.com. Information contained on our website is not incorporated into this annual report on Form 10-K and you should not consider such information to be part of this annual report on Form 10-K. Such information is also available from the EDGAR database on the SEC’s web site at www.sec.gov.

Item 1A. Risk Factors.

Investing in our securities involves a number of significant risks. In addition to the other information contained in this annual report on Form 10-K, investors should consider carefully the following information before making an investment in our securities. 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 or the value of our debt or equity investments may decline, and investors may lose all or part of their investment.

Risks Related to Economic Conditions

Future disruptions or instability in capital markets could negatively impact the valuation of our investments and our ability to raise capital.

From time to time, the global capital markets may experience periods of disruption and instability, which could be prolonged and which could materially and adversely impact the broader financial and credit markets, have a negative impact on the valuations of our investments and reduce the availability to us of debt and equity capital. For example, between 2008 and 2009, instability in the global capital markets resulted in disruptions in liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of 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.

While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity) and impairments of the market values or fair market values of our investments, even if unrealized, must be reflected in our financial statements for the applicable period, which could result in significant reductions to our net asset value for the period. With certain limited exceptions, we are only allowed to borrow amounts or issue debt securities if our asset coverage, as calculated pursuant to the 1940 Act, equals at least 200% immediately after such borrowing. Equity capital may also be difficult to raise during periods of adverse or volatile market conditions because, subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. If we are unable to raise capital or refinance existing debt on acceptable terms, then we may be limited in our ability to make new commitments or to fund existing commitments to our portfolio companies. Significant changes in the capital markets may also affect the pace of our investment activity and the potential for liquidity events involving our investments. Thus, the illiquidity of our investments may make it difficult for us to sell such investments to access capital if required, and as a result, we could realize significantly less than the value at which we have recorded our investments if we were required to sell them for liquidity purposes.

Uncertainty with respect to the financial stability of the United States and several countries in the European Union could have a significant adverse effect on our business, financial condition and results of operations.

In August 2011, S&P lowered its long-term sovereign credit rating on the U.S. from “AAA” to “AA+,” which was last affirmed by S&P in June 2018. Moody’s and Fitch Ratings, Inc. have also warned that they may downgrade the U.S. federal government’s credit rating. In addition, the economic downturn and the significant government interventions into the financial markets and fiscal stimulus spending over the last several years have contributed to significantly increased U.S. budget deficits. The U.S. government has on several occasions adopted legislation to suspend the federal debt ceiling to allow the U.S. Treasury Department to issue additional debt. Further downgrades or warnings by S&P or other rating agencies, and the U.S. government’s credit and deficit concerns in general, including issues around the federal debt ceiling, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. Furthermore, in February 2014, the Federal Reserve began scaling back its bond-buying program, or quantitative easing, which it ended in October 2014. Quantitative easing was designed to stimulate the

economy and expand the Federal Reserve's holdings of long-term securities until key economic indicators, such as the unemployment rate, showed signs of improvement. The Federal Reserve also raised interest rates several times since the fourth quarter of 2015. To the extent the Federal Reserve continues to raise rates, and without quantitative easing by the Federal Reserve, there is a risk that the debt markets may experience increased volatility and that the liquidity of certain of our investments may be reduced. It is unclear what other effects, if any, the end of quantitative easing, future interest rate raises, if any, and the pace of any such raises will have on the value of our investments or our ability to access the debt markets on favorable terms.

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these nations to continue to service their sovereign debt obligations. In January 2012, S&P lowered its long-term sovereign credit rating for France, Italy, Spain and six other European countries, which has negatively impacted global markets and economic conditions. In addition, in April 2012, S&P further lowered its long-term sovereign credit rating for Spain. While the financial stability of such countries has improved, risks resulting from any future debt crisis in Europe or any similar crisis could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of U.S. and European financial institutions. Furthermore, following the United Kingdom's referendum to leave the European Union, S&P lowered its long-term sovereign credit rating. Market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, could negatively impact the global economy, and there can be no assurance that assistance packages will be available, or if available, will be sufficient to stabilize countries and markets in Europe. To the extent uncertainty regarding any economic recovery in Europe negatively impacts consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, or other credit factors, our business, financial condition and results of operations could be significantly and adversely affected.

We may invest in European companies and companies that have operations that may be affected by the Eurozone economy.

We may invest in European companies and companies that have operations that may be affected by the Eurozone economy. For example, concerns regarding the sovereign debt of various Eurozone countries and proposals for investors to incur substantial write-downs and reductions in the face value of certain countries' sovereign debt have given rise to new concerns about sovereign defaults, particularly following the vote by the United Kingdom to leave the European Union, or EU, and the possibility that one or more further countries might leave the EU or the Eurozone and various proposals for support of affected countries and the Euro as a currency. The outcome of this situation cannot yet be predicted. Sovereign debt defaults and EU and/or Eurozone exits, could have material adverse effects on our investments in European companies, including, but not limited to, the availability of credit to support such companies' financing needs, uncertainty and disruption in relation to financing, customer and supply contracts denominated in the Euro and wider economic disruption in markets served by those companies, while austerity and other measures introduced in order to limit or contain these issues may themselves lead to economic contraction and resulting adverse effects for our business, financial condition and results of operations. It is possible that a number of our investments will be denominated in the Euro. Greece, Ireland and Portugal received one or more "bailouts" from other members of the EU. Although several countries in the Eurozone have agreed to multi-year bailout loans with the European Central Bank and the International Monetary Fund, it is unclear how much additional funding these countries, or other Eurozone countries, will require. Legal uncertainty about the funding of Euro denominated obligations following any breakup or exits from the Eurozone (particularly in the case of investments in companies in affected countries) could also have material adverse effects on our business, financial condition and results of operations.

On June 23, 2016, the United Kingdom voted, via referendum, to exit from the EU, triggering political, economic and legal uncertainty. While such uncertainty most directly affects the United Kingdom and the EU, global markets suffered immediate and significant disruption. On March 29, 2017, the United Kingdom made a formal notification to the European Council under Article 50 of the Treaty on EU, which triggered a two year period during which the terms of an exit will be negotiated. The United Kingdom and the EU are therefore in a period of legal, regulatory and political uncertainty. The United Kingdom's exit

from the EU will impact us and our investments (and their underlying issuers) in a variety of ways, not all of which are currently readily apparent immediately following the exit vote. We may invest in portfolio companies and other issuers with significant operations and/or assets in the United Kingdom, any of which could be adversely impacted by any new legal, tax and regulatory environment, whether by increased costs or impediments to the implementation of their business plan. Further, the vote by the United Kingdom to leave the EU may increase the likelihood of similar referenda in other member states of the EU, which could result in additional departures from the EU and may trigger steps by countries within the United Kingdom to leave the United Kingdom. The uncertainty resulting from any such developments, or the possibility of such developments, would also be likely to cause significant market disruption in the EU and the United Kingdom and more broadly across the global economy, as well as introduce further legal, tax and regulatory uncertainty in the EU and the United Kingdom.

Economic sanction laws in the United States and other jurisdictions may prohibit us and our affiliates from transacting with certain countries, individuals and companies.

Economic sanction laws in the United States and other jurisdictions may prohibit us or our affiliates from transacting with certain countries, individuals and companies. In the United States, the U.S. Department of the Treasury's Office of Foreign Assets Control administers and enforces laws, executive orders and regulations establishing U.S. economic and trade sanctions, which prohibit, among other things, transactions with, and the provision of services to, certain non-U.S. countries, territories, entities and individuals. These types of sanctions may significantly restrict or completely prohibit investment activities in certain jurisdictions, and if we, our portfolio companies or other issuers in which we invest were to violate any such laws or regulations, we may face significant legal and monetary penalties.

The Foreign Corrupt Practices Act, or FCPA, and other anti-corruption laws and regulations, as well as anti-boycott regulations, may also apply to and restrict our activities, our portfolio companies and other issuers of our investments. If an issuer or we were to violate any such laws or regulations, such issuer or we may face significant legal and monetary penalties. The U.S. government has indicated that it is particularly focused on FCPA enforcement, which may increase the risk that an issuer or us becomes the subject of such actual or threatened enforcement. In addition, certain commentators have suggested that private investment firms and the funds that they manage may face increased scrutiny and/or liability with respect to the activities of their underlying portfolio companies. As such, a violation of the FCPA or other applicable regulations by us or an issuer of our portfolio investments could have a material adverse effect on us. We are committed to complying with the FCPA and other anti-corruption laws and regulations, as well as anti-boycott regulations, to which it is subject. As a result, we may be adversely affected because of its unwillingness to enter into transactions that violate any such laws or regulations.

Future economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our debt investments during these periods. Therefore, our non-performing assets are likely to increase, and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions may also decrease the value of any collateral securing our debt investments. A prolonged recession may further decrease the value of such collateral and result in losses of value in our portfolio and a decrease in our revenues, net income and net asset value. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us on terms we deem acceptable. These events could prevent us from increasing investments and harm our operating results. Economic downturns or recessions may also result in a portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders, which could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its assets representing collateral for its obligations, which could trigger cross defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt that we hold and the value of any equity securities we own. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

A prolonged continuation of depressed oil and natural gas prices could negatively impact the energy and power industry and energy-related investments within our investment portfolio.

Prices for oil and natural gas, which historically have been volatile and may continue to be volatile, may be subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil

and natural gas. A prolonged continuation of depressed oil and natural gas prices would adversely affect the credit quality and performance of certain of our debt and equity investments in energy and power and related companies. A decrease in credit quality and performance would, in turn, negatively affect the fair value of these investments, which would consequently negatively affect our net asset value. Should a prolonged period of depressed oil and natural gas prices occur, the ability of certain of our portfolio companies in the energy and power and related industries to satisfy financial or operating covenants imposed by us or other lenders may be adversely affected, which could, in turn, negatively impact their financial condition and their ability to satisfy their debt service and other obligations. Likewise, should a prolonged period of depressed oil and natural gas prices occur, it is possible that the cash flow and profit generating capacity of these portfolio companies could also be adversely affected thereby negatively impacting their ability to pay us dividends or distributions on our investments.

Risks Related to Our Business and Structure

Our ability to achieve our investment objectives depends on the Advisor's ability to manage and support our investment process and if our agreement with the Advisor were to be terminated, or if the Advisor loses any members of its senior management team, our ability to achieve our investment objectives could be significantly harmed.

Because we have no employees, we depend on the investment expertise, skill and network of business contacts of the Advisor. The Advisor evaluates, negotiates, structures, executes, monitors and services our investments. Our future success depends to a significant extent on the continued service of the Advisor as well as its senior management team. The departure of any members of the Advisor's senior management team could have a material adverse effect on our ability to achieve our investment objectives.

Our ability to achieve our investment objectives depends on the Advisor's ability to identify, analyze, invest in, finance and monitor companies that meet our investment criteria. The 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, the Advisor may need to hire, train, supervise and manage new investment professionals to participate in our investment selection and monitoring process. The 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, the investment advisory and administrative services agreement has termination provisions that allow the parties to terminate the agreement without penalty. The investment advisory and administrative services agreement may be terminated at any time, without penalty, by the Advisor, upon 60 days' notice to us. If the investment advisory and administrative services agreement is terminated, it may adversely affect the quality of our investment opportunities. In addition, in the event such agreement is terminated, it may be difficult for us to replace the Advisor and the termination of such agreement may adversely impact the terms of any existing or future financing arrangement, which could have a material adverse effect on our business and financial condition.

The Advisor is a recently-formed investment adviser with a limited track record of acting as an investment adviser to a BDC, and any failure by the Advisor to manage and support our investment process may hinder the achievement of our investment objectives.

The Advisor is a recently-formed investment adviser jointly operated by an affiliate of FS Investments and KKR Credit with limited prior experience acting as an investment adviser to a BDC. The 1940 Act and the Code impose numerous constraints on the operations of BDCs that do not apply to other investment vehicles. While both affiliates of FS Investments and KKR Credit have individually acted as investment advisers to BDCs previously, the Advisor's limited experience in managing a portfolio of assets under the constraints of the 1940 Act and the Code may hinder the Advisor's ability to take advantage of attractive investment opportunities and, as a result, may adversely affect our ability to achieve our investment objectives. FS Investments' and KKR Credit's individual track records and achievements are not necessarily indicative of the future results they will achieve as a joint investment adviser. Accordingly, we can offer no

assurance that we will replicate the historical performance of other investment companies with which FS Investments and KKR Credit have been affiliated, and we caution that our investment returns could be lower than the returns achieved by such other companies.

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

If the Advisor fails to maintain its existing relationships with private equity sponsors, investment banks and commercial banks on which it relies to provide us with potential investment opportunities, 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 the Advisor has relationships generally 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 BDCs and investment funds (including private equity funds, mezzanine funds and 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 in which they have not traditionally invested, including making investments in middle market private U.S. companies. Furthermore, the potentially changing regulatory landscape as a result of the presidential administration may increase the number of middle-market investors. As a result of these new entrants, competition for investment opportunities in 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 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 BDC.

Our board of directors may change our operating policies and strategies without prior notice or stockholder approval.

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. Moreover, we have significant investment flexibility within our investment strategies. Therefore, we may invest our assets in ways with which investors may not agree. We also 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 the value of our stock. However, the effects might be adverse, which could negatively impact our ability to pay stockholders distributions and cause them to lose all or part of their investment. Finally, because our shares are not expected to be listed on a national securities exchange for the foreseeable future, stockholders will be limited in their ability to sell their shares in response to any changes in our investment policy, operating policies, investment criteria or strategies.

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

We, our portfolio companies and our business partners 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 and the deductibility of interest expense by our portfolio companies, potentially with retroactive effect. In particular, over the last several years there has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new regulation. New or repealed legislation, interpretations, rulings or regulations could require changes to certain business practices of us or our portfolio companies, negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies. In addition, any changes to the laws and regulations governing our operations, including with respect to permitted investments, may cause us to alter our investment strategy to avail ourselves of new or different opportunities or make other changes to our business. Such changes could result in material differences to our strategies and plans as set forth in this annual report on Form 10-K and may result in our investment focus shifting from the areas of expertise of the Advisor to other types of investments in which the Advisor 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 a stockholder's investment.

The impact on us of recent financial reform legislation, including the Dodd-Frank Act, is uncertain.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended, or the Dodd-Frank Act, made broad changes to the OTC derivatives market, granted significant new authority to the Commodity Futures Trading Commission, or CFTC, and the SEC to regulate OTC derivatives (swaps and security-based swaps) and participants in these markets. The Dodd-Frank Act is intended to regulate the OTC derivatives market by requiring many derivative transactions to be cleared and traded on an exchange, expanding entity registration requirements, imposing business conduct requirements on dealers and requiring banks to move some derivatives trading units to a non-guaranteed affiliate separate from the deposit-taking bank or divest them altogether. The CFTC has implemented mandatory clearing and exchange-trading of certain OTC derivatives contracts including many standardized interest rate swaps and credit default index swaps. The CFTC continues to approve contracts for central clearing. Exchange-trading and central clearing are expected to reduce counterparty credit risk by substituting the clearinghouse as the counterparty to a swap and increase liquidity, but exchange-trading and central clearing do not make swap transactions risk-free. Uncleared swaps, such as non-deliverable foreign currency forwards, are subject to certain margin requirements that mandate the posting and collection of minimum margin amounts. This requirement may result in the portfolio and its counterparties posting higher margin amounts for uncleared swaps than would otherwise be the case. Certain rules require centralized reporting of detailed information about many types of cleared and uncleared swaps. Reporting of swap data may result in greater market transparency, but may subject a portfolio to additional administrative burdens, and the safeguards established to protect trader anonymity may not function as expected. Future CFTC or SEC rulemakings to implement the Dodd-Frank Act requirements could potentially limit or completely restrict our ability to use these instruments as a part of our investment strategy, increase the costs of using these instruments or make them less effective. Limits or restrictions applicable to the counterparties with which we engage in derivative transactions could also prevent us from using these instruments or affect the pricing or other factors relating to these instruments, or may change availability of certain investments. The SEC has also indicated that it may adopt new policies on the use of derivatives by registered investment companies. Such policies could affect the nature and extent of our use of derivatives.

The presidential administration has announced its intention to repeal, amend or replace certain portions of Dodd-Frank and the regulations implemented thereunder. Given the uncertainty associated with the manner in which and whether the provisions of the Dodd-Frank Act will be implemented, repealed, amended or replaced, 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 or any changes to the regulations already implemented thereunder 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 recent financial reform legislation, these changes could be materially adverse to us and our stockholders.

Regulations adopted by prudential regulators have begun to require that certain qualified financial contracts entered into with certain counterparties that are part of a U.S. or foreign banking organization designated as a global-systemically important banking organization to include contractual provisions that delay or restrict the rights of counterparties, such as the portfolio, to exercise certain close-out, cross-default and similar rights under certain conditions. Qualified financial contracts include agreements relating to swaps, foreign currency forward contracts and other derivatives. Qualified financial contracts are subject to a stay for a specified time period during which counterparties, such as the portfolio, will be prevented from closing out a qualified financial contract if the counterparty is subject to resolution proceedings and prohibit the portfolio from exercising default rights due to a receivership or similar proceeding of an affiliate of the counterparty. Implementation of these requirements may increase credit and other risks to the portfolio.

The SBCA Act allows us to incur additional leverage.

On March 23, 2018, the Small Business Credit Availability Act, or the SBCA Act, became law. The SBCA Act, among other things, amends Section 61(a) of the 1940 Act to add a new Section 61(a)(2) which reduces the asset coverage requirements for senior securities applicable to BDCs from 200% to 150% provided that certain disclosure and approval requirements are met. Before the reduced asset coverage requirements under Section 61(a)(2) are effective with respect to us, the application of that section of the 1940 Act must be approved by either (1) a “required majority,” as defined in the Section 57(o) of the 1940 Act, of our board of directors or (2) a majority of votes cast at a special or annual meeting of our stockholders. As a result, we may be able to incur additional indebtedness in the future, and, therefore the risk of an investment in us may increase.

Future legislation or rules could modify how we treat derivatives and other financial arrangements for purposes of our compliance with the leverage limitations of the 1940 Act.

Future legislation or rules may modify how we treat derivatives and other financial arrangements for purposes of our compliance with the leverage limitations of the 1940 Act. For example, the SEC proposed a new rule in December 2015 that is designed to enhance the regulation of the use of derivatives by registered investments companies and BDCs. While the adoption of the December 2015 rule is currently uncertain, the proposed rule, if adopted, or any future legislation or rules, may modify how leverage is calculated under the 1940 Act and, therefore, may increase or decrease the amount of leverage currently available to us under the 1940 Act, which may be materially adverse to us and our stockholders.

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.

As a public company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act, and other rules implemented 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. In particular, our management is 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. Section 404 of the Sarbanes-Oxley Act also generally requires an attestation from our independent registered public accounting firm on the effectiveness of our internal control over financial reporting.

We incur significant expenses in connection with our compliance with the Sarbanes-Oxley Act and other regulations applicable to public companies, which may negatively impact our financial performance and our ability to make distributions. Compliance with such regulations also requires a significant amount of our management’s time and attention. For example, we cannot be certain as to the timing of the completion of our Sarbanes-Oxley mandated evaluations, testings and remediation actions, if any, or the impact of the same on our operations, and we may not be able to ensure that the process is effective or that our internal control over financial reporting is or will be deemed effective in the future. In the event that we are unable to maintain an effective system of internal control and maintain compliance with the Sarbanes-Oxley Act and related rules, 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 fee income and 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.

If we, our affiliates and our and their respective third-party service providers are unable to maintain the availability of electronic data systems and safeguard the security of data, our ability to conduct business may be compromised, which could impair our liquidity, disrupt our business, damage our reputation or otherwise adversely affect our business.

Cybersecurity refers to the combination of technologies, processes, and procedures established to protect information technology systems and data from unauthorized access, attack, or damage. We, our affiliates and our and their respective third-party service providers are subject to cybersecurity risks. Cybersecurity risks have significantly increased in recent years and, while we have not experienced any material losses relating to cyber attacks or other information security breaches, we could suffer such losses in the future. Our, our affiliates and our and their respective third-party service providers' computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize confidential and other information, including nonpublic personal information and sensitive business data, processed and stored in, and transmitted through, computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our affiliates and our and their respective third-party service providers. This could result in significant losses, reputational damage, litigation, regulatory fines or penalties, or otherwise adversely affect our business, financial condition or results of operations. Privacy and information security laws and regulation changes, and compliance with those changes, may result in cost increases due to system changes and the development of new administrative processes. In addition, we may be required to expend significant additional resources to modify our protective measures and to investigate and remediate vulnerabilities or other exposures arising from operational and security risks.

Risks Related to the Advisor and its Affiliates

The Advisor and its affiliates, including our officers and some of our directors, face conflicts of interest as a result of compensation arrangements between us and the Advisor, which could result in actions that are not in the best interests of our stockholders.

The Advisor and its affiliates receive substantial fees from us in return for their services, and these fees could influence the advice provided to us. We pay to the Advisor an incentive fee that is based on the performance of our portfolio and an annual base management fee that is based on the average weekly value of our gross assets. Because the incentive fee is based on the performance of our portfolio, the Advisor may be incentivized to make investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee is determined may also encourage the Advisor to use leverage to increase the return on our investments. In addition, because the base management fee is based upon the average weekly value of our gross assets, which includes any borrowings for investment purposes, the Advisor may be incentivized to recommend the use of leverage or the issuance of additional equity to make additional investments and increase the average weekly value of our gross assets. Under certain circumstances, the use of leverage may increase the likelihood of default, which could disfavor holders of our common stock. Our compensation arrangements could therefore result in our making riskier or more speculative investments, or relying more on leverage to make investments, than would otherwise be the case. This could result in higher investment losses, particularly during cyclical economic downturns.

We may be obligated to pay the Advisor incentive compensation even if we incur a net loss due to a decline in the value of our portfolio, or on income that we have not received.

Our investment advisory and administrative services agreement entitles the Advisor to receive incentive compensation on income regardless of any capital losses. In such case, we may be required to pay the 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.

In addition, 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. The 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 U.S. federal income tax purposes, we are required to recognize taxable income (such as deferred interest that is accrued as original issue discount) in some 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. Under such circumstances, we may have difficulty meeting the Annual Distribution Requirement necessary to 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. 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.

There may be conflicts of interest related to obligations the Advisor's senior management and investment teams have to our affiliates and to other clients.

The members of the senior management and investment teams of the Advisor serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do, or of investment vehicles managed by the same personnel. For example the Advisor is also the investment adviser to FS KKR Capital Corp., FS Investment Corporation III, FS Investment Corporation IV and Corporate Capital Trust II, or together with the Company, the Fund Complex, and the officers, managers and other personnel of the Advisor may serve in similar or other capacities for the investment advisers to future investment vehicles affiliated with FS Investments or KKR Credit. In serving in these multiple and other capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in our best interests or in the best interest of our stockholders. Our investment objectives may overlap with the investment objectives of such investment funds, accounts or other investment vehicles. For example, we rely on the Advisor to manage our day-to-day activities and to implement our investment strategy. The Advisor and certain of its affiliates are presently, and plan in the future to continue to be, involved with activities which are unrelated to us. As a result of these activities, the Advisor, its employees and certain of its affiliates will have conflicts of interest in allocating their time between us and other activities in which they are or may become involved, including the management of other entities affiliated with FS Investments or KKR Credit. The Advisor and its employees will devote only as much of its or their time to our business as the Advisor and its employees, in their judgment, determine is reasonably required, which may be substantially less than their full time.

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

Neither the Advisor nor persons providing services to us on behalf of the Advisor, 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.

The Advisor's liability is limited under the investment advisory and administrative services agreement, and we are required to indemnify it against certain liabilities, which may lead it to act in a riskier manner on our behalf than it would when acting for its own account.

Pursuant to the investment advisory and administrative services agreement, the Advisor and its officers, managers, partners, members (and their members, including the owners of their members), agents, employees, controlling persons and any other person or entity affiliated with, or acting on behalf of, the Advisor will not be liable to us for their acts under the investment advisory and administrative services agreement, absent willful misfeasance, bad faith or gross negligence in the performance of their duties. We have agreed to indemnify, defend and protect the Advisor and its officers, managers, partners, members (and their members, including the owners of their members), agents, employees, controlling persons and any other person or entity affiliated with, or acting on behalf of, the Advisor with respect to all damages, liabilities, costs and expenses resulting from acts of the Advisor not arising out of willful misfeasance, bad faith or gross negligence in the performance of their duties under the investment advisory and administrative services agreement. These protections may lead the Advisor to act in a riskier manner when acting on our behalf than it would when acting for its own account.

Risks Related to Business Development Companies

Failure to maintain our status as a BDC 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.

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

Any working capital reserves we maintain may not be sufficient for investment purposes, and we may require debt or equity financing to operate. We may also need to access the capital markets to refinance existing debt obligations to the extent maturing obligations are not repaid with cash flows from operations. In order to maintain RIC tax treatment, we must distribute distributions to our stockholders each tax year on a timely basis generally of an amount at least equal to 90% of our investment company taxable income, determined without regard to any deduction for distributions paid, and the amounts of such distributions will therefore not be available to fund investment originations or to repay maturing debt. In addition, with certain limited exceptions, we are only allowed to borrow amounts or issue debt securities or preferred stock, which we refer to collectively as "senior securities," such that our asset coverage, as calculated pursuant to the 1940 Act, equals at least 200% immediately after such borrowing, which, in certain circumstances, may restrict our ability to borrow or issue debt securities or preferred stock. In the event that we develop a need for additional capital in the future for investments or for any other reason, and we cannot obtain debt or equity financing on acceptable terms, or at all, our ability to acquire investments and to expand our operations will be adversely affected. As a result, we would be less able to allocate our portfolio among various issuers and industries and achieve our investment objectives, which may negatively impact our results of operations and reduce our ability to make distributions to our stockholders.

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 BDC.

As a BDC, we may not acquire any assets other than "qualifying assets" unless, at the time of such acquisition, at least 70% of our total assets are qualifying assets. Therefore, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets. 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. 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 subject us to substantially more regulatory restrictions and significantly decrease our operating flexibility.

Regulations governing our operation as a BDC and a 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 our need to satisfy the Annual Distribution Requirement in order to maintain RIC tax treatment under Subchapter M of the Code, we may need to periodically access the capital markets to raise cash to fund new investments. We may issue “senior securities,” as defined in the 1940 Act, including issuing preferred stock, borrowing money from banks or other financial institutions, or issuing debt securities 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 certain other types of securities is also limited. Under the 1940 Act, we are also generally prohibited from issuing or selling our common stock at a price per share, after deducting underwriting commissions, that is below our net asset value per share, without first obtaining approval for such issuance from our stockholders and our independent directors. Compliance with these limitations on our ability to raise capital may unfavorably limit our investment opportunities. These limitations may also 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.

In addition, because we incur indebtedness for investment purposes, if the value of our assets declines, we may be unable to satisfy the asset coverage test under the 1940 Act, which would prohibit us from paying distributions and, as a result, could cause us to be subject to corporate-level tax on our income and capital gains, regardless of the amount of distributions paid. 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.

Our ability to enter into transactions with our affiliates is 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. In an order dated April 3, 2018, the SEC granted exemptive relief permitting us, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions, including investments originated and directly negotiated by the Advisor or KKR Credit, with our co-investment affiliates. 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 to the extent not covered by the exemptive relief, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their respective 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 fund managed by the Advisor without the prior approval of the SEC, which may limit the scope of investment opportunities that would otherwise be available to us.

Risks Related to Our Investments

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

Our investments in senior secured loans, second lien secured loans, senior secured bonds, subordinated debt and equity of private U.S. companies, including middle market companies, may be risky and there is no limit on the amount of any such investments in which we may invest.

Senior Secured Loans, Second Lien Secured Loans and Senior Secured Bonds. There is a risk that any collateral pledged by portfolio companies in which we have taken a security interest 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. To the extent our debt investment is collateralized by the securities of a portfolio company's subsidiaries, such securities may lose some or all of their value in the event of the bankruptcy or insolvency of the portfolio company. Also, in some circumstances, our security interest may be contractually or structurally 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 debt. Secured debt that is under-collateralized involves a greater risk of loss. In addition, second lien secured debt is granted a second priority security interest in collateral, which means that any realization of collateral will generally be applied to pay senior secured debt in full before second lien secured debt is paid. Consequently, the fact that debt is secured does not guarantee that we will receive principal and interest payments according to the debt's terms, or at all, or that we will be able to collect on the debt should we be forced to enforce our remedies.

Subordinated Debt. Our subordinated debt investments will generally rank junior in priority of payment to senior debt 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. Because we will not receive any principal repayments prior to the maturity of some of our subordinated debt investments, such investments will be of greater risk than amortizing loans.

Equity and Equity-Related Securities. We may make select equity investments. In addition, in connection with our debt investments, we on occasion receive equity interests such as warrants or options as additional consideration. 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.

Convertible Securities. We may invest in convertible securities, such as bonds, debentures, notes, preferred stocks or other securities that may be converted into, or exchanged for, a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by us is called for redemption, it will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on our ability to achieve our investment objective.

Structured Products. We may invest in structured products, which may include collateralized debt obligations, collateralized bond obligations, collateralized loan obligations, structured notes and credit-linked notes. When investing in structured products, we may invest in any level of the subordination chain, including subordinated (lower-rated) tranches and residual interests (the lowest tranche). Structured products may be highly levered and therefore, the junior debt and equity tranches that we may invest in are subject to a higher risk of total loss and deferral or nonpayment of interest than the more senior tranches to which they are subordinated. In addition, we will generally have the right to receive payments only from the issuer or counterparty, and will generally not have direct rights against the underlying borrowers or entities. Furthermore, the investments we make in structured products are at times thinly traded or have only a limited trading market. As a result, investments in such structured products may be characterized as illiquid securities.

Non-U.S. Securities. We may invest in non-U.S. securities, which may include securities denominated in U.S. dollars or in non-U.S. currencies and securities of companies in emerging markets, to the extent permitted by the 1940 Act. Because evidences of ownership of such securities usually are held outside the

United States, we would be subject to additional risks if we invested in non-U.S. securities, which include possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption of governmental restrictions which might adversely affect or restrict the payment of principal and interest on the non-U.S. securities to investors located outside the country of the issuer, whether from currency blockage or otherwise.

Because non-U.S. securities may be purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected unfavorably by changes in currency rates and exchange control regulations. In addition, investing in securities of companies in emerging markets involves many risks, including potential inflationary economic environments, regulation by foreign governments, different accounting standards, political uncertainties and economic, social, political, financial, tax and security conditions in the applicable emerging market, any of which could negatively affect the value of companies in emerging markets or investments in their securities.

Derivatives. We may invest from time to time in derivatives, including total return swaps, interest rate swaps, credit default swaps and foreign currency forward contracts. Derivative investments have risks, including: the imperfect correlation between the value of such instruments and our underlying assets, which creates the possibility that the loss on such instruments may be greater than the gain in the value of the underlying assets in our portfolio; the loss of principal; the possible default of the other party to the transaction; and illiquidity of the derivative investments. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, we may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding, or may not recover at all. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative contract would typically be terminated at its fair market value. If we are owed this fair market value in the termination of the derivative contract and our claim is unsecured, we will be treated as a general creditor of such counterparty and will not have any claim with respect to the underlying security. Certain of the derivative investments in which we may invest may, in certain circumstances, give rise to a form of financial leverage, which may magnify the risk of owning such instruments. The ability to successfully use derivative investments depends on the ability of the Advisor to predict pertinent market movements, which cannot be assured. In addition, amounts paid by us as premiums and cash or other assets held in margin accounts with respect to our derivative investments would not be available to it for other investment purposes, which may result in lost opportunities for gain.

The Dodd-Frank Act could, depending on future rulemaking by regulatory agencies, impact the use of derivatives. The Dodd-Frank Act is intended to regulate the OTC derivatives market by requiring many derivative transactions to be cleared and traded on an exchange, expanding entity registration requirements, imposing business conduct requirements on dealers and requiring banks to move some derivatives trading units to a non-guaranteed affiliate separate from the deposit-taking bank or divest them altogether. Future rulemaking to implement these requirements could potentially limit or completely restrict our ability to use these instruments as a part of our investment strategy, increase the costs of using these instruments or make them less effective. Limits or restrictions applicable to the counterparties with which we engage in derivative transactions could also prevent us from using these instruments or affect the pricing or other factors relating to these instruments, or may change availability of certain investments. The SEC has also indicated that it may adopt new policies on the use of derivatives by registered investment companies. Such policies could affect the nature and extent of our use of derivatives.

Investments in Private Funds. We may invest in, or wholly own, private investment funds, including hedge funds, private equity funds, limited liability companies, real estate investment trusts, and other business entities. In valuing our investments in private investment funds, we rely primarily on information provided by managers of such funds. Valuations of illiquid securities, such as interests in certain private investment funds, involve various judgments and consideration of factors that may be subjective. There is a risk that inaccurate valuations provided by managers of private investment funds could adversely affect the value of our common stock. We may not be able to withdraw our investment in certain private investment funds promptly after it has made a decision to do so, which may result in a loss to us and adversely affect our investment returns.

Below Investment Grade Risk. In addition, we invest in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Below investment grade

securities, which are often referred to as “junk,” have predominantly speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal. They may also be difficult to value and illiquid.

International investments create additional risks.

We expect to make investments in portfolio companies that are domiciled outside of the United States. We anticipate that up to 30% of our investments may be in these types of assets. Our investments in foreign portfolio companies are deemed “non-qualifying assets,” which means, as required by the 1940 Act, they, along with other non-qualifying assets, may not constitute more than 30% of our total assets at the time of our acquisition of any asset, after giving effect to the acquisition. Notwithstanding the limitation on our ownership of foreign portfolio companies, such investments subject us to many of the same risks as our domestic investments, as well as certain additional risks, including the following:

- foreign governmental laws, rules and policies, including those restricting the ownership of assets in the foreign country or the repatriation of profits from the foreign country to the United States;
- foreign currency devaluations that reduce the value of and returns on our foreign investments;
- adverse changes in the availability, cost and terms of investments due to the varying economic policies of a foreign country in which we invest;
- adverse changes in tax rates, the tax treatment of transaction structures and other changes in operating expenses of a particular foreign country in which we invest;
- the assessment of foreign-country taxes (including withholding taxes, transfer taxes and value added taxes, any or all of which could be significant) on income or gains from our investments in the foreign country;
- adverse changes in foreign-country laws, including those relating to taxation, bankruptcy and ownership of assets;
- changes that adversely affect the social, political and/or economic stability of a foreign country in which we invest;
- high inflation in the foreign countries in which we invest, which could increase the costs to us of investing in those countries;
- deflationary periods in the foreign countries in which we invest, which could reduce demand for our assets in those countries and diminish the value of such investments and the related investment returns to us; and
- legal and logistical barriers in the foreign countries in which we invest that materially and adversely limit our ability to enforce our contractual rights with respect to those investments.

In addition, we may make investments in countries whose governments or economies may prove unstable. Certain of the countries in which we may invest may have political, economic and legal systems that are unpredictable, unreliable or otherwise inadequate with respect to the implementation, interpretation and enforcement of laws protecting asset ownership and economic interests. In some of the countries in which we may invest, there may be a risk of nationalization, expropriation or confiscatory taxation, which may have an adverse effect on our portfolio companies in those countries and the rates of return that we are able to achieve on such investments. We may also lose the total value of any investment which is nationalized, expropriated or confiscated. The financial results and investment opportunities available to us, particularly in developing countries and emerging markets, may be materially and adversely affected by any or all of these political, economic and legal risks.

Our investments in private investment funds, including hedge funds, private equity funds, limited liability companies and other business entities, subject us indirectly to the underlying risks of such private investment funds and additional fees and expenses.

We may invest in private investment funds, including hedge funds, private equity funds, limited liability companies and other business entities which would be required to register as investment companies but for an exemption under Sections 3(c)(1) and 3(c)(7) of the 1940 Act. Our investments in private funds are

subject to substantial risks. Investments in such private investment funds expose us to the risks associated with the businesses of such funds or entities as well as such private investment funds' portfolio companies. These private investment funds may or may not be registered investment companies and, thus, may not be subject to protections afforded by the 1940 Act, covering, among other areas, liquidity requirements, governance by an independent board, affiliated transaction restrictions, leverage limitations, public disclosure requirements and custody requirements.

We rely primarily on information provided by managers of private investment funds in valuing our investments in such funds. There is a risk that inaccurate valuations provided by managers of private investment funds could adversely affect the value of our common stock. In addition, there can be no assurance that a manager of a private investment fund will provide advance notice of any material change in such private investment fund's investment program or policies and thus, our investment portfolio may be subject to additional risks which may not be promptly identified by the Advisor. Moreover, we may not be able to withdraw our investments in certain private investment funds promptly after we make a decision to do so, which may result in a loss to us and adversely affect our investment returns.

Investments in the securities of private investment funds may also involve duplication of advisory fees and certain other expenses. By investing in private investment funds indirectly through us, you bear a pro rata portion of our advisory fees and other expenses, and also indirectly bear a pro rata portion of the advisory fees, performance-based allocations and other expenses borne by us as an investor in the private investment funds. In addition, the purchase of the shares of some private investment funds requires the payment of sales loads and (in the case of closed-end investment companies) sometimes substantial premiums above the value of such investment companies' portfolio securities.

In addition, certain private investment funds may not provide us with the liquidity we require and would thus subject us to liquidity risk. Further, even if an investment in a private investment fund is deemed liquid at the time of investment, the private investment fund may, in the future, alter the nature of our investments and cease to be a liquid investment fund, subjecting us to liquidity risk.

We may acquire various structured financial instruments for purposes of "hedging" or reducing our risks, which may be costly and ineffective and could reduce the cash available to service debt or for distribution to stockholders.

We may seek to hedge against interest rate and currency exchange rate fluctuations and credit risk by using structured financial instruments such as futures, options, swaps and forward contracts, subject to the requirements of the 1940 Act. Use of structured financial instruments for hedging purposes may present significant risks, including the risk of loss of the amounts invested. Defaults by the other party to a hedging transaction can result in losses in the hedging transaction. Hedging activities also involve the risk of an imperfect correlation between the hedging instrument and the asset being hedged, which could result in losses both on the hedging transaction and on the instrument being hedged. Use of hedging activities may not prevent significant losses and could increase our losses. Further, hedging transactions may reduce cash available to service our debt or pay distributions to our stockholders.

Investing in middle market companies involves a number of significant risks, any one of which could have a material adverse effect on our operating results.

Investments in middle market companies involve some of the same risks that apply generally to investments in larger, more established companies. However, such investments have more pronounced risks in that they:

- may have limited financial resources and may be unable to meet the obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral pledged under such securities 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 and directors and members of the Advisor may, in the ordinary course of business, may 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.

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 proceeds. 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.

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 in instances where we exercise control over the borrower or render significant managerial assistance.

Second priority liens on collateral securing debt investments that we 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 debt investments that we make in 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 such 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 debt 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 sufficient to repay amounts outstanding under the debt 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 such company's remaining assets, if any.

We may also make unsecured debt investments in portfolio companies, meaning that such investments will not benefit from any interest in collateral of such companies. Liens on any such portfolio company's collateral, if any, will secure the portfolio company's obligations under its outstanding secured debt and may secure certain future debt that is permitted to be incurred by the portfolio company under its secured debt agreements. The holders of obligations secured by such liens will generally control the liquidation of, and be entitled to receive proceeds from, any realization of such collateral to repay their obligations in full before us. In addition, the value of such 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 sales of such collateral would be sufficient to satisfy our unsecured debt obligations after payment in full of all secured debt obligations. If such proceeds were not sufficient to repay the outstanding secured debt obligations, then our unsecured claims would rank equally with the unpaid portion of such secured creditors' claims against the portfolio company's remaining assets, if any.

The rights we may have with respect to the collateral securing the debt investments we make in 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.

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.

Declines in market values or fair market values of our investments could result in significant net unrealized depreciation of our portfolio, which in turn would reduce our net asset value.

Under the 1940 Act, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our board of directors. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity) and impairments of the market values or fair market values of our investments, even if unrealized, must be reflected in our financial statements for the applicable period as unrealized depreciation, which could result in a significant reduction to our net asset value for a given period.

A significant portion of our investment portfolio is and 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. There is not a public market for the securities of the privately held companies in which we invest. Most of our investments are not publicly traded or actively traded on a secondary market but are, instead, traded on a privately negotiated OTC secondary market for institutional investors or are not traded at all. As a result, we 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 flows 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 non-traded 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.

We are exposed to risks associated with changes in interest rates.

We are subject to financial market risks, including changes in interest rates. General interest rate fluctuations may have a substantial negative impact on our investments, investment opportunities and cost of capital and, accordingly, may have a material adverse effect on our investment objectives, our rate of return on invested capital and our ability to service our debt and make distributions to our stockholders. In addition, an increase in interest rates would make it more expensive to use debt for our financing needs, if any.

Our investment portfolio primarily consists of senior secured debt with maturities typically ranging from three to seven years. The longer the duration of these securities, generally, the more susceptible they are to changes in market interest rates. As market interest rates increase, those securities with a lower yield-at-cost can experience a mark-to-market unrealized loss. An impairment of the fair market value of our investments, even if unrealized, must be reflected in our financial statements for the applicable period and may therefore have a material adverse effect on our results of operations for that period.

Because we incur indebtedness to make investments, our net investment income is dependent, in part, upon the difference between the rate at which we borrow funds or pay interest on outstanding debt securities and the rate at which we invest these funds. An increase in interest rates would make it more expensive to use debt to finance our investments or to refinance our current financing arrangements. In addition, certain of our financing arrangements provide for adjustments in the loan interest rate along with changes in market interest rates. Therefore, in periods of rising interest rates, our cost of funds will increase, which could materially reduce our net investment income. Any reduction in the level of interest rates on new investments relative to interest rates on our current investments could also adversely impact our net investment income.

We have and may continue to structure the majority of our debt investments with floating interest rates to position our portfolio for rate increases. However, there can be no assurance that this will successfully mitigate our exposure to interest rate risk. For example, in the event of a rising interest rate environment, payments under floating rate debt instruments generally would rise and there may be a significant number of issuers of such floating rate debt instruments that would be unable or unwilling to pay such increased interest costs and may otherwise be unable to repay their loans. Rising interest rates could also cause portfolio companies to shift cash from other productive uses to the payment of interest, which may have a material adverse effect on their business and operations and could, over time, lead to increased defaults. Investments in floating rate debt instruments may also decline in value in response to rising interest rates if the interest rates of such investments do not rise as much, or as quickly, as market interest rates in general. Similarly, during periods of rising interest rates, our fixed rate investments may decline in value because the fixed rate of interest paid thereunder may be below market interest rates.

In July 2017, the head of the United Kingdom Financial Conduct Authority announced the desire to phase out the use of LIBOR by the end of 2021. It is unclear if at that time whether LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. In addition, in April 2018, the Federal Reserve System, in conjunction with the Alternative Reference Rates Committee, announced the replacement of LIBOR with a new index, calculated by short-term repurchase agreements collateralized by U.S. Treasury securities, called the Secured Overnight Financing Rate, or the

SOFR. At this time, it is not possible to predict whether SOFR will attain market traction as a LIBOR replacement tool, and the future of LIBOR is still uncertain. As such, the potential effect of the phase-out or replacement of LIBOR on our cost of capital and net investment income cannot yet be determined.

Furthermore, because a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate in the investment advisory and administrative services agreement and may result in a substantial increase of the amount of incentive fees payable to the Advisor with respect to pre-incentive fee net investment income.

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.

Our portfolio companies may be highly leveraged.

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

We may not realize gains from our equity investments.

Certain investments that we may make may include equity related securities, such as rights and warrants that may be converted into or exchanged for common stock or the cash value of the common stock. In addition, we may make direct equity investments in portfolio companies. 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 may also 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 may be unable to exercise any put rights we acquire, which grant us the right to sell our equity securities back to the portfolio company, 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 significantly greater risks than 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. As a result, these companies, which may present greater credit risk than public companies, may be unable to meet the obligations under their debt securities that we hold. Second, the investments themselves often may be illiquid. The securities of most of the companies in which we invest are not publicly traded or actively traded on the secondary market and are, instead, traded on a privately negotiated OTC secondary market for institutional investors. In addition, such securities may be subject to legal and other restrictions on resale. 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, in a restructuring, we may receive substantially different securities than our original investment in a portfolio company, including securities in a different part of the capital structure. These investments may also be difficult to value because little public information generally exists about private companies, requiring an experienced due diligence team to

analyze and value the potential portfolio company. Finally, these companies often may not have third-party debt ratings or audited financial statements. We must therefore rely on the ability of the Advisor 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 OTC 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 or at all, 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.

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments, net of prepayment fees, could negatively impact our return on equity.

Our investments may include original issue discount and PIK instruments.

To the extent that we invest in original issue discount or PIK instruments and the accretion of original issue discount or PIK interest income constitutes a portion of our income, we will be exposed to risks associated with the requirement to include such non-cash income in taxable and accounting income prior to receipt of cash, including the following:

- The higher interest rates on PIK instruments reflect the payment deferral and increased credit risk associated with these instruments, and PIK instruments generally represent a significantly higher credit risk than coupon loans;
- Original issue discount and PIK instruments may have unreliable valuations because the accruals require judgments about collectability of the deferred payments and the value of any associated collateral;
- An election to defer PIK interest payments by adding them to the principal on such instruments increases our future investment income which increases our gross assets and, as such, increases the Advisor's future base management fees which, thus, increases the Advisor's future income incentive fees at a compounding rate;

- Market prices of PIK instruments and other zero coupon instruments are affected to a greater extent by interest rate changes, and may be more volatile than instruments that pay interest periodically in cash. While PIK instruments are usually less volatile than zero coupon debt instruments, PIK instruments are generally more volatile than cash pay securities;
- The deferral of PIK interest on an instrument increases the loan-to-value ratio, which is a measure of the riskiness of a loan, with respect to such instrument;
- Even if the conditions for income accrual under GAAP are satisfied, a borrower could still default when actual payment is due upon the maturity of such loan;
- For accounting purposes, cash distributions to investors representing original issue discount income are not derived from paid-in capital, although they may be paid from the offering proceeds. Thus, although a distribution of original issue discount income may come from the cash invested by investors, the 1940 Act does not require that investors be given notice of this fact;
- Recent tax legislation requires that income be recognized for tax purposes no later than when recognized for financial reporting purposes;
- The required recognition of PIK interest for U.S. federal income tax purposes may have a negative impact on liquidity, as it represents a non-cash component of our investment company taxable income that may require cash distributions to stockholders in order to maintain our ability to be subject to tax as a RIC; and
- Original issue discount may create a risk of non-refundable cash payments to the Advisor based on non-cash accruals that may never be realized.

We may from time to time enter into total return swaps, credit default swaps or other derivative transactions which expose us to certain risks, including credit risk, market risk, liquidity risk and other risks similar to those associated with the use of leverage.

We may from time to time enter into total return swaps, credit default swaps or other derivative transactions that seek to modify or replace the investment performance of a particular reference security or other asset. These transactions are typically individually negotiated, non-standardized agreements between two parties to exchange payments, with payments generally calculated by reference to a notional amount or quantity. Swap contracts and similar derivative contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. These investments may present risks in excess of those resulting from the referenced security or other asset. Because these transactions are not an acquisition of the referenced security or other asset itself, the investor has no right directly to enforce compliance with the terms of the referenced security or other asset and has no voting or other consensual rights of ownership with respect to the referenced security or other asset. In the event of insolvency of a counterparty, we will be treated as a general creditor of the counterparty and will have no claim of title with respect to the referenced security or other asset.

A total return swap 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 referenced security or other assets underlying the total return swap during a specified period, in return for periodic payments based on a fixed or variable interest rate.

A total return swap is subject to market risk, liquidity risk and risk of imperfect correlation between the value of the total return swap and the debt obligations underlying the total return swap. In addition, we may incur certain costs in connection with a total return swap that could in the aggregate be significant.

A credit default swap is a contract in which one party buys or sells protection against a credit event with respect to an issuer, such as an issuer's failure to make timely payments of interest or principal on its debt obligations, bankruptcy or restructuring during a specified period. Generally, if we sell credit protection using a credit default swap, we will receive fixed payments from the swap counterparty and if a credit event occurs with respect to the applicable issuer, we will pay the swap counterparty par for the issuer's defaulted debt securities and the swap counterparty will deliver the defaulted debt securities to us. Generally, if we buy credit protection using a credit default swap, we will make fixed payments to the

counterparty and if a credit event occurs with respect to the applicable issuer, we will deliver the issuer's defaulted securities underlying the swap to the swap counterparty and the counterparty will pay us par for the defaulted securities. Alternatively, a credit default swap may be cash settled and the buyer of protection would receive the difference between the par value and the market value of the issuer's defaulted debt securities from the seller of protection.

Credit default swaps are subject to the credit risk of the underlying issuer. If we are selling credit protection, there is a risk that we will not properly assess the risk of the underlying issuer, a credit event will occur and we will have to pay the counterparty. If we are buying credit protection, there is a risk that we will not properly assess the risk of the underlying issuer, no credit event will occur and we will receive no benefit for the premium paid.

A derivative transaction 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 some cases, we may post collateral to secure our obligations to the counterparty, and we may be required to post additional collateral upon the occurrence of certain events such as a decrease in the value of the reference security or other asset. In some cases, the counterparty may not collateralize any of its obligations to us.

Derivative investments effectively add leverage to a portfolio by providing investment exposure to a security or market without owning or taking physical custody of such security or investing directly in such market. In addition to the risks described above, such arrangements are subject to risks similar to those associated with the use of leverage.

Risks Related to Debt Financing

We currently incur indebtedness to make investments, which magnifies the potential for gain or loss on amounts invested in our common stock and may increase the risk of investing in our common stock.

The use of borrowings and other types of financing, also known as leverage, magnifies the potential for gain or loss on amounts invested and, therefore, increases the risks associated with investing in our common stock. When we use leverage to partially finance our investments, through borrowing from banks and other lenders or issuing debt securities, we, and therefore our stockholders, will experience increased risks of investing in our common stock. Any lenders and debt holders would have fixed dollar claims on our assets that are senior to the claims of our stockholders. If the value of our assets increases, then leverage would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not utilized leverage. Conversely, if the value of our assets decreases, leverage would cause net asset value to decline more sharply than it otherwise would have had we not utilized leverage. Similarly, any increase in our income in excess of interest payable on our indebtedness would cause our net investment income to increase more than it would without leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not utilized leverage. Such a decline could negatively affect our ability to make distributions to stockholders. Leverage is generally considered a speculative investment technique.

In addition, the decision to utilize leverage will increase our assets and, as a result, will increase the amount of base management fees payable to the Advisor. See "Risks Related to the Advisor and its Affiliates—The Advisor and its affiliates, including our officers and some of our directors, face conflicts of interest as a result of compensation arrangements between us and the Advisor, which could result in actions that are not in the best interests of our stockholders."

Illustration. The following table illustrates the effect of leverage on returns from an investment in shares of our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$5.2 billion in total assets, (ii) a weighted average cost of funds of 5.42%, (iii) \$2.5 billion in debt outstanding (i.e., assumes that the full \$2.5 billion available to us as of December 31, 2018 under our financing arrangements as of such date is outstanding) and (iv) \$2.7 billion in stockholders' equity. In order to compute the "Corresponding return to stockholders," the "Assumed Return on Our Portfolio (net of expenses)" is multiplied by the assumed total assets to obtain an assumed return to us. From this amount, the interest expense is calculated by multiplying the assumed weighted

average cost of funds times the assumed debt outstanding, and the product is subtracted from the assumed return to us in order to determine the return available to stockholders. The return available to stockholders is then divided by our stockholders' equity to determine the "Corresponding return to stockholders." Actual interest payments may be different.

Assumed Return on Our Portfolio (net of expenses)	(10)%	(5)%	0%	5%	10%
Corresponding return to stockholders	(23.87)%	(14.37)%	(4.87)%	4.62%	14.12%

Similarly, assuming (i) \$5.2 billion in total assets, (ii) a weighted average cost of funds of 5.42% and (iii) \$2.5 billion in debt outstanding (i.e., assumes that the full \$2.5 billion available to us as of December 31, 2018 under our financing arrangements as of such date is outstanding), our assets would need to yield an annual return (net of expenses) of approximately 2.57% in order to cover the annual interest payments on our outstanding debt.

The agreements governing our debt financing arrangements contain, and agreements governing future debt financing arrangements may contain, various covenants which, if not complied with, could have a material adverse effect on our ability to meet our investment obligations and to pay distributions to our stockholders.

The agreements governing certain of our debt financing arrangements contain, and agreements governing future debt financing arrangements may contain, certain financial and operational covenants. These covenants require us and our subsidiaries to, among other things, maintain certain financial ratios, including asset coverage and minimum stockholders' equity. Compliance with these covenants depends on many factors, some of which are beyond our and their control. In the event of deterioration in the capital markets and pricing levels subsequent to this period, net unrealized depreciation in our and our subsidiaries' portfolios may increase in the future and could result in non-compliance with certain covenants, or our taking actions which could disrupt our business and impact our ability to meet our investment objectives.

There can be no assurance that we and our subsidiaries will continue to comply with the covenants under our financing arrangements. Failure to comply with these covenants could result in a default which, if we and our subsidiaries were unable to obtain a waiver, consent or amendment from the debt holders, could accelerate repayment under any or all of our and their debt instruments and thereby force us to liquidate investments at a disadvantageous time and/or at a price which could result in losses, or allow our lenders to sell assets pledged as collateral under our financing arrangements in order to satisfy amounts due thereunder. These occurrences could have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay distributions. 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 our debt financings.

Risks Related to an Investment in Our Common Stock

Our shares are not listed on an exchange or quoted through a quotation system, and will not be for the foreseeable future, if ever, and there can be no assurance that we will complete a liquidity event by a specified date, or at all. Therefore, stockholders will 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 a secondary market will develop in the foreseeable future. In addition, there can be no assurance that we will complete a liquidity event by a specified date or at all. A liquidity event could include (1) a listing of our shares on a national securities exchange, (2) the sale of all or substantially all of our assets either on a complete portfolio basis or individually followed by a liquidation or (3) a merger or another transaction approved by our board of directors in which our stockholders likely will receive cash or shares of a publicly-traded company. If our shares are listed, we cannot assure stockholders that a public trading market will develop. In addition, a liquidity event involving a listing of our shares on a national securities exchange may include certain restrictions on the ability of stockholders to sell their shares. Further, even if we do complete a liquidity event, stockholders may not receive a return of all of their invested capital.

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. Any shares repurchased pursuant

to our share repurchase program may be purchased at a price which reflects a significant discount from the purchase price a stockholder paid for the shares being repurchased. In addition, there are significant limitations placed on the number of shares we may repurchase under our share repurchase program, which may prevent a stockholder from selling all of its shares under the program. See “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Share Repurchase Program” for a detailed description of our share repurchase program.

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.

A liquidity event could include: (1) a listing of our common stock on a national securities exchange; (2) the sale of all or substantially all of our assets either on a complete portfolio basis or individually followed by a liquidation; or (3) a merger or another transaction approved by our board of directors in which our stockholders likely will receive cash or shares of a publicly-traded company. However, there can be no assurance that we will complete a liquidity event by a specified date 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.

Only a limited number of shares may be repurchased pursuant to our share repurchase program and stockholders may not be able to sell all of their shares under our share repurchase program or recover the amount of their investment in those shares.

Our share repurchase program includes numerous restrictions that limit stockholders’ ability to sell their 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 greater of (x) the number of shares we can repurchase with the proceeds we receive from the sale of our shares under our distribution reinvestment plan, during the twelve-month period ending on the expiration date of the repurchase offer (less the amount of any such proceeds used to repurchase shares on each previous repurchase date for tender offers conducted during such period) and (y) the number of shares that we can repurchase with the proceeds we receive from the sale of shares under our distribution reinvestment plan during the three-month period ending on the expiration date of the repurchase offer, although, 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; (2) we will to limit the number of shares to be repurchased in any calendar year to 10% of the weighted average number of shares outstanding in the prior calendar year, or 2.5% in each calendar quarter (though the actual number of shares that we offer to repurchase may be less in light of the limitations noted above); (3) unless stockholders tender all of their shares, stockholders must tender at least 25% of the number of shares they have purchased and generally must maintain a minimum balance of \$5,000 subsequent to submitting a portion of their shares for repurchase by us; and (4) to the extent that the number of shares tendered 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. The foregoing limitations have prevented us in recent quarters and may continue to prevent us in the future from accommodating all repurchase requests made in any year.

In addition, our board of directors may also amend, suspend or terminate the share repurchase program upon 30 days notice. We will notify stockholders of such developments (1) in our quarterly reports or (2) by means of a separate mailing to stockholders, accompanied by disclosure in a current or periodic report under the Exchange Act. Notwithstanding that we have adopted a share repurchase program, we also have discretion to not repurchase shares, to suspend the share repurchase program and to cease repurchases. In addition, any shares repurchased pursuant to our share repurchase program may be purchased at a significant discount from the purchase price you paid for the shares being repurchased. The share repurchase program has many limitations and should not be relied upon as a method to sell shares promptly or at a desired price.

Stockholders who choose to participate in our share repurchase program will not know the purchase price per share at the time they submit their intent to participate and their shares may be repurchased at a significant discount from the purchase price paid for the shares being repurchased.

In the event a stockholder chooses to participate in our share repurchase program, the stockholder will be required to provide us with notice of intent to participate prior to knowing what the repurchase price will be on the repurchase date. Although a stockholder will have the ability to withdraw a repurchase request prior to the repurchase date, to the extent a stockholder seeks to sell shares to us as part of our share repurchase program, the stockholder will be required to do so without knowledge of the repurchase price of our shares. In addition, when we make quarterly repurchase offers pursuant to our share repurchase program, we may offer to repurchase shares at a price that is lower than the price that stockholders paid for shares in our continuous public offering. As a result, to the extent stockholders have the ability to sell their shares to us as part of our share repurchase program, the price at which a stockholder may sell shares may be at a significant discount to what such stockholder paid in connection with the purchase of shares in our offering.

There is a risk that investors in our common stock may not receive distributions.

We cannot assure stockholders that we will achieve investment results that will allow us to make a specified level of cash 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 BDC regulations and such other factors as our board of directors may deem relevant from time to time. Furthermore, we are permitted to issue senior securities, including multiple classes of debt and one class of stock senior to our shares of common stock. If any such senior securities are outstanding, we are prohibited from paying distributions to holders of shares of our common stock unless we meet the applicable asset coverage ratios at the time of distribution. As a result, we may be limited in our ability to make distributions. See “Item 1. Business—Regulation—Senior Securities.”

Our distribution proceeds may exceed our earnings. Therefore, portions of the distributions that we make may represent a return of capital to stockholders, which will lower their tax basis in their shares of common stock.

The tax treatment and characterization of our distributions may vary significantly from time to time due to the nature of our investments. The ultimate tax characterization of our distributions made during a tax year may not finally be determined until after the end of that tax year. We may make distributions during a tax year that exceed our investment company taxable income and net capital gains for that tax year. In such a situation, the amount by which our total distributions exceed investment company taxable income and net capital gains generally would be treated as a return of capital up to the amount of a stockholder’s tax basis in the shares, with any amounts exceeding such tax basis treated as a gain from the sale or exchange of such shares. A return of capital generally is a return of a stockholder’s investment rather than a return of earnings or gains derived from our investment activities. Moreover, we may pay all or a substantial portion of our distributions from the proceeds of the sale of shares of our common stock or from borrowings in anticipation of future cash flow, which could constitute a return of stockholders’ capital and will lower such stockholders’ tax basis in our shares, which may result in increased tax liability to stockholders when they sell such shares.

We may pay distributions from offering proceeds, borrowings or the sale of assets to the extent our cash flows from operations, net investment income or earnings are not sufficient to fund declared distributions.

We may fund distributions from the uninvested proceeds of a securities offering and borrowings, and we have not established limits on the amount of funds we may use from such proceeds or borrowings to make any such distributions. We have paid and may continue to pay distributions from the sale of assets to the extent distributions exceed our earnings or cash flows from operations. Distributions from offering proceeds or from borrowings could reduce the amount of capital we ultimately invest in our portfolio companies.

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 common stock without stockholder approval. After an investor purchases shares, our board of directors 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 the 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 his or her 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, or the MGCL, and our charter and bylaws contain certain 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. Under the Business Combination Act of the MGCL, certain business combinations between us and an "interested stockholder" (defined generally to include any person who beneficially owns 10% or more of the voting power of our outstanding shares) or an affiliate thereof is prohibited for five years and thereafter is subject to special stockholder voting requirements, to the extent that such statute is not superseded by applicable requirements of the 1940 Act. However, our 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 MGCL, "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 acquirer, 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, but such provision may be repealed at any time (before or after a control share acquisition). However, we will amend our bylaws to repeal such provision (so as to be subject to the Control Share Acquisition Act) only if our board of directors determines that it would be in our best interests and if the staff of the SEC does not object to our determination that our being subject to the Control Share Acquisition Act does not conflict with the 1940 Act. The Business Combination Act (if our board of directors 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.

We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our charter: (a) classifying our board of directors into three classes serving staggered three-year terms, (b) providing that a director may be removed only for cause and only by vote of at least two-thirds of the votes entitled to be cast, and (c) authorizing our board of directors to (i) classify or reclassify shares of our stock into one or more classes or series, (ii) cause the issuance of additional shares of our stock, and (iii) amend our charter from time to time, without stockholder approval, to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. These provisions, as well as other provisions of our charter and bylaws, may discourage, delay, defer, make more difficult or prevent a transaction or a change in control that might otherwise be in the best interest of our stockholders.

The net asset value of our common stock may fluctuate significantly.

The net asset value of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include: (i) changes in regulatory policies or tax guidelines, particularly with respect to RICs or BDCs; (ii) loss of RIC or BDC status; (iii) changes in earnings or variations in operating results; (iv) changes in the value of our portfolio of investments; (v) changes in accounting guidelines governing valuation of our investments; (vi) any shortfall in revenue or net income or any increase in losses from levels expected by investors; (vii) departure of our investment adviser or certain of its key personnel; (viii) general economic trends and other external factors; and (ix) loss of a major funding source.

Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred stockholders could veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes.

Risks Related to U.S. Federal Income Tax

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 the RIC annual distribution requirements.

Besides maintaining our election to be treated as a BDC under the 1940 Act, in order for us to qualify as a RIC under Subchapter M of the Code, we must meet the following annual distribution, income source and asset diversification requirements. See “Item 1. Business—Taxation as a RIC.”

- The 90% Income Test will be satisfied if we earn at least 90% of our gross income for each tax year from dividends, interest, gains from the sale of securities or similar sources.
- The Diversification Tests will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our tax year. To satisfy these requirements, 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 securities if such 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 such issuer; 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.

In any tax year in which we qualify as a RIC, in order for us to be able to be subject to tax as a RIC, we are required to meet an annual distribution requirement. The annual distribution requirement for RIC tax treatment will be satisfied if we distribute to our stockholders, for each tax year, dividends of an amount generally at least equal to the sum of 90% of our investment company taxable income, which is generally the sum of our ordinary net income and realized net short-term capital gains in excess of realized net long-term capital losses, without regard to any deduction for dividends paid. 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 annual 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.

We must satisfy these tests on an ongoing basis in order to maintain RIC tax treatment, and may be required to make distributions to stockholders at times when it would be more advantageous to invest cash in our existing or other investments, or when we do not have funds readily available for distribution. Compliance with the RIC tax requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of our stockholders’ investments. Also, the rules applicable to our qualification as a RIC are complex, with many areas of uncertainty. If we fail to qualify for or 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. Such a failure may have a material adverse effect on us and on any investment in us. The Code provides certain forms of relief from RIC disqualification due to failures of the 90% Income Test or any of the Diversification Tests, although there may be additional taxes due in such cases. We cannot assure you that we would qualify for any such relief should we fail either the 90% Income Test or any of the Diversification Tests.

Some of our investments may be subject to corporate-level income tax.

We may invest in certain debt and equity investments through taxable subsidiaries and the taxable income of these taxable subsidiaries will be subject to federal and state corporate income taxes. We may invest in certain foreign debt and equity investments which could be subject to foreign taxes (such as income tax, withholding and value added taxes).

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

For U.S. 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, our investments may include debt instruments 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). To the extent original issue discount or PIK interest constitutes a portion of our income, we must include in taxable income each tax year a portion of the original issue discount or PIK interest that accrues over the life of the instrument, regardless of whether cash representing such income is received by us in the same tax 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 discount and include such amounts in our taxable income in the current tax year, instead of upon disposition, as not making the election 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 tax 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 qualify for and maintain RIC tax treatment under Subchapter M of 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 or maintain RIC tax treatment and thus become subject to corporate-level income tax.

Furthermore, we may invest in the equity securities of non-U.S. corporations (or other non-U.S. entities classified as corporations for U.S. federal income tax purposes) that could be treated under the Code and U.S. Treasury regulations as “passive foreign investment companies” and/or “controlled foreign corporations.” The rules relating to investment in these types of non-U.S. entities are designed to ensure that U.S. taxpayers are either, in effect, taxed currently (or on an accelerated basis with respect to corporate level events) or taxed at increased tax rates at distribution or disposition. In certain circumstances, these rules also could require us to recognize taxable income or gains where we do not receive a corresponding payment in cash and under recently proposed U.S. federal income tax regulations, all or a portion of such taxable income and gains may not be considered qualifying income for purposes of the 90% Income Test.

Our portfolio investments may present special tax issues.

Investments in below-investment grade debt instruments and certain equity securities may present special tax issues for us. U.S. federal income tax rules are not entirely clear about issues such as when we may cease to accrue interest, original issue discount or market discount, when and to what extent deductions may be taken for bad debts or worthless debt in equity securities, how payments received on

obligations in default should be allocated between principal and interest income, as well as whether exchanges of debt instruments in a bankruptcy or workout context are taxable. Such matters could cause us to recognize taxable income for U.S. federal income tax purposes, even in the absence of cash or economic gain, and require us to make taxable distributions to our stockholders to maintain our RIC status or preclude the imposition of either U.S. federal corporate income or excise taxation. Additionally, because such taxable income may not be matched by corresponding cash received by us, we may be required to borrow money or dispose of other investments to be able to make distributions to our stockholders. These and other issues will be considered by us, to the extent determined necessary, in order that we minimize the level of any U.S. federal income or excise tax that we would otherwise incur. See “Item 1. Business—Taxation as a RIC.”

If we do not qualify as a “publicly offered regulated investment company,” as defined in the Code, you will be taxed as though you received a distribution of some of our expenses.

A “publicly offered regulated investment company” is a RIC whose shares are either (i) continuously offered pursuant to a public offering, (ii) regularly traded on an established securities market or (iii) held by at least 500 persons at all times during the tax year. If we do not qualify as a publicly offered regulated investment company for any tax year, a noncorporate stockholder’s allocable portion of our affected expenses, including our management fees, will be treated as an additional distribution to the stockholder and will be deductible by such stockholder only to the extent permitted under the limitations described below. For noncorporate stockholders, including individuals, trusts, and estates, significant limitations generally apply to the deductibility of certain expenses of a non-publicly offered regulated investment company, including management fees. In particular, these expenses, referred to as miscellaneous itemized deductions, are deductible to an individual only to the extent they exceed 2% of such a stockholder’s adjusted gross income for taxable years after 2025 and are entirely not deductible against gross income before 2026, are not deductible for alternative minimum tax purposes and are subject to the overall limitation on itemized deductions imposed by the Code. Although we believe that we are currently considered a publicly offered regulated investment company, as defined in the Code, there can be no assurance, however, that we will be considered a publicly offered regulated investment company in the future.

Legislative or regulatory tax changes could adversely affect investors.

At any time, the federal income tax laws governing RICs or the administrative interpretations of those laws or regulations may be amended. Any of those new laws, regulations or interpretations may take effect retroactively and could adversely affect the taxation of us or our stockholders. Therefore, changes in tax laws, regulations or administrative interpretations or any amendments thereto could diminish the value of an investment in our shares or the value or the resale potential of our investments. In particular, on December 22, 2017, the Tax Cuts and Jobs Act was signed into law. This tax legislation lowers the general corporate income tax rate from 35 percent to 21 percent, makes changes regarding the use of net operating losses, repeals the corporate alternative minimum tax and makes significant changes with respect to the U.S. international tax rules. In addition, the legislation generally requires a holder that uses the accrual method of accounting for U.S. tax purposes to include certain amounts in income no later than the time such amounts are reflected on certain financial statements, which therefore if applicable would require us to accrue income earlier than under prior law, although the precise application of this rule is un-clear at this time. The legislation also limits the amount or value of interest deductions of borrowers and in that way may potentially affect the loan market and our and our portfolio companies’ use of leverage. For individual taxpayers, the legislation reduces the maximum individual income tax rate and eliminates the deductibility of miscellaneous itemized deductions for taxable years 2018 through 2025. The impact of this new legislation is uncertain.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are located at 201 Rouse Boulevard, Philadelphia, Pennsylvania 19112. 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 party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of any legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material adverse effect upon our financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

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

Market Information

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. In March 2014, we closed our continuous public offering of shares of our common stock to new investors. Following the closing of our continuous public offering, we have continued to issue shares pursuant to our distribution reinvestment plan.

Set forth below is a chart describing the classes of our securities outstanding as of March 1, 2019:

	(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	—	325,279,004

As of March 12, 2019, we had 66,705 record holders of our common stock.

Share Repurchase Program and Distributions

We intend to continue to conduct quarterly tender offers pursuant to our share repurchase program.

The following table provides information concerning our repurchases of shares of common stock pursuant to our share repurchase program during the quarter ended December 31, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2018	3,237,783	\$8.400	3,237,783	(1)
November 1 to November 30, 2018	—	—	—	—
December 1 to December 31, 2018	—	—	—	—
Total	3,237,783	\$8.400	3,237,783	(1)

(1) The maximum number of shares available for repurchase on October 2, 2018 was 3,237,783.

Subject to applicable legal restrictions and the sole discretion of our board of directors, we currently intend to declare regular cash distributions on a quarterly basis and pay such distributions on a monthly basis to stockholders of record determined on a monthly basis. From time to time, we may also pay special interim distributions in the form of cash or shares of our common stock at the discretion of our board of directors. The timing and amount of any future distributions to stockholders are subject to applicable legal restrictions and the sole discretion of our board of directors.

The following table reflects the cash distributions per share that we declared on our common stock during the years ended December 31, 2018, 2017 and 2016:

For the Year Ended December 31,	Distribution	
	Per Share	Amount
2016	\$0.7540	\$244,088
2017	\$0.7540	\$244,970
2018	\$0.7540	\$244,565

See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—RIC Status and Distributions” and Note 5 to our consolidated financial statements contained in this annual report on Form 10-K for additional information regarding our distributions and our distribution reinvestment plan, including certain related tax considerations.

Item 6. Selected Financial Data.

The following selected consolidated financial data for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 is derived from our consolidated financial statements, which have been audited by RSM US LLP, our independent registered public accounting firm. The data should be read in conjunction with our consolidated 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 annual report on Form 10-K.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Statements of operations data:					
Investment income	\$ 453,984	\$ 523,686	\$ 488,051	\$ 529,462	\$ 398,783
Operating expenses					
Total expenses and excise taxes	221,053	265,184	245,734	249,065	156,107
Less: management fee waiver	(3,432)	(12,853)	(12,211)	(10,252)	—
Net expenses and excise taxes	<u>217,621</u>	<u>252,331</u>	<u>233,523</u>	<u>238,813</u>	<u>156,107</u>
Net investment income (loss)	236,363	271,355	254,528	290,649	242,676
Total net realized and unrealized gain (loss) . .	<u>(273,806)</u>	<u>(81,420)</u>	<u>162,787</u>	<u>(351,632)</u>	<u>(51,708)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ (37,443)</u>	<u>\$ 189,935</u>	<u>\$ 417,315</u>	<u>\$ (60,983)</u>	<u>\$ 190,968</u>
Per share data:					
Net investment income (loss)—basic and diluted ⁽¹⁾	<u>\$ 0.73</u>	<u>\$ 0.83</u>	<u>\$ 0.79</u>	<u>\$ 0.92</u>	<u>\$ 0.80</u>
Net increase (decrease) in net assets resulting from operations—basic and diluted ⁽¹⁾	<u>\$ (0.12)</u>	<u>\$ 0.58</u>	<u>\$ 1.29</u>	<u>\$ (0.19)</u>	<u>\$ 0.63</u>
Distributions declared ⁽²⁾	<u>\$ 0.75</u>	<u>\$ 0.75</u>	<u>\$ 0.75</u>	<u>\$ 0.75</u>	<u>\$ 0.74</u>
Balance sheet data:					
Total assets	<u>\$4,554,254</u>	<u>\$5,110,081</u>	<u>\$4,967,858</u>	<u>\$4,807,951</u>	<u>\$4,726,571</u>
Credit facilities, secured borrowing and repurchase agreements payable	<u>\$1,887,132</u>	<u>\$2,179,354</u>	<u>\$1,977,053</u>	<u>\$2,043,919</u>	<u>\$1,641,194</u>
Total net assets	<u>\$2,567,409</u>	<u>\$2,853,021</u>	<u>\$2,909,860</u>	<u>\$2,690,412</u>	<u>\$2,911,790</u>
Other data:					
Total return ⁽³⁾	(1.64)%	6.59%	16.07%	(2.37)%	6.97%
Total return (without assuming reinvestment of distributions) ⁽³⁾	(1.37)%	6.52%	15.29%	(1.94)%	6.92%
Number of portfolio company investments at period end	160	131	138	165	200
Total portfolio investments for the period	\$1,895,833	\$1,947,595	\$1,413,343	\$1,904,545	\$3,382,134
Proceeds from sales and prepayments of investments	\$1,885,140	\$1,838,233	\$1,653,755	\$1,462,611	\$1,625,100

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

(2) The per share data for distributions reflect the actual amount of distributions paid per share during the applicable period.

(3) The total return based on net asset value for each year presented was calculated by taking the net asset value per share as of the end of the applicable year, adding the cash distributions per share that were declared during the applicable calendar year and dividing the total by the net asset value per share at the beginning of the applicable year. Total return based on net asset value does not consider the effect of any sales commissions or charges that may be incurred in connection with the sale of shares of our common stock. The historical calculation of total return based on net asset value in the table should not be considered a representation of our future total return based on net asset value, which may be greater or less than the return shown in the table due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rates 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. The total return calculations set forth above represent the total return on our investment portfolio during the applicable period and do not represent an actual return to stockholders.

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

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

Forward-Looking Statements

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 the companies in which we may invest;
- the impact of the investments that we expect to make;
- the ability of our portfolio companies to achieve their objectives;
- our current and expected financings and investments;
- changes in the general interest rate environment;
- the adequacy of our cash resources, financing sources and working capital;
- the timing and amount of cash flows, distributions and dividends, if any, from our portfolio companies;
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with the other funds in the Fund Complex, their respective current or future investment advisers or any of their affiliates;
- the dependence of our future success on the general economy and its effect on the industries in which we may invest;
- our use of financial leverage;
- the ability of the Advisor to locate suitable investments for us and to monitor and administer our investments;
- the ability of the Advisor or its affiliates to attract and retain highly talented professionals;
- our ability to maintain our qualification as a RIC and as a BDC;
- the impact on our business of the Dodd-Frank Act, and the rules and regulations issued thereunder;
- the effect of changes to tax legislation on us and the portfolio companies in which we may invest and our and their tax position; and
- the tax status of the enterprises in which we may invest;

In addition, words such as “anticipate,” “believe,” “expect” and “intend” indicate a forward-looking statement, although not all forward-looking statements include these words. The forward-looking statements contained in this 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, including those factors set forth in “Item 1A. Risk Factors.” 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. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. Stockholders are advised to consult any additional disclosures that we may make directly to stockholders or through reports that we may file in the future with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this 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, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Overview

We were incorporated under the general corporation laws of the State of Maryland on July 13, 2011 and formally commenced investment operations on June 18, 2012. We are an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a BDC under the 1940 Act and has elected to be treated for U.S. federal income tax purposes, and intends to qualify annually, as a RIC under Subchapter M of the Code. In March 2014, we closed our continuous public offering of shares of common stock to new investors.

We are externally managed by the Advisor pursuant to the investment advisory and administrative services agreement and supervised by our board of directors, a majority of whom are independent. On April 9, 2018, GSO/Blackstone Debt Funds Management LLC, or GDFM, resigned as our investment sub-adviser and terminated its investment sub-advisory agreement effective April 9, 2018. In connection with GDFM's resignation as our investment sub-adviser, on April 9, 2018, we entered into the investment advisory and administrative services agreement with the Advisor, which replaced an investment advisory and administrative services agreement, or the FSIC II Advisor investment advisory and administrative services agreement with our former investment adviser, FSIC II Advisor, LLC, or FSIC II Advisor.

Our investment objectives are to generate current income and, to a lesser extent, long-term capital appreciation. We pursue our investment objective by investing primarily in the debt of middle market U.S. companies with a focus on originated transactions sourced through the network of the Advisor and its affiliates. We define direct originations as any investment where the Advisor or its affiliates negotiates the terms of the transaction beyond just the price, which, for example, may include negotiating financial covenants, maturity dates or interest rate terms. These directly originated transactions include participation in other originated transactions where there may be third parties involved, or a bank acting as an intermediary, for a closely held club, or similar transactions.

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

Advisor's fundamental analysis, which may occur due to general dislocations in the markets, a misunderstanding by the market of a particular company or an industry being out of favor with the broader investment community and may include event driven investments, anchor orders and structured products.

The senior secured loans, second lien secured loans and senior secured bonds in which we invest generally have stated terms of three to seven years and subordinated debt investments that we make generally have stated terms of up to ten years, but the expected average life of such securities is generally between three and seven years. However, there is no limit on the maturity or duration of any security in our portfolio. Our debt investments may be rated by a NRSRO and, in such case, generally will carry a rating below investment grade (rated lower than "Baa3" by Moody's, or lower than "BBB-" by S&P). We also invest in non-rated debt securities.

Revenues

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

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

Expenses

Our primary operating expenses include the payment of management and incentive fees and other expenses under the investment advisory and administrative services agreement, interest expense from financing arrangements and other indebtedness, and other expenses necessary for our operations. The management and incentive fees compensate the Advisor for its work in identifying, evaluating, negotiating, executing, monitoring and servicing our investments.

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

Pursuant to the investment advisory and administrative services agreement, we reimburse the Advisor for expenses necessary to perform services related to our administration and operations, including the Advisor's allocable portion of the compensation and related expenses of certain personnel of FS Investments and KKR Credit providing administrative services to us on behalf of the Advisor. We reimburse the Advisor no less than monthly for expenses necessary to perform services related to our

administration and operations. The amount of this reimbursement is set at the lesser of (1) the Advisor's actual costs incurred in providing such services and (2) the amount that we estimate we would be required to pay alternative service providers for comparable services in the same geographic location. The Advisor allocates the cost of such services to us based on factors such as total assets, revenues, time allocations and/or other reasonable metrics. Our board of directors reviews the methodology employed in determining how the expenses are allocated to us and the proposed allocation of administrative expenses among us and certain affiliates of the Advisor. Our board of directors then assesses the reasonableness of such reimbursements for expenses allocated to us based on the breadth, depth and quality of such services as compared to the estimated cost to us of obtaining similar services from third-party service providers known to be available. In addition, our board of directors considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, our board of directors compares the total amount paid to the Advisor for such services as a percentage of our net assets to the same ratio as reported by other comparable BDCs.

We bear all other expenses of our operations and transactions, including (without limitation) fees and expenses relating to:

- corporate and organization expenses relating to offerings of our securities, subject to limitations included in the investment advisory and administrative services agreement;
- the cost of calculating our net asset value, including the cost of any third-party pricing or valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- investment advisory fees;
- fees payable to third parties relating to, or associated with, making investments and valuing investments, including fees and expenses associated with performing due diligence reviews of prospective investments;
- interest payments on our debt or related obligations;
- transfer agent and custodial fees;
- research and market data (including news and quotation equipment and services, and any computer hardware and connectivity hardware (e.g., telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data);
- fees and expenses associated with marketing efforts;
- federal and state registration fees;
- federal, state and local taxes;
- fees and expenses of directors not also serving in an executive officer capacity for us or the Advisor;
- costs of proxy statements, stockholders' reports, notices and other filings;
- 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 accounting, corporate governance, government and regulatory affairs activities, independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws, including compliance with the Sarbanes-Oxley Act;
- brokerage commissions for our investments;

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

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

Portfolio Investment Activity for the Years Ended December 31, 2018 and 2017

Total Portfolio Activity

The following tables present certain selected information regarding our portfolio investment activity for the years ended December 31, 2018 and 2017:

Net Investment Activity	For the Year Ended December 31,	
	2018	2017
Purchases	\$ 1,895,833	\$ 1,947,595
Sales and Repayments	(1,885,140)	(1,838,233)
Net Portfolio Activity	\$ 10,693	\$ 109,362

New Investment Activity by Asset Class	For the Year Ended December 31,			
	2018		2017	
	Purchases	Percentage	Purchases	Percentage
Senior Secured Loans—First Lien	\$1,448,861	76%	\$1,555,659	80%
Senior Secured Loans—Second Lien	197,852	11%	141,861	8%
Other Senior Secured Debt	103,808	6%	40,746	2%
Subordinated Debt	102,391	5%	158,364	8%
Asset Based Finance	694	0%	4,014	0%
Equity/Other	42,227	2%	46,951	2%
Total	\$1,895,833	100%	\$1,947,595	100%

The following table summarizes the composition of our investment portfolio at cost and fair value as of December 31, 2018 and 2017:

	December 31, 2018			December 31, 2017		
	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio
Senior Secured Loans—First Lien	\$3,382,158	\$3,293,291	75%	\$3,408,133	\$3,421,070	74%
Senior Secured Loans—Second Lien	418,015	333,986	8%	385,761	327,135	7%
Other Senior Secured Debt	207,181	196,616	5%	123,045	124,673	3%
Subordinated Debt	242,792	221,858	5%	349,760	345,593	8%
Asset Based Finance	42,050	46,152	1%	41,494	47,173	1%
Equity/Other	268,409	267,377	6%	295,515	331,950	7%
Total	\$4,560,605	\$4,359,280	100%	\$4,603,708	\$4,597,594	100%

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

The following table presents certain selected information regarding the composition of our investment portfolio as of December 31, 2018 and 2017:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Number of Portfolio Companies	160	131
% Variable Rate (based on fair value)	82.6%	82.4%
% Fixed Rate (based on fair value)	11.2%	9.9%
% Income Producing Equity/Other Investments (based on fair value)	1.9%	0.4%
% Non-Income Producing Equity/Other Investments (based on fair value)	4.3%	7.3%
% of Investments on Non-Accrual (based on fair value)	1.1%	0.4%
Weighted Average Annual Yield on Income Producing Investments	10.5%	9.8%

Based on our regular monthly cash distribution amount of \$0.06283 per share as of December 31, 2018 and our distribution reinvestment price of \$8.05 per share, the annualized distribution rate to stockholders as of December 31, 2018 was 9.37%. The annualized distribution rate to stockholders is expressed as a percentage equal to the projected annualized distribution amount per share divided by our distribution reinvestment price per share. Our annualized distribution rate to stockholders may include income, realized capital gains and a return of investors' capital. During the year ended December 31, 2018, our total return was (1.64)% and our total return without assuming reinvestment of distributions was (1.37)%.

Based on our regular monthly cash distribution amount of \$0.06283 per share as of December 31, 2017 and our distribution reinvestment price of \$8.80 per share, the annualized distribution rate to stockholders as of December 31, 2017 was 8.57%. During the year ended December 31, 2017, our total return was 6.59% and our total return without assuming reinvestment of distributions was 6.52%.

Our estimated gross portfolio yield may be higher than a stockholder's yield on an investment in shares of our common stock. Our estimated gross portfolio yield does not reflect operating expenses that may be incurred by us. In addition, our estimated gross portfolio yield and total return figures disclosed above do not consider the effect of any sales commissions or charges that may have been incurred in connection with the sale of shares of our common stock. Our estimated gross portfolio yield, total return and annualized distribution rate to stockholders do not represent actual investment returns to stockholders, are subject to change and, in the future, may be greater or less than the rates set forth above. See the section entitled "Item 1A. Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements. See footnote 6 to the financial highlights table included in Note 12 to our consolidated financial statements contained in this annual report on Form 10-K for information regarding the calculations of our total return.

Direct Originations

The following table presents certain selected information regarding our direct originations as of December 31, 2018:

<u>Characteristics of All Direct Originations Held in Portfolio</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Number of Portfolio Companies	74	75
Median Annual EBITDA of Portfolio Companies	\$56,000	\$44,400
Median Leverage Through Tranche of Portfolio Companies—Excluding Equity/Other and Collateralized Securities	4.8x	4.8x
% of Investments on Non-Accrual (based on fair value)	1.2%	—
Total Cost of Direct Originations	\$3,615,151	\$3,777,201
Total Fair Value of Direct Originations	\$3,497,141	\$3,812,590
% of Total Investments, at Fair Value	80.2%	82.9%
Weighted Average Annual Yield for Accruing Debt Investments ⁽¹⁾	10.5%	9.7%

(1) The weighted average annual yield for accruing debt investments is computed as (i) the sum of (a) the stated annual interest rate of each debt and debt-like investment, multiplied by its par amount, adjusted to U.S. dollars and for any partial income accrual

when necessary, as of the end of the applicable reporting period, plus (b) the annual amortization of the purchase or original issue discount or premium of each accreting debt investment; divided by (ii) the total amortized cost of debt investments included in the calculated group as of the end of the applicable reporting period. Asset based finance investments with an effective interest rate are being included in the calculation.

Portfolio Composition by Industry Classification

See Note 6 to our audited consolidated financial statements included herein for additional information regarding the composition of our investment portfolio by industry classification.

Portfolio Asset Quality

In addition to various risk management and monitoring tools, the Advisor uses an investment rating system to characterize and monitor the expected level of returns on each investment in our portfolio. The Advisor uses an investment rating scale of 1 to 4. The Advisor formerly used an investment rating scale of 1 to 5. For the investment ratings as of December 31, 2017, the Advisor has reclassified investments as follows: investments that were ranked a 1 or 2 are now ranked a 1, investments that were ranked a 3 are now ranked a 2, investments that were ranked a 4 are now ranked a 3 and investments that were ranked a 5 are now ranked a 4. The following is a description of the conditions associated with each investment rating:

Investment Rating	Summary Description
1	Performing Investment—generally executing in accordance with plan and there are no concerns about the portfolio company’s performance or ability to meet covenant requirements.
2	Performing investment—no concern about repayment of both interest and our cost basis but company’s recent performance or trends in the industry require closer monitoring.
3	Underperforming investment—some loss of interest or dividend possible, but still expecting a positive return on investment.
4	Underperforming investment—concerns about the recoverability of principal or interest.

The following table shows the distribution of our investments on the 1 to 4 investment rating scale at fair value as of December 31, 2018 and 2017:

Investment Rating	December 31, 2018		December 31, 2017	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
1	\$2,817,253	65%	\$4,174,744	91%
2	1,377,931	32%	332,397	7%
3	95,013	2%	6,771	0%
4	69,083	1%	83,682	2%
Total	<u>\$4,359,280</u>	<u>100%</u>	<u>\$4,597,594</u>	<u>100%</u>

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

Results of Operations

Comparison of the Years Ended December 31, 2018, 2017 and 2016

Revenues

Our investment income for the years ended December 31, 2018, 2017 and 2016 was as follows:

	Year Ended December 31,					
	2018		2017		2016	
	Amount	Percentage of Total Income	Amount	Percentage of Total Income	Amount	Percentage of Total Income
Interest income	\$398,853	88%	\$436,617	83%	\$425,106	87%
Paid-in-kind interest income	17,485	4%	25,593	5%	24,358	5%
Fee income	29,684	6%	61,465	12%	35,860	7%
Dividend income	7,962	2%	11	0%	2,727	1%
Total investment income ⁽¹⁾	<u>\$453,984</u>	<u>100%</u>	<u>\$523,686</u>	<u>100%</u>	<u>\$488,051</u>	<u>100%</u>

(1) Such revenues represent \$429,012, \$488,027 and \$450,729 of cash income earned as well as \$24,972, \$35,659 and \$37,322 in non-cash portions relating to accretion of discount and PIK interest for the years ended December 31, 2018, 2017 and 2016, 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 level of interest income we receive is generally related to the balance of income-producing investments, multiplied by the weighted average yield of our investments. Fee income is transaction based, and typically consists of prepayment fees and structuring fees. As such, fee income is generally dependent on new direct origination investments and the occurrence of events at existing portfolio companies resulting in such fees.

The decrease in interest income and fee income during the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily due to the prepayment of certain higher yielding assets and the decrease in structuring activity during the year ended December 31, 2018 compared to December 31, 2017.

The increase in interest income and fee income during the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to fees associated with the prepayment of several large investments and the acceleration of original issue discount.

Expenses

Our operating expenses, together with excise taxes, for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31,		
	2018	2017	2016
Management fees	\$ 78,994	\$102,827	\$ 97,686
Subordinated income incentive fees	24,790	61,481	62,329
Administrative services expenses	3,313	3,329	3,736
Stock transfer agent fees	1,978	2,008	2,055
Accounting and administrative fees	1,539	1,740	1,487
Interest expense	103,054	86,524	70,408
Directors' fees	1,239	1,148	1,126
Expenses associated with our independent audit and related fees . .	350	511	437
Legal fees	601	887	657
Printing fees	466	848	1,667
Other	2,246	1,691	2,178
Operating expenses	218,570	262,994	243,766
Management fees waiver	(3,432)	(12,853)	(12,211)
Net operating expenses before taxes	215,138	250,141	231,555
Excise taxes	2,483	2,190	1,968
Total net expenses, including excise taxes	<u>\$217,621</u>	<u>\$252,331</u>	<u>\$233,523</u>

The following table reflects selected expense ratios as a percent of average net assets for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
Ratio of operating expenses and excise taxes to average net assets . .	8.12%	9.10%	8.96%
Ratio of management fee waiver to average net assets	<u>(0.13)%</u>	<u>(0.44)%</u>	<u>(0.45)%</u>
Ratio of net operating expenses and excise taxes to average net assets	7.99%	8.66%	8.51%
Ratio of incentive fees, interest expense and excise taxes to average net assets ⁽¹⁾	<u>4.78%</u>	<u>5.16%</u>	<u>4.91%</u>
Ratio of net operating expenses, excluding certain expenses, to average net assets	3.21%	3.50%	3.60%

(1) Ratio data may be rounded in order to recompute the ending ratio of net operating expenses, excluding certain expenses, to average net assets.

Incentive fees and interest expense, among other things, may increase or decrease our expense ratios relative to comparative periods depending on portfolio performance and changes in amounts outstanding under our financing arrangements and benchmark interest rates such as LIBOR, among other factors.

Net Investment Income

Our net investment income totaled \$236,363 (\$0.73 per share), \$271,355 (\$0.83 per share) and \$254,528 (\$0.79 per share) for the years ended December 31, 2018, 2017 and 2016, respectively. The decrease in net investment income for the year ended December 31, 2018 compared to 2017 can be attributed to the decrease in interest and fee income as discussed above.

Net Realized Gains or Losses

Our net realized gains (losses) on investments, secured borrowing, and foreign currency for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31,		
	2018	2017	2016
Net realized gain (loss) on investments ⁽¹⁾	\$(79,587)	\$(115,330)	\$(141,715)
Net realized gain (loss) on secured borrowing	—	(59)	—
Net realized gain (loss) on foreign currency	(10)	671	(2)
Total net realized gain (loss)	<u>\$(79,597)</u>	<u>\$(114,718)</u>	<u>\$(141,717)</u>

(1) During the years ended December 31, 2018, 2017 and 2016, we sold investments and received principal repayments of \$914,638, \$866,311 and \$510,114, and \$970,502, \$971,922 and \$1,143,641, respectively, from which we realized the above net gain or loss on investments.

Net Change in Unrealized Appreciation (Depreciation)

Our net change in unrealized appreciation (depreciation) on investments, secured borrowing, interest rate swaps and unrealized gain (loss) on foreign currency for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31,		
	2018	2017	2016
Net change in unrealized appreciation (depreciation) on investments	\$(195,211)	\$33,758	\$304,638
Net change in unrealized appreciation (depreciation) on secured borrowing	—	134	(134)
Net change in unrealized appreciation (depreciation) on interest rate swaps	(1,743)	—	—
Net change in unrealized gain (loss) on foreign currency	2,745	(594)	—
Total net change in unrealized appreciation (depreciation)	<u>\$(194,209)</u>	<u>\$33,298</u>	<u>\$304,504</u>

During the year ended December 31, 2018, the net change in unrealized appreciation (depreciation) on our investments was driven by increased general depreciation across the portfolio.

Net Increase (Decrease) in Net Assets Resulting from Operations

For the years ended December 31, 2018, 2017 and 2016, the net increase (decrease) in net assets resulting from operations was \$(37,443) (\$(0.12) per share) \$189,935 (\$0.58 per share) and \$417,315 (\$1.29 per share), respectively.

Financial Condition, Liquidity and Capital Resources

Overview

As of December 31, 2018, we had \$150,458 in cash and foreign currency, which we and our wholly-owned financing subsidiaries held in custodial accounts, and \$559,746 in borrowings available under our financing arrangements, subject to borrowing base and other limitations. As of December 31, 2018, we also had broadly syndicated investments and opportunistic investments that could be sold to create additional liquidity. As of December 31, 2018, we had unfunded debt investments with aggregate unfunded commitments of \$172,963 and an unfunded commitment to purchase up to \$47 in shares of preferred stock. We maintain sufficient cash on hand, available borrowings and liquid securities to fund such unfunded commitments should the need arise.

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

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

Financing Arrangements

The following table presents summary information with respect to our outstanding financing arrangements as of December 31, 2018:

Arrangement ⁽¹⁾	Type of Arrangement	Rate	As of December 31, 2018		Maturity Date
			Amount Outstanding	Amount Available	
Green Creek Credit Facility	Term Loan Credit Facility	L+2.50%	\$ 500,000	\$ —	December 15, 2019
Cooper River Credit Facility	Revolving Credit Facility	L+2.25%	107,000	93,000	May 29, 2020
Darby Creek Credit Facility	Revolving Credit Facility	L+2.50%	135,000	115,000	August 19, 2020
Juniata River Credit Facility	Term Loan Credit Facility	L+2.68%	850,000	—	October 11, 2020
Senior Secured Revolving Credit Facility	Revolving Credit Facility	L+2.00%–2.25% ⁽²⁾	298,254 ⁽³⁾	351,746	August 9, 2023
Total			\$1,890,254	\$559,746	

- (1) The carrying amount outstanding under the facility approximates its fair value.
- (2) The spread over LIBOR is determined by reference to the ratio of the value of the borrowing base to the aggregate amount of certain outstanding indebtedness of the Company.
- (3) Amount includes borrowing in U.S. dollars, Euros, and Canadian Dollars. Euro balance outstanding of €1,500 has been converted to U.S. dollars at an exchange rate of €1.00 to \$1.13 as of December 31, 2018 to reflect total amount outstanding in U.S. dollars. Canadian dollar balance outstanding of CAD\$63,500 has been converted to U.S. dollars at an exchange rate of CAD \$1.00 to \$0.77 as of December 31, 2018 to reflect total amount outstanding in U.S. dollars.

See Note 9 to our consolidated financial statements included herein for additional information regarding our financing arrangements.

RIC Status and Distributions

We have elected to be subject to tax as a RIC under Subchapter M of the Code. In order to qualify for RIC tax treatment, we must, among other things, make distributions of an amount at least equal to 90% of our investment company taxable income, determined without regard to any deduction for distributions paid, each tax year. As long as the distributions are declared by the later of the fifteenth day of the ninth month following the close of a tax year or the due date of the tax return for such tax year, including extensions, distributions paid up to twelve months after the current tax year can be carried back to the prior tax year for determining the distributions paid in such tax year. We intend to make sufficient distributions to our stockholders to qualify for and maintain our RIC tax status each tax year. We are also subject to a 4% nondeductible federal excise tax on certain undistributed income unless we make distributions in a timely manner to our stockholders generally of an amount at least equal to the sum of (1) 98% of our net ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income, which is the excess of capital gains in excess of capital losses, or “capital gain net income” (adjusted for certain ordinary losses), for the one-year period ending October 31 of that calendar year and (3) any net ordinary income and capital gain net income for the preceding years that were not distributed during such years and on which we paid no U.S. federal income tax. Any distribution declared

by us during October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following calendar year, will be treated as if it had been paid by us, as well as received by our stockholders, on December 31 of the calendar year in which the distribution was declared. We can offer no assurance that we will achieve results that will permit us to pay any cash distributions. If we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

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

During certain periods, our distributions may exceed our earnings. As a result, it is possible that a portion of the distributions we make may represent a return of capital. A return of capital generally is a return of a stockholder's investment rather than a return of earnings or gains derived from our investment activities. Each year a statement on Form 1099-DIV identifying the sources of the distributions will be mailed to our stockholders. No portion of the distributions paid during the tax years ended December 31, 2018, 2017 or 2016 represented a return of capital.

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

The following table reflects the cash distributions per share that we have declared and paid on our common stock during the years ended December 31, 2018, 2017 and 2016:

For the Year Ended December 31,	Distribution	
	Per Share	Amount
2016	\$0.7540	\$244,088
2017	\$0.7540	\$244,970
2018	\$0.7540	\$244,565

See Note 5 to our consolidated financial statements contained in this annual report on Form 10-K for additional information regarding our distributions, including a reconciliation of our GAAP-basis net investment income to our tax-basis net investment income for the years ended December 31, 2018, 2017 and 2016.

Critical Accounting Policies

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

operating plans, we will describe additional critical accounting policies in the notes to our future financial statements in addition to those discussed below.

Valuation of Portfolio Investments

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

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

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

- our quarterly fair valuation process begins with the Advisor reviewing and documenting valuations of each portfolio company or investment, which valuations are obtained from an independent third-party valuation service and provide a valuation range;
- the Advisor then provides the valuation committee of our board of directors, or the valuation committee, with its valuation recommendation for each portfolio company or investment, along with supporting materials;
- preliminary valuations are then discussed with the valuation committee;
- our valuation committee reviews the preliminary valuations and the Advisor, together with our independent third-party valuation services, if applicable, supplement the preliminary valuations to reflect any comments provided by the valuation committee;
- following its review, the valuation committee will recommend that our board of directors approve our fair valuations; and
- our board of directors discusses the valuations and determines the fair value of each such investment in our portfolio in good faith based on various statistical and other factors, including the input and recommendation of the Advisor, the valuation committee and any independent third-party valuation services, if applicable.

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

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

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

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

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

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

The fair values of our investments are determined in good faith by our board of directors. Our board of directors is 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 board of directors has delegated day-to-day responsibility for implementing our valuation policy to the Advisor, and has authorized the Advisor to utilize independent third-party valuation and pricing services that have been approved by our board of directors. The valuation committee is responsible for overseeing the Advisor's implementation of the valuation process.

See Note 8 to our consolidated financial statements included herein for additional information regarding the fair value of our financial instruments.

Revenue Recognition

Security transactions are accounted for on the trade date. We record interest income on an accrual basis to the extent that we expect to collect such amounts. We record dividend income on the ex-dividend date. Distributions received from limited liability company ("LLC") and limited partnership ("LP") investments are evaluated to determine if the distribution should be recorded as dividend income or a return of capital. We do not accrue as a receivable interest or dividends on loans and securities if we have reason to doubt our ability to collect such income. Our policy is to place investments on non-accrual status when there is reasonable doubt that interest income will be collected. We consider many factors relevant to an investment when placing it on or removing it from non-accrual status including, but not limited to, the

delinquency status of the investment, economic and business conditions, the overall financial condition of the underlying investment, the value of the underlying collateral, bankruptcy status, if any, and any other facts or circumstances relevant to the investment. If there is reasonable doubt that we will receive any previously accrued interest, then the interest income will be written-off. Payments received on non-accrual investments may be recognized as income or applied to principal depending upon the collectability of the remaining principal and interest. Non-accrual investments may be restored to accrual status when principal and interest become current and are likely to remain current based on our judgment.

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

Effective January 1, 2018, we adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, using the cumulative effect method applied to in-scope contracts with customers that have not been completed as of the date of adoption. We did not identify any in-scope contracts that had not been completed as of the date of adoption and, as a result, we did not recognize a cumulative effect on stockholders' equity in connection with the adoption of the new revenue recognition guidance.

The new revenue recognition guidance applies to all entities and all contracts with customers to provide goods or services in the ordinary course of business, excluding, among other things, financial instruments as well as certain other contractual rights and obligations. Under the new revenue recognition guidance, which we have applied to all new in-scope contracts as of the date of adoption, structuring and other upfront fees are recognized as revenue based on the transaction price as the performance obligation is fulfilled. The related performance obligation consists of structuring activities and is satisfied over time as such activities are performed. Consideration is variable and is constrained from being included in the transaction price until the uncertainty associated with the variable consideration is resolved, typically as of the trade date of the related transaction. Payment is typically due on the settlement date of the related transaction.

For the year ended December 31, 2018, we recognized \$8,674 in structuring fee revenue under the new revenue recognition guidance and included such revenue in the fee income line item on our consolidated statement of operations. Comparative periods are presented in accordance with revenue recognition guidance effective prior to January 1, 2018, under which we recorded structuring and other non-recurring upfront fees as income when earned. We have determined that the adoption of the new revenue recognition guidance did not have a material impact on the amount of revenue recognized for the year ended December 31, 2018.

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

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

Uncertainty in Income Taxes

We evaluate our tax positions to determine if the tax positions taken meet the minimum recognition threshold in connection with accounting for uncertainties in income tax positions taken or expected to be taken for the purposes of measuring and recognizing tax benefits or liabilities in our consolidated financial statements. Recognition of a tax benefit or liability with respect to an uncertain tax position is required

only when the position is “more likely than not” to be sustained assuming examination by taxing authorities. We recognize interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in our consolidated statements of operations. During the years ended December 31, 2018, 2017 and 2016, we did not incur any interest or penalties.

See Note 2 to our consolidated financial statements contained in this annual report on Form 10-K for additional information regarding our significant accounting policies.

Partial Loan Sales

We follow the guidance in ASC Topic 860, *Transfers and Servicing*, when accounting for loan participations and other partial loan sales. This guidance requires a participation or other partial loan sale to meet the definition of a participating interest, as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain on our consolidated balance sheets and the proceeds are recorded as a secured borrowing until the participation or other partial loan sale meets the definition. Secured borrowings are carried at fair value to correspond with the related investments, which are carried at fair value.

Derivative Instruments

Our derivative instruments include foreign currency forward contracts and cross currency swaps. We recognize all derivative instruments as assets or liabilities at fair value in our consolidated financial statements. Derivative contracts entered into by us are not designated as hedging instruments, and as a result, we present changes in fair value through net change in unrealized appreciation (depreciation) on derivative instruments in the consolidated statements of operations. Realized gains and losses that occur upon the cash settlement of the derivative instruments are included in net realized gains (losses) on derivative instruments in the consolidated statements of operations.

Contractual Obligations

We have entered into an agreement with the Advisor to provide us with 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 based on the average weekly value of our gross assets and (b) an incentive fee based on our performance. The Advisor is reimbursed for administrative expenses incurred on our behalf. See Note 4 to our consolidated financial statements included herein for a discussion of this agreement and for the amount of fees and expenses accrued under similar agreements with FSIC II Advisor during the years ended December 31, 2018, 2017 and 2016.

A summary of our significant contractual payment obligations related to the repayment of our outstanding indebtedness at December 31, 2018 is as follows:

	Maturity Date ⁽¹⁾	Total	Payments Due By Period			
			Less than 1 year	1–3 years	3–5 years	More than 5 years
Green Creek Credit Facility ⁽²⁾	December 15, 2019	\$500,000	\$500,000	—	—	—
Cooper River Credit Facility ⁽³⁾	May 29, 2020	\$107,000	—	\$107,000	—	—
Darby Creek Credit Facility ⁽⁴⁾	August 19, 2020	\$135,000	—	\$135,000	—	—
Juniata River Credit Facility ⁽²⁾	October 11, 2020	\$850,000	—	\$850,000	—	—
Senior Secured Revolving Credit Facility ⁽⁵⁾	August 9, 2023	\$298,254	—	—	\$298,254	—

- (1) Amounts outstanding under the financing arrangements will mature, and all accrued and unpaid interest thereunder will be due and payable, on the maturity date.
- (2) At December 31, 2018, no amounts remained unused under the financing arrangement.
- (3) At December 31, 2018, \$93,000 remained unused under the Cooper River Credit Facility.

- (4) At December 31, 2018, \$115,000 remained unused under the Darby Creek Credit Facility.
- (5) At December 31, 2018, \$351,746 remained unused under the Senior Secured Revolving Credit Facility. Amount includes borrowing in U.S. dollars, Euros, and Canadian Dollars. Euro balance outstanding of €1,500 has been converted to U.S. dollars at an exchange rate of €1.00 to \$1.13 as of December 31, 2018 to reflect total amount outstanding in U.S. dollars. Canadian dollar balance outstanding of CAD \$63,500 has been converted to U.S. dollars at an exchange rate of CAD \$1.00 to \$0.77 as of December 31, 2018 to reflect total amount outstanding in U.S. dollars.

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 August 2018, the FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement—Disclosures Framework—Changes to Disclosure Requirements of Fair Value Measurement* (Topic 820), or ASU 2018-13. ASU 2018-13 introduces new fair value disclosure requirements and eliminates and modifies certain existing fair value disclosure requirements. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating the impact of ASU 2018-13 on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are subject to financial market risks, including changes in interest rates. As of December 31, 2018, 82.6% of our portfolio investments (based on fair value) were debt investments paying variable interest rates and 11.2% were debt investments paying fixed interest rates while 1.9% were other income producing investments and the remaining 4.3% consisted of non-income producing investments. A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to any variable rate investments we hold and to declines in the value of any fixed rate investments we hold. However, many of our variable rate investments provide for an interest rate floor, which may prevent our interest income from increasing until benchmark interest rates increase beyond a threshold amount. To the extent that a substantial portion of our investments may be in variable rate investments, an increase in interest rates beyond this threshold would make it easier for us to meet or exceed the hurdle rate applicable to the subordinated incentive fee on income, and may result in a substantial increase in our net investment income and to the amount of incentive fees payable to the Advisor with respect to our increased pre-incentive fee net investment income.

Subject to the requirements of the 1940 Act, we may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts. Although hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates. As of December 31, 2018, we have two pay-fixed, receive-floating interest rate swaps which we pay an annual fixed rate of 2.78% to 2.81% and receive three-month LIBOR on an aggregate notional amount of \$160 million. The interest rate swaps have quarterly settlement payments.

Pursuant to the terms of all of our financing arrangements, borrowings are at a floating rate based on LIBOR. To the extent that any present or future credit facilities, total return swap agreements or other financing arrangements that we or any of our subsidiaries enter into are based on a floating interest rate, we will be subject to risks relating to changes in market interest rates. In periods of rising interest rates when we or our subsidiaries have such debt outstanding or financing arrangements in effect, our interest expense would increase, which could reduce our net investment income, especially to the extent we hold fixed rate investments.

The following table shows the effect over a twelve month period of changes in interest rates on our interest income, interest expense and net interest income, assuming no changes in the composition of our investment portfolio, including the accrual status of our investments, and our financing arrangements in effect as of December 31, 2018 (dollar amounts are presented in thousands):

Basis Point Change in Interest Rates	Increase (Decrease) in Interest Income ⁽¹⁾	Increase (Decrease) in Interest Expense	Increase (Decrease) in Net Interest Income	Percentage Change in Net Interest Income
Down 100 basis points	\$(35,417)	\$(18,456)	\$(16,961)	(5.1)%
No change	—	—	—	—
Up 100 basis points	35,919	18,456	17,463	5.2%
Up 300 basis points	108,487	55,367	53,120	15.9%
Up 500 basis points	181,054	92,279	88,775	26.5%

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

We expect that our long-term investments will be financed primarily with equity and debt. If deemed prudent, we may use interest rate risk management techniques in an effort to minimize our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations.

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.”

Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements

	<u>Page</u>
Management’s Report on Internal Control Over Financial Reporting	73
Reports of Independent Registered Public Accounting Firm	74
Consolidated Balance Sheets as of December 31, 2018 and 2017	76
Consolidated Statements of Operations for the years ended December 31, 2018, 2017, and 2016 . .	77
Consolidated Statements of Changes in Net Assets for the years ended December 31, 2018, 2017, and 2016	78
Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017, and 2016 . .	79
Consolidated Schedules of Investments as of December 31, 2018 and 2017	80
Notes to Consolidated Financial Statements	105

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 in 2013 (“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, 2018, 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. Our internal control over financial reporting as of December 31, 2018 has been audited by our independent registered public accounting firm.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Stockholders of
FS Investment Corporation II

Opinion on the Internal Control Over Financial Reporting

We have audited FS Investment Corporation II's (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets, including the consolidated schedules of investments, of FS Investment Corporation II as of December 31, 2018 and 2017, 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, 2018 and our report dated March 19, 2019 expressed an unqualified opinion.

Basis for Opinion

The Company'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 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the 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 management and directors of the company; 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, 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.

/s/ RSM US LLP

Blue Bell, Pennsylvania
March 19, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Stockholders of
FS Investment Corporation II

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets, including the consolidated schedules of investments, of FS Investment Corporation II (the Company) as of December 31, 2018 and 2017, 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, 2018, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of FS Investment Corporation II as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), FS Investment Corporation II's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 19, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018 and 2017 by correspondence with the custodians and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the auditor of one or more FS Investments investment companies since 2007.

Blue Bell, Pennsylvania
March 19, 2019

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

	December 31,	
	2018	2017
Assets		
Investments, at fair value		
Non-controlled/unaffiliated investments (amortized cost—\$4,312,105 and \$4,397,304, respectively)	\$4,131,877	\$4,374,076
Non-controlled/affiliated investments (amortized cost—\$248,500 and \$206,404, respectively)	227,403	223,518
Total investments, at fair value (amortized cost—\$4,560,605 and \$4,603,708, respectively)	4,359,280	4,597,594
Cash	148,172	449,215
Foreign currency, at fair value (cost—\$2,264 and \$10,938, respectively)	2,286	11,194
Receivable for investments sold and repaid	4,025	682
Interest receivable	34,221	45,247
Deferred financing costs	6,000	5,284
Prepaid expenses and other assets	97	865
Receivable on interest rate swaps	173	—
Total assets	\$4,554,254	\$5,110,081
Liabilities		
Payable for investments purchased	\$ 42,236	\$ 3,688
Credit facilities payable (net of deferred financing costs of \$3,122 and \$5,125, respectively) ⁽¹⁾	1,887,132	2,179,354
Stockholder distributions payable	11,688	10,561
Management fees payable	17,256	22,595
Subordinated income incentive fees payable ⁽²⁾	5,796	19,129
Administrative services expense payable	365	568
Interest payable	16,480	16,842
Directors' fees payable	243	277
Interest rate swap income payable	174	—
Unrealized depreciation on interest rate swaps	1,743	—
Other accrued expenses and liabilities	3,732	4,046
Total liabilities	1,986,845	2,257,060
Commitments and contingencies ⁽³⁾		
Stockholders' Equity		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value, 450,000,000 shares authorized, 326,445,320 and 326,748,337 shares issued and outstanding, respectively	326	327
Capital in excess of par value	2,990,996	3,004,948
Accumulated earnings (loss) ⁽⁴⁾	(423,913)	(152,254)
Total stockholders' equity	2,567,409	2,853,021
Total liabilities and stockholders' equity	\$4,554,254	\$5,110,081
Net asset value per share of common stock at year end	\$ 7.86	\$ 8.73

(1) See Note 9 for a discussion of the Company's financing arrangements.

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

(3) See Note 10 for a discussion of the Company's commitments and contingencies.

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

See notes to consolidated financial statements.

FS Investment Corporation II

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

	Year Ended December 31,		
	2018	2017	2016
Investment income			
From non-controlled/unaffiliated investments:			
Interest income	\$ 375,180	\$ 417,336	\$ 414,595
Paid-in-kind interest income	8,550	21,126	19,040
Fee income	28,561	59,893	34,861
Dividend income	7,962	11	2,727
From non-controlled/affiliated investments:			
Interest income	23,673	18,617	10,511
Paid-in-kind interest income	8,935	3,914	5,318
Fee income	1,123	1,572	999
From controlled/affiliated investments:			
Interest income	—	664	—
Paid-in-kind interest income	—	553	—
Total investment income	<u>453,984</u>	<u>523,686</u>	<u>488,051</u>
Operating expenses			
Management fees ⁽¹⁾	78,994	102,827	97,686
Subordinated income incentive fees ⁽²⁾	24,790	61,481	62,329
Administrative services expenses	3,313	3,329	3,736
Stock transfer agent fees	1,978	2,008	2,055
Accounting and administrative fees	1,539	1,740	1,487
Interest expense ⁽³⁾	103,054	86,524	70,408
Directors' fees	1,239	1,148	1,126
Other general and administrative expenses	3,663	3,937	4,939
Operating expenses	218,570	262,994	243,766
Management fee waiver ⁽¹⁾	<u>(3,432)</u>	<u>(12,853)</u>	<u>(12,211)</u>
Net expenses	<u>215,138</u>	<u>250,141</u>	<u>231,555</u>
Net investment income before taxes	238,846	273,545	256,496
Excise taxes	2,483	2,190	1,968
Net investment income	<u>236,363</u>	<u>271,355</u>	<u>254,528</u>
Realized and unrealized gain (loss)			
Net realized gain (loss) on investments:			
Non-controlled/unaffiliated investments	(4,063)	(91,829)	(141,701)
Non-controlled/affiliated investments	(75,524)	7,324	(14)
Controlled/affiliated investments	—	(30,825)	—
Net realized gain (loss) on secured borrowing	—	(59)	—
Net realized gain (loss) on foreign currency	(10)	671	(2)
Net change in unrealized appreciation (depreciation) on investments:			
Non-controlled/unaffiliated investments	(157,000)	34,915	302,611
Non-controlled/affiliated investments	(38,211)	(1,157)	2,027
Net change in unrealized appreciation (depreciation) on secured borrowings	—	134	(134)
Net change in unrealized appreciation (depreciation) on interest rate swaps	(1,743)	—	—
Net change in unrealized gain (loss) on foreign currency	2,745	(594)	—
Total net realized and unrealized gain (loss) on investments	<u>(273,806)</u>	<u>(81,420)</u>	<u>162,787</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ (37,443)</u>	<u>\$ 189,935</u>	<u>\$ 417,315</u>
Per share information—basic and diluted			
Net increase (decrease) in net assets resulting from operations (Earnings per share)	<u>\$ (0.12)</u>	<u>\$ 0.58</u>	<u>\$ 1.29</u>
Weighted average shares outstanding	<u>324,551,233</u>	<u>325,363,299</u>	<u>323,799,126</u>

(1) See Note 4 for a discussion of the waiver by FSIC II Advisor, LLC, the Company's former investment adviser, of certain management fees to which it was otherwise entitled during the applicable period.

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

(3) See Note 9 for a discussion of the Company's financing arrangements.

See notes to consolidated financial statements.

FS Investment Corporation II

**Consolidated Statements of Changes in Net Assets
(in thousands)**

	Year Ended December 31,		
	2018	2017	2016
Operations			
Net investment income	\$ 236,363	\$ 271,355	\$ 254,528
Net realized gain (loss) on investments, secured borrowing and foreign currency	(79,597)	(114,718)	(141,717)
Net change in unrealized appreciation (depreciation) on investments, secured borrowing and interest rate swaps ⁽¹⁾	(196,954)	33,892	304,504
Net change in unrealized gain (loss) on foreign currency	2,745	(594)	—
Net increase (decrease) in net assets resulting from operations	<u>(37,443)</u>	<u>189,935</u>	<u>417,315</u>
Stockholder distributions⁽²⁾			
Distributions to stockholders	(244,565)	(244,970)	(244,088)
Net decrease in net assets resulting from stockholder distributions	<u>(244,565)</u>	<u>(244,970)</u>	<u>(244,088)</u>
Capital share transactions⁽³⁾			
Reinvestment of stockholder distributions	110,569	122,786	138,013
Repurchases of common stock	(114,173)	(124,590)	(91,792)
Net increase (decrease) in net assets resulting from capital share transactions	<u>(3,604)</u>	<u>(1,804)</u>	<u>46,221</u>
Total increase (decrease) in net assets	(285,612)	(56,839)	219,448
Net assets at beginning of year	<u>2,853,021</u>	<u>2,909,860</u>	<u>2,690,412</u>
Net assets at end of year	<u><u>\$2,567,409</u></u>	<u><u>\$2,853,021</u></u>	<u><u>\$2,909,860</u></u>

(1) See Note 9 for a discussion of the Company's financing arrangements.

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

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

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities			
Net increase (decrease) in net assets resulting from operations	\$ (37,443)	\$ 189,935	\$ 417,315
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:			
Purchases of investments	(1,895,833)	(1,947,595)	(1,413,343)
Paid-in-kind interest	(17,485)	(25,593)	(24,358)
Proceeds from sales and repayments of investments	1,885,140	1,838,233	1,653,755
Net realized (gain) loss on investments and secured borrowing	79,587	115,389	141,715
Net change in unrealized (appreciation) depreciation on investments . . .	195,211	(33,758)	(304,638)
Net change in unrealized (appreciation) depreciation on secured borrowing	—	(134)	134
Net change in unrealized (appreciation) depreciation on interest rate swaps	1,743	—	—
Accretion of discount	(8,306)	(46,816)	(17,651)
Amortization of deferred financing costs	6,023	5,325	3,827
Unrealized (gain) loss on borrowings in foreign currency	(2,451)	1,357	—
(Increase) decrease in receivable for investments sold and repaid	(3,343)	73,312	(72,069)
(Increase) decrease in interest receivable	11,026	(2,169)	(5,199)
(Increase) decrease in prepaid expenses and other assets	768	(865)	224
(Increase) decrease in receivable on interest rate swaps	(173)	—	—
Increase (decrease) in payable for investments purchased	38,548	(10,401)	14,089
Increase (decrease) in management fees payable	(5,339)	985	81
Increase (decrease) in subordinated income incentive fees payable	(13,333)	2,636	239
Increase (decrease) in administrative services expense payable	(203)	(224)	(600)
Increase (decrease) in interest payable	(362)	3,173	3,689
Increase (decrease) in directors' fees payable	(34)	(5)	4
Increase (decrease) in interest rate swap income payable	174	—	—
Increase (decrease) in other accrued expenses and liabilities	(314)	217	(85)
Net cash provided by (used in) operating activities	<u>233,601</u>	<u>163,002</u>	<u>397,129</u>
Cash flows from financing activities			
Reinvestment of stockholder distributions	110,569	122,786	138,013
Repurchases of common stock	(114,173)	(124,590)	(91,792)
Stockholder distributions	(243,438)	(244,590)	(254,180)
Borrowings under credit facilities ⁽¹⁾	550,395	782,371	682,500
Borrowings under repurchase agreements ⁽¹⁾	—	—	110,000
Proceeds (repayments) from secured borrowing ⁽¹⁾	—	(8,214)	8,132
Repayments of credit facilities ⁽¹⁾	(842,169)	(174,628)	(202,961)
Repayments of repurchase agreement ⁽¹⁾	—	(400,000)	(660,000)
Deferred financing costs paid	(4,736)	(2,804)	(8,546)
Net cash provided by (used in) financing activities	<u>(543,552)</u>	<u>(49,669)</u>	<u>(278,834)</u>
Total increase (decrease) in cash and foreign currency	(309,951)	113,333	118,295
Cash and foreign currency at beginning of year	460,409	347,076	228,781
Cash and foreign currency at end of year	<u>\$ 150,458</u>	<u>\$ 460,409</u>	<u>\$ 347,076</u>
Supplemental disclosure			
Local and excise taxes paid	<u>\$ 2,585</u>	<u>\$ 1,825</u>	<u>\$ 2,069</u>

(1) See Note 9 for a discussion of the Company's financing arrangements. During the years ended December 31, 2018, 2017 and 2016, the Company paid \$96,923, \$77,558 and \$62,775, respectively, in interest expense on credit facilities and \$0, \$468 and \$124, respectively, in interest expense on secured borrowing.

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments
As of December 31, 2018
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Senior Secured Loans—First Lien—128.3%								
5 Arch Income Fund 2, LLC	(m)(q)	Diversified Financials	9.0%		11/18/23	\$ 39,540	\$ 39,561	\$ 39,540
5 Arch Income Fund 2, LLC	(m)(n)(q)	Diversified Financials	9.0%		11/18/23	34,461	34,461	34,461
Abaco Energy Technologies LLC	(h)(i)(t)	Energy	L+700, 2.5% PIK (2.5% Max PIK)	1.0%	11/20/20	24,428	23,941	24,153
ABB CONCISE Optical Group LLC	(t)	Retailing	L+500	1.0%	6/15/23	2,769	2,779	2,658
Accuride Corp	(j)(t)	Capital Goods	L+525	1.0%	11/17/23	540	520	518
Acosta Holdco Inc	(h)(t)	Commercial & Professional Services	L+325	1.0%	9/26/21	6,644	5,383	4,081
Addison Holdings	(f)(g)(h)(i)	Commercial & Professional Services	L+675	1.0%	12/29/23	83,832	83,832	83,974
Advanced Lighting Technologies Inc	(h)(u)	Materials	L+750	1.0%	10/4/22	9,125	7,933	9,125
Advantage Sales & Marketing Inc	(i)(t)	Commercial & Professional Services	L+325	1.0%	7/23/21	15,370	14,681	13,654
Aleris International Inc	(h)(t)	Materials	L+475		2/27/23	1,367	1,354	1,358
All Systems Holding LLC	(g)(h)(i)	Commercial & Professional Services	L+767	1.0%	10/31/23	111,623	111,623	112,739
Altus Power America Inc	(i)	Energy	L+750	1.5%	9/30/21	3,183	3,183	3,087
Altus Power America Inc	(n)	Energy	L+750	1.5%	9/30/21	140	140	136
American Tire Distributors Inc	(t)	Automobiles & Components	L+750	1.0%	8/30/24	4,031	3,521	3,319
American Tire Distributors Inc	(t)	Automobiles & Components	L+650, 1.0% PIK (1.0% Max PIK)	1.0%	9/1/23	634	593	593
Ammeraal Beltech Holding BV	(m)(t)	Capital Goods	E+375		7/30/25	€ 1,491	1,725	1,701
Apex Group Limited	(m)(n)	Diversified Financials	L+650		6/15/23	\$ 2,302	2,238	1,970
Apex Group Limited	(f)(g)(m)	Diversified Financials	L+650	1.0%	6/15/25	15,565	15,271	14,948
Apex Group Limited	(m)(n)	Diversified Financials	L+650	1.0%	6/15/25	7,509	7,370	7,211
Apex Group Limited	(m)	Diversified Financials	L+650	1.0%	6/15/25	2,503	2,466	2,404
Apex Group Limited	(m)(n)	Diversified Financials	L+650	1.0%	6/15/25	3,754	3,699	3,606
Ascension Insurance Inc	(f)(g)(h)	Insurance	L+825	1.3%	3/5/19	77,635	77,567	77,635
Ascension Insurance Inc	(n)	Insurance	L+825	1.3%	3/5/19	27,800	27,800	27,800
Aspect Software Inc	(k)(l)	Software & Services	L+400, 6.5% PIK (6.5% Max PIK)		5/25/20	4,671	4,657	3,480
Aspect Software Inc	(h)(k)(l)	Software & Services	L+1100	1.0%	5/25/20	3,598	3,556	2,680
ATX Networks Corp	(f)(m)(t)	Technology Hardware & Equipment	L+600, 1.0% PIK (1.0% Max PIK)	1.0%	6/11/21	1,852	1,839	1,759
ATX Networks Corp	(f)(i)(m)(t)	Technology Hardware & Equipment	L+600, 1.0% PIK (1.0% Max PIK)	1.0%	6/11/21	24,804	24,368	23,564
AVF Parent LLC	(h)(i)	Retailing	L+725	1.3%	3/1/24	74,461	74,461	69,605
Belk Inc	(t)	Retailing	L+475	1.0%	12/12/22	22,635	19,743	18,366

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)
As of December 31, 2018
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Borden Dairy Co	(g)(h)	Food, Beverage & Tobacco	L+808	1.0%	7/6/23	\$ 52,500	\$ 52,500	\$ 47,738
Caprock Midstream LLC	(t)	Energy	L+475		11/3/25	6,046	5,916	5,638
Cimarron Energy Inc		Energy	L+900	1.0%	6/30/21	7,500	7,500	7,500
Constellis Holdings LLC/Constellis Finance Corp.		Capital Goods	L+575	1.0%	4/1/22	47,325	46,621	46,615
CSafe Global		Capital Goods	L+725	1.0%	11/1/21	626	626	632
CSafe Global	(n)	Capital Goods	L+725	1.0%	11/1/21	5,635	5,635	5,691
CSafe Global	(f)(g)(h)	Capital Goods	L+725	1.0%	10/31/23	53,605	53,605	54,141
CSM Bakery Products	(i)(t)	Food, Beverage & Tobacco	L+400	1.0%	7/3/20	5,217	5,071	4,845
Dade Paper and Bag Co Inc	(f)(g)(h)(i)	Capital Goods	L+750	1.0%	6/10/24	135,734	135,734	133,019
Dade Paper and Bag Co Inc	(f)(g)(h)	Capital Goods	L+700	1.0%	6/10/24	17,312	17,312	16,620
Dayton Superior Corp	(i)(t)	Materials	L+800, 6.0% PIK (6.0% Max PIK)	1.0%	11/15/21	11,790	11,585	9,874
Diamond Resorts International Inc	(i)(t)	Consumer Services	L+375	1.0%	9/2/23	14,085	13,795	13,170
Distribution International Inc	(t)	Retailing	L+500	1.0%	12/15/21	3,398	3,247	3,024
Eagle Family Foods Inc	(n)	Food, Beverage & Tobacco	L+650	1.0%	6/14/23	4,126	4,084	3,516
Eagle Family Foods Inc	(g)(h)	Food, Beverage & Tobacco	L+650	1.0%	6/14/24	27,368	27,082	26,950
Eaglelaw Midstream Ventures LLC	(i)(j)(t)	Energy	L+425	1.0%	6/24/24	11,455	10,917	10,747
EIF Van Hook Holdings LLC	(i)(t)	Energy	L+525		9/5/24	7,378	7,234	7,184
Empire Today LLC	(f)(g)(h)(i)	Retailing	L+700	1.0%	11/17/22	88,200	88,200	88,361
Fairway Group Holdings Corp	(k)(l)	Food & Staples Retailing	10.0% PIK (10.0% Max PIK)		11/27/23	1,964	1,733	258
Fairway Group Holdings Corp	(h)	Food & Staples Retailing	12.0% PIK (12.0% Max PIK)		11/27/23	3,072	3,072	2,984
Fairway Group Holdings Corp		Food & Staples Retailing	4.0%, 11.0% PIK (11.0% Max PIK)		8/28/23	212	210	212
Fairway Group Holdings Corp	(n)	Food & Staples Retailing	4.0%, 11.0% PIK (11.0% Max PIK)		8/28/23	455	455	455
Fairway Group Holdings Corp		Food & Staples Retailing	4.0%, 11.0% PIK (11.0% Max PIK)		8/28/23	1,070	1,055	1,070
Foresight Energy LLC	(h)(m)(t)	Materials	L+575	1.0%	3/28/22	10,591	10,575	10,423
Fox Head Inc	(h)(i)	Consumer Durables & Apparel	L+850	1.0%	12/19/20	5,051	5,051	4,989
Fox Head Inc	(h)(i)	Consumer Durables & Apparel	L+850	1.0%	12/19/20	47,253	47,253	46,671
FullBeauty Brands Holdings Corp	(k)(l)(t)	Retailing	L+475	1.0%	10/14/22	4,910	4,574	1,495
Gulf Finance LLC	(i)(t)	Energy	L+525	1.0%	8/25/23	4,687	4,585	3,615

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)
As of December 31, 2018
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
HM Dunn Co Inc	(h)(k)(l)(u)	Capital Goods	L+875 PIK (L+875 Max PIK)		6/30/21	\$ 43,885	\$ 38,571	\$ 7,022
Hudson Technologies Co	(h)(i)(m)	Commercial & Professional Services	L+1025	1.0%	10/10/23	50,717	50,286	36,262
Icynene Group Ltd	(f)(h)(i)	Materials	L+700	1.0%	11/30/24	35,640	35,640	34,656
Industrial Group Intermediate Holdings LLC	(f)(g)(h)(i)	Materials	L+800	1.3%	5/31/20	118,840	118,840	118,098
Industry City TI Lessor LP	(h)	Consumer Services	10.8%, 1.0% PIK (1.0% Max PIK)		6/30/26	11,522	11,522	11,522
JAKKS Pacific Inc	(h)	Consumer Durables & Apparel	L+900	1.5%	6/14/21	2,793	2,775	2,803
JC Penney Corp Inc	(m)(t)	Retailing	L+425	1.0%	6/23/23	1,205	1,149	1,034
JHC Acquisition LLC	(f)(g)(h)	Capital Goods	L+750	1.0%	1/29/24	121,947	121,947	121,947
JHC Acquisition LLC	(n)	Capital Goods	L+750	1.0%	1/29/24	35,269	35,268	35,269
Jo-Ann Stores Inc	(i)(t)	Retailing	L+500	1.0%	10/20/23	5,013	5,004	4,794
Jostens Inc	(j)(t)	Consumer Services	L+550		12/19/25	3,663	3,552	3,574
JSS Holdings Ltd	(f)(h)(i)	Capital Goods	L+800, 0.0% PIK (2.5% Max PIK)	1.0%	3/31/23	72,696	72,140	74,877
Kodiak BP LLC	(g)(h)(i)	Capital Goods	L+725	1.0%	12/1/24	110,681	110,681	108,329
Kodiak BP LLC	(n)	Capital Goods	L+725	1.0%	12/1/24	9,849	9,849	9,639
Lazard Global Compunders Fund	(m)	Diversified Financials	L+725	3.8%	4/1/26	38,356	38,356	38,644
Lazard Global Compunders Fund	(m)(n)	Diversified Financials	L+725	3.8%	4/1/26	6,644	6,644	6,694
LD Intermediate Holdings Inc	(i)(t)	Software & Services	L+588	1.0%	12/9/22	16,150	15,058	14,656
MB Precision Holdings LLC	(g)(h)(k)(l)(u)	Capital Goods	L+725, 2.3% PIK (2.3% Max PIK)	1.3%	1/23/21	21,339	20,364	21,339
Mitel US Holdings Inc	(i)(t)	Technology Hardware & Equipment	L+450		11/30/25	4,559	4,548	4,431
Monitronics International Inc	(j)(m)(t)	Commercial & Professional Services	L+550	1.0%	9/30/22	3,838	3,702	3,442
Murray Energy Corp	(h)	Energy	L+900	1.0%	2/12/21	10,891	10,824	10,842
NaviHealth Inc	(i)(j)(t)	Health Care Equipment & Services	L+500		8/1/25	15,111	14,437	14,318
North Haven Cadence Buyer Inc	(n)	Consumer Services	L+500	1.0%	9/2/21	2,625	2,625	2,625
North Haven Cadence Buyer Inc	(h)	Consumer Services	L+777	1.0%	9/2/24	14,762	14,762	14,614
North Haven Cadence Buyer Inc	(h)(i)	Consumer Services	L+798	1.0%	9/2/24	51,187	51,187	50,676
North Haven Cadence Buyer Inc	(n)	Consumer Services	L+650	1.0%	9/2/24	10,500	10,500	10,395
P2 Energy Solutions, Inc.	(t)	Energy	L+400	1.3%	10/30/20	74	73	71
PAE Holding Corp	(j)(t)	Capital Goods	L+550	1.0%	10/20/22	9	9	9
Panda Liberty LLC	(f)(g)(t)	Energy	L+650	1.0%	8/21/20	11,515	11,525	10,383
Peak 10 Holding Corp	(j)(t)	Telecommunication Services	L+325	1.0%	8/1/24	8,965	8,329	8,181

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)

As of December 31, 2018

(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
PHRC License LLC	(g)(h)	Consumer Services	L+850, 0.3% PIK (0.3% Max PIK)	1.5%	4/28/22	\$ 66,842	\$ 66,842	\$ 68,262
Power Distribution Inc	(f)(i)	Capital Goods	L+725	1.3%	1/25/23	44,021	44,021	44,021
Production Resource Group LLC	(f)(g)(h)(i)	Media	L+700	1.0%	8/21/24	207,992	207,992	204,352
Propulsion Acquisition LLC	(f)(h)(i)(t)	Capital Goods	L+600	1.0%	7/13/21	58,267	56,734	57,684
PSKW LLC	(f)(h)	Health Care Equipment & Services	L+850	1.0%	11/25/21	56,025	55,983	56,166
Reliant Rehab Hospital Cincinnati LLC	(h)	Health Care Equipment & Services	L+675	1.0%	8/30/24	55,015	54,490	54,850
Roadrunner Intermediate Acquisition Co LLC	(f)	Health Care Equipment & Services	L+675	1.0%	3/15/23	7,165	7,165	6,673
Rogue Wave Software Inc	(h)	Software & Services	L+843	1.0%	9/25/21	72,434	72,434	72,343
Safariland LLC	(g)(h)	Capital Goods	L+765	1.1%	11/18/23	70,234	70,234	62,947
Savers Inc	(t)	Retailing	L+375	1.3%	7/9/19	1,539	1,529	1,473
Sequa Corp	(i)(j)(t)	Materials	L+500	1.0%	11/28/21	18,467	18,212	17,705
Sequel Youth & Family Services LLC	(h)	Health Care Equipment & Services	L+700	1.0%	9/1/23	12,229	12,229	12,448
Sequel Youth & Family Services LLC	(f)(h)(i)	Health Care Equipment & Services	L+800	1.0%	9/1/23	70,000	70,000	71,247
Sequential Brands Group Inc	(g)(h)(i)	Consumer Durables & Apparel	L+875	1.0%	2/7/24	118,929	116,976	118,929
SI Group Inc	(j)(t)	Materials	L+475	1.0%	10/15/25	2,922	2,814	2,820
SIRVA Worldwide Inc	(i)(t)	Commercial & Professional Services	L+550	1.0%	8/2/25	2,776	2,737	2,728
Sorenson Communications LLC	(f)(g)(h)(j)(t)	Telecommunication Services	L+575	2.3%	4/30/20	107,393	107,217	106,991
SSC (Lux) Limited S.a.r.l.	(g)(h)(i)(m)	Health Care Equipment & Services	L+750	1.0%	9/10/24	104,545	104,545	105,591
Staples Canada	(m)	Retailing	L+700	1.0%	9/12/24	C\$ 56,874	44,009	42,101
Strike LLC	(i)(t)	Energy	L+800	1.0%	11/30/22	\$ 4,285	4,191	4,290
Sungard Availability Services Capital Inc	(f)(t)	Software & Services	L+700	1.0%	9/30/21	10,336	10,266	8,827
Sungard Availability Services Capital Inc	(t)	Software & Services	L+1000	1.0%	10/1/22	962	918	933
Sutherland Global Services Inc	(h)(i)(j)(m)(t)	Software & Services	L+538	1.0%	4/23/21	10,564	10,143	9,974
Sutherland Global Services Inc	(h)(i)(j)(m)(t)	Software & Services	L+538	1.0%	4/23/21	2,459	2,361	2,322
Swift Worldwide Resources Holdco Ltd	(f)(g)	Energy	L+1000, 1.0% PIK (1.0% Max PIK)	1.0%	7/20/21	19,492	19,492	19,492
Tangoe LLC	(t)	Software & Services	L+650	1.0%	11/28/25	52,024	51,511	51,504
Team Health Inc	(j)(t)	Health Care Equipment & Services	L+275	1.0%	2/6/24	78	71	70
Trace3 Inc	(f)(g)(h)(i)	Diversified Financials	L+675	1.0%	8/5/24	161,585	161,585	159,970
Virgin Pulse Inc	(h)(i)	Software & Services	L+650	1.0%	5/22/25	79,891	79,290	77,407
Vivint Inc	(i)(t)	Commercial & Professional Services	L+500	1.0%	4/1/24	18,583	18,537	18,111
Warren Resources Inc	(h)(u)	Energy	L+1000, 1.0% PIK (1.0% Max PIK)	1.0%	5/22/20	14,652	14,652	14,652
York Risk Services Group Inc	(t)	Insurance	L+375	1.0%	10/1/21	980	975	919

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)
As of December 31, 2018
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Zeta Interactive Holdings Corp	(f)(h)	Software & Services	L+750	1.0%	7/29/22	\$ 37,112	\$ 37,112	\$ 37,483
Zeta Interactive Holdings Corp	(n)	Software & Services	L+750	1.0%	7/29/22	6,571	6,571	6,637
Total Senior Secured Loans—First Lien							3,539,497	3,450,630
Unfunded Loan Commitments							(157,339)	(157,339)
Net Senior Secured Loans—First Lien							3,382,158	3,293,291
Senior Secured Loans—Second Lien—13.0%								
Access CIG LLC	(t)	Software & Services	L+775		2/27/26	1,326	1,342	1,314
Advantage Sales & Marketing Inc	(t)	Commercial & Professional Services	L+650	1.0%	7/25/22	2,291	2,039	1,815
American Bath Group LLC	(i)(t)	Capital Goods	L+975	1.0%	9/30/24	7,000	6,588	6,965
Ammeraal Beltech Holding BV	(m)	Capital Goods	L+800		7/27/26	52,309	51,285	51,183
Arena Energy LP	(f)(h)	Energy	L+900, 4.0% PIK (4.0% Max PIK)	1.0%	1/24/21	25,872	25,872	25,872
Bellatrix Exploration Ltd	(m)	Energy	8.5%		7/26/23	4,500	4,076	3,979
Bellatrix Exploration Ltd	(m)	Energy	8.5%		7/26/23	1,872	1,872	1,866
Bellatrix Exploration Ltd	(m)(n)	Energy	8.5%		7/26/23	624	624	622
Byrider Finance LLC		Automobiles & Components	L+1000, 0.5% PIK (4.0% Max PIK)	1.3%	8/22/20	29,695	29,695	29,138
Catalina Marketing Corp	(i)(k)(l)(t)	Media	L+675	1.0%	4/11/22	10,000	9,958	237
Chisholm Oil & Gas Operating LLC	(h)	Energy	L+800	1.0%	3/21/24	16,000	16,000	15,811
Crossmark Holdings Inc	(i)(k)(l)(t)	Media	L+750	1.3%	12/21/20	7,778	7,786	311
Envigo Laboratories Inc	(h)(t)	Health Care Equipment & Services	L+775		4/29/20	3,272	3,189	3,051
Fairway Group Holdings Corp	(k)(l)	Food & Staples Retailing	11.0% PIK (11.0% Max PIK)		2/24/24	1,744	1,520	—
Grocery Outlet Inc	(t)	Food & Staples Retailing	L+725		10/22/26	2,287	2,265	2,273
Gruden Acquisition Inc	(h)(t)	Transportation	L+850	1.0%	8/18/23	15,000	14,511	15,038
Jazz Acquisition Inc	(f)(t)	Capital Goods	L+675	1.0%	6/19/22	3,700	3,729	3,460
LBM Borrower LLC	(f)(i)(j)(t)	Capital Goods	L+925	1.0%	8/20/23	29,332	29,090	28,746
One Call Care Management Inc	(h)	Insurance	L+375, 6.0% PIK (6.0% Max PIK)		4/11/24	12,472	12,362	11,946
OPE Inmar Acquisition Inc	(i)(t)	Software & Services	L+800	1.0%	5/1/25	2,615	2,583	2,589
P2 Energy Solutions, Inc.	(i)(t)	Energy	L+800	1.0%	4/30/21	14,500	14,614	13,920
Paradigm Acquisition Corp	(t)	Health Care Equipment & Services	L+750		10/26/26	1,599	1,595	1,607
Peak 10 Holding Corp	(i)(j)(t)	Telecommunication Services	L+725	1.0%	8/1/25	5,814	5,630	5,247
Pure Fishing Inc		Consumer Durables & Apparel	L+838	1.0%	12/31/26	46,828	46,362	46,359

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)
As of December 31, 2018
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Rise Baking Company	(i)	Food, Beverage & Tobacco	L+800	1.0%	8/9/26	\$ 17,990	\$ 17,817	\$ 17,822
Sequa Corp	(i)(t)	Materials	L+900	1.0%	4/28/22	7,462	7,416	7,089
SIRVA Worldwide Inc	(i)(t)	Commercial & Professional Services	L+950		8/2/26	2,494	2,312	2,207
SMG/PA	(j)(t)	Consumer Services	L+700		1/23/26	3,641	3,671	3,599
Spencer Gifts LLC	(i)(t)	Retailing	L+825	1.0%	6/29/22	20,000	20,063	17,100
Titan Energy LLC	(h)(k)(l)	Energy	L+1300 PIK (L+1300 Max PIK)	1.0%	2/23/20	89,408	67,595	8,316
WireCo WorldGroup Inc	(t)	Capital Goods	L+900	1.0%	9/30/24	5,115	5,178	5,128
Total Senior Secured Loans—Second Lien							418,639	334,610
Unfunded Loan Commitments							(624)	(624)
Net Senior Secured Loans—Second Lien							418,015	333,986
Other Senior Secured Debt—7.7%								
Advanced Lighting Technologies Inc	(k)(l)(u)	Materials	L+700, 10.0% PIK (10.0% Max PIK)	1.0%	10/4/23	11,342	10,663	3,630
Akzo Nobel Specialty Chemicals	(m)(t)	Materials	8.0%		10/1/26	2,019	2,019	1,890
Artesyn Embedded Technologies Inc	(t)	Technology Hardware & Equipment	9.8%		10/15/20	1,574	1,518	1,456
Black Swan Energy Ltd	(m)	Energy	9.0%		1/20/24	1,333	1,333	1,286
Boyne USA Inc	(t)	Consumer Services	7.3%		5/1/25	44	46	46
DJO Finance LLC/DJO Finance Corp	(t)	Health Care Equipment & Services	8.1%		6/15/21	6,838	6,886	7,060
FourPoint Energy LLC	(h)(i)	Energy	9.0%		12/31/21	46,313	45,107	45,502
Genesys Telecommunications Laboratories Inc	(t)	Technology Hardware & Equipment	10.0%		11/30/24	144	159	152
Global A&T Electronics Ltd	(i)(m)(t)	Semiconductors & Semiconductor Equipment	8.5%		1/12/23	15,949	16,079	14,155
JC Penney Corp Inc	(j)(m)(t)	Retailing	5.7%		6/1/20	126	117	101
JW Aluminum Co	(h)(t)(u)	Materials	10.3%		6/1/26	33,001	33,001	32,919
Lycra	(m)(t)	Consumer Durables & Apparel	7.5%		5/1/25	3,659	3,687	3,444
Mood Media Corp	(h)(u)	Media	L+1400 PIK (L+1400 Max PIK)	1.0%	6/28/24	28,478	28,383	28,478
Numericable-SFR	(m)(t)	Software & Services	8.1%		2/1/27	917	917	869
Pattonair Holdings Ltd	(m)(t)	Capital Goods	9.0%		11/1/22	4,111	4,252	4,153
Ply Gem Holdings Inc	(t)	Capital Goods	8.0%		4/15/26	7,807	7,453	7,182
Sorenson Communications LLC	(h)(t)	Telecommunication Services	9.0%, 0.0% PIK (9.0% Max PIK)		10/31/20	7,058	6,952	6,987
Sunnova Energy Corp		Energy	6.0%, 6.0% PIK (6.0% Max PIK)		7/31/19	1,123	1,123	1,116

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)
As of December 31, 2018
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Talos Production LLC	(h)(t)	Energy	11.0%		4/3/22	\$ 4,500	\$ 4,701	\$ 4,376
Velvet Energy Ltd	(i)(m)	Energy	9.0%		10/5/23	15,000	15,000	15,120
Vivint Inc	(h)(t)	Commercial & Professional Services	7.6%		9/1/23	7,309	6,707	5,981
Vivint Inc	(h)(t)	Commercial & Professional Services	7.9%		12/1/22	11,307	11,078	10,713
Total Other Senior Secured Debt						<u>207,181</u>	<u>207,181</u>	<u>196,616</u>
Subordinated Debt—8.6%								
All Systems Holding LLC		Commercial & Professional Services	10.0% PIK (10.0% Max PIK)		10/31/22	206	206	206
Ascent Resources Utica Holdings LLC/ARU Finance Corp	(h)(i)(t)	Energy	10.0%		4/1/22	26,026	26,026	26,635
Aurora Diagnostics Holdings LLC/Aurora Diagnostics Financing Inc	(h)(t)	Health Care Equipment & Services	12.3%, 1.5% PIK (1.5% Max PIK)		1/15/20	6,235	5,951	6,235
Avantor Inc	(i)(t)	Pharmaceuticals, Biotechnology & Life Sciences	9.0%		10/1/25	20,000	20,000	20,012
Byrider Finance LLC		Automobiles & Components	20.0% PIK (20.0% Max PIK)		3/31/22	1,458	1,458	1,458
CEC Entertainment Inc	(t)	Consumer Services	8.0%		2/15/22	18,510	18,397	16,659
ClubCorp Club Operations Inc	(h)(t)	Consumer Services	8.5%		9/15/25	10,733	10,361	9,660
Diamond Resorts International Inc	(t)	Consumer Services	10.8%		9/1/24	3,048	3,191	2,751
Eclipse Resources Corp	(m)(t)	Energy	8.9%		7/15/23	9,175	9,049	7,879
Great Lakes Dredge & Dock Corp	(m)(t)	Capital Goods	8.0%		5/15/22	5,276	5,276	5,364
Intelsat Jackson Holdings SA	(m)(t)	Media	5.5%		8/1/23	5,752	5,178	5,058
Ken Garff Automotive LLC	(t)	Retailing	7.5%		8/15/23	6,004	6,055	5,959
Lazard Global Compounders Fund	(m)(n)	Diversified Financials	L+650	4.5%	9/15/25	15,000	15,000	14,682
LifePoint Hospitals Inc	(t)	Health Care Equipment & Services	9.8%		12/1/26	7,656	7,571	7,295
Logan's Roadhouse Inc	(l)	Consumer Services			11/1/24	4,907	4,857	4,855
PF Chang's China Bistro Inc	(h)(i)(t)	Consumer Services	10.3%		6/30/20	28,977	28,320	26,460
Quorum Health Corp	(t)	Health Care Equipment & Services	11.6%		4/15/23	2,566	2,554	2,446
Sorenson Communications LLC	(h)(t)	Telecommunication Services	13.9%, 0.0% PIK (13.9% Max PIK)		10/31/21	5,364	5,170	5,498
SRS Distribution Inc	(h)(t)	Capital Goods	8.3%		7/1/26	11,667	11,476	10,734
Stars Group Holdings BV	(m)(t)	Consumer Services	7.0%		7/15/26	1,438	1,438	1,398
Sungard Availability Services Capital Inc	(t)	Software & Services	8.8%		4/1/22	5,900	4,860	1,322
Team Health Inc	(t)	Health Care Equipment & Services	6.4%		2/1/25	6,901	5,958	5,633

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)
As of December 31, 2018
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Vertiv Group Corp	(h)(t)	Technology Hardware & Equipment	9.3%		10/15/24	\$16,584	\$ 16,411	\$ 14,760
Vivint Inc	(h)(t)	Commercial & Professional Services	8.8%		12/1/20	7,602	7,328	7,250
York Risk Services Group Inc	(h)(i)(t)	Insurance	8.5%		10/1/22	38,070	35,701	26,649
Total Subordinated Debt						257,792	(15,000)	236,858
Unfunded Debt Commitments						(15,000)		(15,000)
Net Subordinated Debt						242,792		221,858
						Principal Amount/Shares^(c)	Cost	Fair Value^(d)
Asset Based Finance—1.8%								
Altus Power America Inc, Preferred Stock	(r)	Energy	9.0%, 5.0% PIK		10/3/23	1,060,975	1,061	1,045
CGMS CLO 2013-3A Class Subord., 7/15/2025	(m)	Diversified Financials	27.8%		7/15/25	\$ 23,263	9,222	12,050
Global Jet Capital LLC, Structured Mezzanine		Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		1/30/25	986	971	986
Global Jet Capital LLC, Structured Mezzanine		Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		4/30/25	6,267	6,174	6,267
Global Jet Capital LLC, Structured Mezzanine		Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		9/3/25	1,295	1,276	1,295
Global Jet Capital LLC, Structured Mezzanine		Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		9/29/25	1,219	1,201	1,219
Global Jet Capital LLC, Structured Mezzanine	(e)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		12/4/25	7,287	7,179	7,287
Global Jet Capital LLC, Structured Mezzanine	(e)(m)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		12/4/25	1,712	1,687	1,712
Global Jet Capital LLC, Structured Mezzanine	(e)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		12/9/25	219	216	219
Global Jet Capital LLC, Structured Mezzanine	(e)(m)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		12/9/25	1,253	1,234	1,253
Global Jet Capital LLC, Structured Mezzanine	(e)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		1/29/26	625	616	625
Global Jet Capital LLC, Structured Mezzanine	(e)(m)	Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		1/29/26	146	143	146
Global Jet Capital LLC, Structured Mezzanine		Commercial & Professional Services	15.0% PIK (15.0% Max PIK)		12/2/26	2,332	2,298	2,332
NewStar Clarendon 2014-1A Class Subord. B	(m)	Diversified Financials	L+435		1/25/27	1,060	1,014	1,055
NewStar Clarendon 2014-1A Class D	(m)	Diversified Financials	13.2%		1/25/27	12,140	7,758	8,661
							42,050	46,152

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)
As of December 31, 2018
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount/Shares ^(c)	Cost	Fair Value ^(d)
Equity/Other—10.4%								
5 Arch Income Fund 2, LLC, Common Stock	(m)(p)	Diversified Financials				8,000	\$ 197	\$ 400
Abaco Energy Technologies LLC, Common Equity	(l)	Energy				3,055,556	3,056	1,299
Abaco Energy Technologies LLC, Preferred Equity	(l)	Energy				12,734,481	637	6,686
Advanced Lighting Technologies Inc, Common Stock	(l)(u)	Materials				265,747	7,471	—
Advanced Lighting Technologies Inc, Warrant	(l)(u)	Materials			10/4/27	4,189	39	—
All Systems Holding LLC, Common Stock	(l)	Commercial & Professional Services				124	1,201	1,384
Altus Power America Inc, Common Stock	(o)	Energy				462,008	462	81
Ascent Resources Utica Holdings LLC/ARU Finance Corp, Common Stock	(o)	Energy				13,555,557	12,900	3,768
Ascent Resources Utica Holdings LLC/ARU Finance Corp, Trade Claim	(o)	Energy				115,178,572	25,800	32,020
ASG Technologies, Common Stock	(l)(u)	Software & Services				625,178	13,475	31,743
ASG Technologies, Warrants	(l)(u)	Software & Services			6/27/22	253,704	7,231	7,364
Aspect Software Inc, Common Stock	(l)	Software & Services				38,574	9,932	—
ATX Networks Corp, Common Stock	(l)(m)	Technology Hardware & Equipment				72,635	116	56
Aurora Diagnostics Holdings LLC/Aurora Diagnostics Financing Inc, Warrant	(h)(l)	Health Care Equipment & Services			5/25/27	94,193	686	135
Australis Maritime, Private Equity	(l)(m)	Transportation				—	1,136	1,136
Byrider Finance LLC, Common Stock	(l)	Automobiles & Components				1,389	—	—
Chisholm Oil & Gas Operating LLC, Series A Units	(l)(p)	Energy				75,000	75	32
Cimarron Energy Inc, Common Stock	(l)	Energy				4,302,293	3,950	194
Cimarron Energy Inc, Participation Option	(l)	Energy				25,000,000	1,289	1,125
CSafe Global, Common Stock	(l)	Capital Goods				417,400	417	584
Eastman Kodak Co, Common Stock	(l)(t)	Consumer Durables & Apparel				354	7	1
Empire Today LLC, Common Stock	(l)	Retailing				411	1,227	1,189
Envigo Laboratories Inc, Warrant	(h)(l)(t)	Health Care Equipment & Services			4/29/24	10,924	—	—
Envigo Laboratories Inc, Warrant	(h)(l)(t)	Health Care Equipment & Services			4/29/24	17,515	—	—
Fairway Group Holdings Corp, Common Stock	(l)	Food & Staples Retailing				31,626	1,016	—
FourPoint Energy LLC, Common Stock, Class C - II - A Units	(l)(p)	Energy				13,000	13,000	2,909
FourPoint Energy LLC, Common Stock, Class D Units	(l)(p)	Energy				2,437	1,610	551
FourPoint Energy LLC, Common Stock, Class E - II Units	(l)(p)	Energy				29,730	7,432	6,652
FourPoint Energy LLC, Common Stock, Class E - III Units	(l)(p)	Energy				43,875	10,969	9,817

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)

As of December 31, 2018

(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount/ Shares ^(c)	Cost	Fair Value ^(d)
Fox Head Inc, Common Stock	(e)(l)	Consumer Durables & Apparel				8,857,143	\$ 8,857	\$ 3,947
Global Jet Capital LLC, Preferred Stock	(e)(l)	Commercial & Professional Services				5,385,440	5,386	754
Global Jet Capital LLC, Preferred Stock	(e)(l)(m)	Commercial & Professional Services				843,426	843	118
Harvest Oil & Gas Corp, Common Stock	(e)(l)(t)	Energy				7,161	158	129
Harvey Industries Inc, Common Stock	(l)	Capital Goods				666,667	667	1,350
HM Dunn Co Inc, Preferred Stock, Series A	(h)(l)(u)	Capital Goods				12,857	—	—
HM Dunn Co Inc, Preferred Stock, Series B	(h)(l)(u)	Capital Goods				12,857	—	—
Industrial Group Intermediate Holdings LLC, Common Stock	(l)(p)	Materials				2,678,947	2,679	1,607
JHC Acquisition LLC, Common Stock	(l)	Capital Goods				1,449	1,449	1,946
JSS Holdings Ltd, Net Profits Interest	(l)	Capital Goods				—	—	471
JW Aluminum Co, Common Stock	(e)(f)(l)(u)	Materials				548	—	—
JW Aluminum Co, Preferred Stock	(e)(i)(u)	Materials	12.5% PIK		11/17/25	4,869	32,040	43,890
MB Precision Holdings LLC, Class A - 2 Units	(g)(h)(l)(u)	Capital Goods				6,655,178	2,288	—
MB Precision Holdings LLC, Preferred Stock	(g)(h)(l)(p)(u)	Capital Goods				41,778,909	8,600	5,826
Mood Media Corp, Common Stock	(l)(u)	Media				17,400,835	12,644	15,842
North Haven Cadence Buyer Inc, Common Equity	(l)	Consumer Services				2,916,667	2,917	4,448
Power Distribution Inc, Common Stock	(l)	Capital Goods				2,076,923	2,077	1,090
Professional Plumbing Group Inc, Common Stock	(e)(l)	Capital Goods				3,000,000	3,000	7,800
Ridgeback Resources Inc, Common Stock	(e)(l)(m)(s)	Energy				817,308	5,022	4,043
Sequental Brands Group Inc., Common Stock	(e)(l)(t)	Consumer Durables & Apparel				408,685	5,517	327
Sorenson Communications LLC, Common Stock	(e)(l)	Telecommunication Services				43,796	—	36,026
SSC (Lux) Limited S.a.r.l., Common Stock	(l)(m)	Health Care Equipment & Services				261,364	5,227	6,403
Sunnova Energy Corp, Common Stock	(l)	Energy				384,746	1,444	—
Sunnova Energy Corp, Preferred Stock	(l)	Energy				70,229	374	385
Swift Worldwide Resources Holdco Ltd, Common Stock	(l)	Energy				1,250,000	2,009	625
Templar Energy LLC, Common Stock	(e)(l)(p)(t)	Energy				717,718	6,101	449
Templar Energy LLC, Preferred Stock	(e)(l)(t)	Energy				475,758	4,751	1,427
Titan Energy LLC, Common Stock	(e)(l)(t)	Energy				200,040	6,321	60
Trace3 Inc, Common Stock	(l)(u)	Diversified Financials				33,216	332	616
Warren Resources Inc, Common Stock	(l)(p)	Energy				2,371,337	11,145	5,573
White Star Petroleum LLC	(l)(p)	Energy				1,613,753	1,372	524
Zeta Interactive Holdings Corp, Preferred Stock, Series E - 1	(l)	Software & Services				620,025	4,929	6,519

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)
As of December 31, 2018
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount/Shares ^(c)	Cost	Fair Value ^(d)
Zeta Interactive Holdings Corp, Preferred Stock, Series F	(1)	Software & Services				563,932	\$ 4,929	\$ 5,816
Zeta Interactive Holdings Corp, Warrant	(1)	Software & Services			4/20/27	84,590	—	240
Total Equity/Other							268,409	267,377
TOTAL INVESTMENTS—169.8%							\$4,560,605	4,359,280
LIABILITIES IN EXCESS OF ASSETS—(69.8%)								(1,791,871)
NET ASSETS—100.0%								\$ 2,567,409

A summary of outstanding financial instruments as of December 31, 2018 is as follows:

Interest rate swaps

Counterparty	Notional Amount	Company Receives Floating Rate	Company Pays Fixed Rate	Termination Date	Premiums Paid/(Received)	Value	Unrealized Depreciation
JP Morgan Chase Bank	\$80,000	3-Month LIBOR	2.78%	12/18/2023	\$ —	\$ (1,090)	\$ (1,090)
JP Morgan Chase Bank	\$80,000	3-Month LIBOR	2.81%	12/18/2021	—	(653)	(653)
					\$ —	\$ (1,743)	\$ (1,743)

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

(b) Certain variable rate securities in the Company's portfolio bear interest at a rate determined by a publicly disclosed base rate plus a basis point spread. As of December 31, 2018, the three-month London Interbank Offered Rate, or LIBOR or "L", was 2.81%, and the U.S. Prime Lending Rate, or Prime, was 5.50%. PIK means paid-in-kind. PIK income accruals may be adjusted based on the fair value of underlying investment.

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

(d) Fair value determined by the Company's board of directors (see Note 8).

(e) Security or portion thereof held within Cobbs Creek LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with ING Capital LLC (see Note 9).

(f) Security or portion thereof held within Cooper River LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Citibank, N.A. (see Note 9).

(g) Security or portion thereof held within Darby Creek LLC and is pledged as collateral supporting the amounts outstanding under a revolving credit facility with Deutsche Bank AG, New York Branch (see Note 9).

(h) Security or portion thereof held within Juniata River LLC and is pledged as collateral supporting the amounts outstanding under a term loan credit facility with JPMorgan Chase Bank, N.A. (see Note 9).

(i) Security or portion thereof held within Green Creek LLC and is pledged as collateral supporting the amounts outstanding under a term loan credit facility with Goldman Sachs Bank USA (see Note 9).

(j) Position or portion thereof unsettled as of December 31, 2018.

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2018
(in thousands, except share amounts)

- (k) Security was on non-accrual status as of December 31, 2018.
- (l) Security is non-income producing.
- (m) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended. A business development company may not acquire any asset other than qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. As of December 31, 2018, 88.2% of the Company's total assets represented qualifying assets.
- (n) Security is an unfunded commitment. The stated rate reflects the spread disclosed at the time of commitment and may not indicate the actual rate received upon funding.
- (o) Security held within IC II American Energy Investments, Inc., a wholly-owned subsidiary of the Company.
- (p) Security held within FSIC II Investments, Inc., a wholly-owned subsidiary of the Company.
- (q) Security held within IC II Arches Investments, LLC, a wholly-owned subsidiary of the Company.
- (r) Security held within IC II Altus Investments, LLC, a wholly-owned subsidiary of the Company.
- (s) Investment denominated in Canadian dollars. Cost and fair value are converted into U.S. dollars at an exchange rate of CAD \$1.00 to \$0.73 as of December 31, 2018.
- (t) Security is classified as Level 1 or Level 2 in the Company's fair value hierarchy (see Note 8).
- (u) Under the 1940 Act, the Company generally is deemed to be an "affiliated person" of a portfolio company if it owns 5% or more of the portfolio company's voting securities and generally is deemed to "control" a portfolio company if it owns more than 25% of the portfolio company's voting securities or it has the power to exercise control over the management or policies of such portfolio company. As of December 31, 2018, the Company held investments in portfolio companies of which it is deemed to be an "affiliated person" but is not deemed to "control". The following table presents certain financial information with respect to investments in portfolio companies of which the Company was deemed to be an affiliated person for the year ended December 31, 2018:

See notes to consolidated financial statements.

FS Investment Corporation II

Consolidated Schedule of Investments (Continued)
As of December 31, 2018
(in thousands, except share amounts)

Portfolio Company	Fair Value at December 31, 2017	Transfers In or Out	Purchases and Paid-in-Kind Interest	Sales and Repayments	Accretion of Discount	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Fair Value at December 31, 2018	Interest Income ⁽¹⁾	PIK Income ⁽¹⁾	Fee Income ⁽¹⁾
Senior Secured Loans—First Lien											
Advanced Lighting Technologies, Inc.	\$ 9,218	\$ —	\$ —	\$ (92)	\$223	\$ 13	\$ (237)	\$ 9,125	\$ 1,119	\$ —	\$ —
H.M. Dunn Co., Inc. ⁽²⁾	—	64,286	—	—	—	(25,715)	(31,549)	7,022	1,656	—	—
Logan's Roadhouse, Inc. ⁽³⁾	4,669	—	2,223	(6,875)	—	(25)	8	—	17	710	—
Logan's Roadhouse, Inc.	—	—	1,347	(1,333)	—	(14)	—	—	529	529	—
MB Precision Holdings LLC ⁽²⁾	—	64,367	710	(12,581)	—	(32,132)	975	21,339	3,507	—	—
Warren Resources, Inc.	43,613	—	170	(28,068)	—	—	(1,063)	14,652	1,939	170	1,123
Senior Secured Loans—Second Lien											
JW Aluminum Co.	34,382	—	—	(33,874)	1	7	(516)	—	1,492	—	—
Logan's Roadhouse, Inc.	6,771	—	194	(1,839)	6	(13,001)	7,869	—	188	194	—
Other Senior Secured Debt											
Advanced Lighting Technologies, Inc.	10,278	—	646	(261)	—	—	(7,033)	3,630	1,182	646	—
JW Aluminum Co.	—	—	33,001	—	—	—	(82)	32,919	1,983	—	—
Mood Media Corp.	23,219	—	5,274	—	5	—	(20)	28,478	4,429	1,901	—
Equity/Other											
Advanced Lighting Technologies, Inc., Common Equity	5,900	—	—	—	—	—	(5,900)	—	—	—	—
Advanced Lighting Technologies, Warrants, 10/4/2027	26	—	—	—	—	—	(26)	—	—	—	—
ASG Everglades Holdings, Inc., Common Equity	30,727	—	—	—	—	—	1,016	31,743	—	—	—
ASG Everglades Holdings, Inc., 6/27/2022, Warrants	6,951	—	—	—	—	—	413	7,364	—	—	—
HM Dunn Aerosystems, Inc., Preferred Equity, Series A ⁽²⁾	—	—	—	—	—	—	—	—	—	—	—
HM Dunn Aerosystems, Inc., Preferred Equity, Series B ⁽²⁾	—	—	—	—	—	—	—	—	—	—	—
JW Aluminum Co., Common Equity	15,074	—	18,992	—	210	—	9,614	43,890	5,632	4,785	—
JW Aluminum Co., Preferred Equity	—	2,288	—	—	—	—	(2,288)	—	—	—	—
MB Precision Holdings LLC, Class A-2 Units ⁽²⁾	—	—	8,600	—	—	—	(2,774)	5,826	—	—	—
MB Precision Holdings LLC, Preferred Stock	28,659	—	—	—	—	—	(12,817)	15,842	—	—	—
Mood Media Corp.	—	—	—	—	—	—	4,657	—	—	—	—
Roadhouse Holding Inc., Common Equity	4,031	—	—	—	—	—	1,542	5,573	—	—	—
Warren Resources, Inc., Common Equity	\$223,518	\$130,941	\$71,157	\$(84,923)	\$445	\$(75,524)	\$(38,211)	\$227,403	\$23,673	\$8,935	\$1,123
Total											

(1) Interest, PIK and fee income presented for the year ended December 31, 2018.

(2) The Company held this investment as of December 31, 2017 but it was not deemed to be an "affiliated person" of the portfolio company or deemed to "control" the portfolio company as of December 31, 2017. Transfers in or out have been presented at amortized cost.

(3) Security includes a partially unfunded commitment as of December 31, 2017 with an amortized cost of \$760 and a fair value of \$752.

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Senior Secured Loans—First Lien—119.9%								
5 Arch Income Fund 2, LLC	(o)(s)	Diversified Financials	10.5%		11/18/21	\$ 14,912	\$ 14,935	\$ 14,912
5 Arch Income Fund 2, LLC	(o)(p)(s)	Diversified Financials	10.5%		11/18/21	4,088	4,088	4,088
Abaco Energy Technologies LLC	(j)	Energy	L+700, 2.5% PIK (2.5% Max PIK)	1.0%	11/20/20	25,842	25,079	25,390
Action Corp.	(f)(j)(g)	Software & Services	L+806	1.0%	6/30/22	45,714	45,714	46,286
Advanced Lighting Technologies, Inc.	(j)(y)	Materials	L+750	1.0%	10/4/22	9,218	7,789	9,218
AG Group Merger Sub, Inc.	(f)(h)(k)(j)	Commercial & Professional Services	L+750	1.0%	12/29/23	62,418	62,418	63,510
All Systems Holding LLC	(h)(k)(j)	Commercial & Professional Services	L+767	1.0%	10/31/23	103,557	103,557	105,110
Altus Power America, Inc.	(k)	Energy	L+750	1.5%	9/30/21	2,866	2,866	2,809
Altus Power America, Inc.	(p)	Energy	L+750	1.5%	9/30/21	884	884	866
Ascension Insurance, Inc.	(f)(h)(j)(g)	Insurance	L+825	1.3%	3/5/19	78,342	78,020	79,419
Ascension Insurance, Inc.	(p)	Insurance	L+825	1.3%	3/5/19	27,800	27,800	28,182
Aspect Software, Inc.		Software & Services	L+1050	1.0%	5/25/18	1,804	1,804	1,804
Aspect Software, Inc.		Software & Services	L+1050	1.0%	5/25/18	46	46	46
Aspect Software, Inc.	(j)	Software & Services	L+1050	1.0%	5/25/20	3,620	3,620	3,349
Aspect Software, Inc.	(p)	Software & Services	L+1200	1.0%	5/25/18	657	657	—
Atlas Aerospace LLC	(f)(k)(j)	Capital Goods	L+802	1.0%	12/29/22	86,857	86,857	86,857
ATX Networks Corp.	(f)(g)(o)	Technology Hardware & Equipment	L+600, 1.0% PIK (1.0% Max PIK)	1.0%	6/11/21	1,911	1,894	1,899
ATX Networks Corp.	(f)(k)(o)	Technology Hardware & Equipment	L+600, 1.0% PIK (1.0% Max PIK)	1.0%	6/11/21	25,569	24,974	25,410
Avaya Inc.	(i)(g)	Technology Hardware & Equipment	L+475	1.0%	12/15/24	17,000	16,830	16,761
AVF Parent, LLC	(f)(j)(k)	Retailing	L+725	1.3%	3/1/24	76,382	76,382	77,963
Borden Dairy Co.	(g)(h)(j)	Food, Beverage & Tobacco	L+804	1.0%	7/6/23	52,500	52,500	52,484
Cactus Wellhead, LLC	(f)(g)	Energy	L+600	1.0%	7/31/20	16,211	15,596	16,238
CEVA Group Plc	(o)(p)	Transportation	L+500		3/19/19	20,000	20,000	18,750
Cimarron Energy Inc.	(k)	Energy	L+1150 PIK (L+1150 Max PIK)	1.0%	12/15/19	25,470	25,470	10,379
ConnectiveRx, LLC	(f)(g)(j)	Health Care Equipment & Services	L+828	1.0%	11/25/21	51,032	51,032	51,053
Crestwood Holdings LLC	(f)	Energy	L+800	1.0%	6/19/19	4,185	4,180	4,207
CSafe Acquisition Co., Inc.		Capital Goods	L+725	1.0%	11/1/21	3,548	3,548	3,517
CSafe Acquisition Co., Inc.		Capital Goods	L+725	1.0%	11/1/21	2,713	2,713	2,689
CSafe Acquisition Co., Inc.	(f)(g)(h)(j)	Capital Goods	L+725	1.0%	10/31/23	49,935	49,935	49,498
CSafe Acquisition Co., Inc.	(p)	Capital Goods	L+725	1.0%	10/31/23	26,797	26,797	26,562
Dade Paper & Bag, LLC	(f)(g)(h)(j)	Capital Goods	L+750	1.0%	6/10/24	137,112	137,112	141,911

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Dayton Superior Corp.	(k)	Materials	L+800	1.0%	11/15/21	\$ 11,550	\$ 11,263	\$ 9,992
Diamond Resorts International, Inc.	(g)	Consumer Services	L+600	1.0%	9/2/23	6,853	6,713	6,919
Eastman Kodak Co.	(f)	Consumer Durables & Apparel	L+625	1.0%	9/3/19	6,836	6,797	5,931
Empire Today, LLC	(f)(g)(h)(j)(k)	Retailing	L+800	1.0%	11/17/22	89,100	89,100	89,991
Fairway Group Acquisition Co.	(j)	Food & Staples Retailing	12.0% PIK (12.0% Max PIK)		1/3/20	2,725	2,725	2,725
Fairway Group Acquisition Co.	(m)(n)	Food & Staples Retailing	10.0% PIK (10.0% Max PIK)		1/3/20	1,777	1,733	400
Fox Head, Inc.	(g)(j)(k)	Consumer Durables & Apparel	L+850	1.0%	12/19/20	13,020	13,020	13,009
FR Dixie Acquisition Corp.	(f)	Energy	L+475	1.0%	12/18/20	4,042	4,032	2,386
FullBeauty Brands Holdings Corp.	(k)	Consumer Durables & Apparel	L+475	1.0%	10/14/22	4,949	4,561	2,929
FullBeauty Brands Holdings Corp.	(k)	Consumer Durables & Apparel	L+800	1.0%	10/14/20	55,000	55,000	54,313
Greystone Equity Member Corp.	(e)(o)	Diversified Financials	L+1050		3/31/21	13,582	13,596	13,599
Greystone Equity Member Corp.	(e)(o)	Diversified Financials	L+1100		3/31/21	21,048	21,048	21,258
Greystone Equity Member Corp.	(o)(p)	Diversified Financials	L+1100		3/31/21	5,370	5,370	5,424
Gulf Finance, LLC	(g)	Energy	L+525	1.0%	8/25/23	4,864	4,745	4,392
H.M. Dunn Co., Inc.	(j)(k)	Capital Goods	L+946	1.0%	3/26/21	64,286	64,286	61,393
Hudson Technologies Co.	(j)(k)(o)	Commercial & Professional Services	L+725	1.0%	10/10/23	51,359	51,359	52,065
Hudson Technologies Co.	(o)(p)	Commercial & Professional Services	L+725	1.0%	10/10/23	12,228	12,228	12,396
Hybrid Promotions, LLC	(g)(j)(k)	Consumer Durables & Apparel	L+850	1.0%	12/19/20	47,740	47,740	47,699
Icynene U.S. Acquisition Corp.	(f)(g)(j)	Materials	L+700	1.0%	11/30/24	36,000	36,000	36,007
Industrial Group Intermediate Holdings, LLC	(f)(g)(h)(j)(k)	Materials	L+800	1.3%	5/31/20	130,488	130,488	132,445
Industry City TI Lessor, L.P.	(j)	Consumer Services	10.8%, 1.0% PIK (1.0% Max PIK)		6/30/26	12,324	12,324	12,478
JMC Acquisition Merger Corp.	(f)(g)(h)	Capital Goods	L+854	1.0%	11/6/21	20,495	20,495	20,828
JSS Holdings, Inc.	(f)(g)(j)(k)	Capital Goods	L+800, 0.0% PIK (2.5% Max PIK)	1.0%	3/31/23	72,715	72,056	73,842
JSS Holdings, Inc.	(p)	Capital Goods	L+800, 0.0% PIK (2.5% Max PIK)	1.0%	3/31/23	13,273	13,273	13,478
Kodiak BP, LLC	(g)(h)(j)(k)	Capital Goods	L+725	1.0%	12/1/24	84,121	84,121	84,332
Kodiak BP, LLC	(p)	Capital Goods	L+725	1.0%	12/1/24	24,242	24,242	24,303
Latham Pool Products, Inc.	(f)(g)(j)	Commercial & Professional Services	L+775	1.0%	6/29/21	28,092	28,092	28,408
LD Intermediate Holdings, Inc.	(k)	Software & Services	L+588	1.0%	12/9/22	16,575	15,186	14,891
Logan's Roadhouse, Inc.	(y)	Consumer Services	L+1100	1.0%	5/5/19	4,677	4,677	4,677
Logan's Roadhouse, Inc.	(y)	Consumer Services	L+1100	1.0%	5/5/19	752	760	752

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
MIB Precision Holdings LLC	(g)(h)(i)	Capital Goods	L+725, 2.3% PIK (2.3% Max PIK)	1.3%	1/23/21	\$ 64,367	\$ 64,367	\$ 58,976
MORSCO, Inc.	(e)(f)	Capital Goods	L+700	1.0%	10/31/23	3,581	3,460	3,652
Moxie Liberty LLC	(f)(h)	Energy	L+650	1.0%	8/21/20	11,634	11,651	10,751
Moxie Patriot LLC	(h)	Energy	L+575	1.0%	12/19/20	5,383	5,360	5,303
Nobel Learning Communities, Inc.	(p)	Consumer Services	L+450	1.0%	5/5/21	3,075	3,075	3,075
Nobel Learning Communities, Inc.	(p)	Consumer Services	L+450	1.0%	5/5/21	8,106	8,106	8,106
Nobel Learning Communities, Inc.	(f)(j)(k)	Consumer Services	L+436	4.5%	5/5/23	84,472	84,472	84,045
Nobel Learning Communities, Inc.	(p)	Consumer Services	L+375	4.5%	5/5/23	49,689	49,689	49,439
North Haven Cadence Buyer, Inc.	(p)	Consumer Services	L+500	1.0%	9/2/21	2,625	2,625	2,625
North Haven Cadence Buyer, Inc.	(f)(h)(j)(k)	Consumer Services	L+810	1.0%	9/2/22	77,522	77,522	78,976
North Haven Cadence Buyer, Inc.	(p)	Consumer Services	L+750	1.0%	9/2/22	9,917	9,917	10,103
Nova Wildcat Amerock, LLC	(f)(g)(j)	Consumer Durables & Apparel	L+800	1.3%	9/10/19	64,921	64,921	65,245
PHRC License, LLC	(e)(g)(h)	Consumer Services	L+850	1.5%	4/28/22	67,500	67,500	69,187
Polymer Additives, Inc.	(g)(h)(k)	Materials	L+888	1.0%	12/19/22	63,068	63,068	65,276
Polymer Additives, Inc.	(h)(k)	Materials	L+834	1.0%	12/19/22	29,005	29,005	29,585
Power Distribution, Inc.	(f)(g)(k)	Capital Goods	L+725	1.3%	1/25/23	44,893	44,893	45,566
Production Resource Group, LLC	(g)(j)(k)	Media	L+750	1.0%	1/14/19	137,162	137,162	145,049
Propulsion Acquisition, LLC	(f)(g)(j)(k)	Commercial & Professional Services	L+600	1.0%	7/13/21	58,874	58,828	58,285
Quest Software US Holdings Inc.	(f)(h)(i)	Software & Services	L+550	1.0%	10/31/22	18,333	18,244	18,659
Roadrunner Intermediate Acquisition Co., LLC	(f)	Health Care Equipment & Services	L+725	1.0%	3/15/23	7,550	7,550	7,614
Rogue Wave Software, Inc.	(j)	Software & Services	L+858	1.0%	9/25/21	24,413	24,413	24,413
Safariland, LLC	(h)(j)	Capital Goods	L+768	1.1%	11/18/23	70,234	70,234	71,200
Safariland, LLC	(h)(j)	Capital Goods	L+725	1.1%	11/18/23	13,867	13,867	14,057
Sequel Youth and Family Services, LLC	(f)(k)(j)	Health Care Equipment & Services	L+778	1.0%	9/1/22	82,353	82,353	83,111
Sequel Youth and Family Services, LLC	(p)	Health Care Equipment & Services	L+700	1.0%	9/1/22	4,118	4,118	4,156
Sequential Brands Group, Inc.	(h)(j)(k)	Consumer Durables & Apparel	L+900		7/1/22	156,102	156,102	154,541
Sorenson Communications, Inc.	(f)(g)(h)(j)	Telecommunication Services	L+575	2.3%	4/30/20	98,440	98,219	99,240
SSC (Lux) Limited S.à.r.l.	(g)(h)(j)(o)	Health Care Equipment & Services	L+750	1.0%	9/10/24	104,545	104,545	106,636
Staples Canada, ULC	(o)(w)	Retailing	L+700	1.0%	9/12/23	C\$ 3,229	2,667	2,602
Strike, LLC		Energy	L+800	1.0%	5/30/19	\$ 2,800	2,766	2,814
Strike, LLC	(k)	Energy	L+800	1.0%	11/30/22	4,523	4,408	4,591
SunGard Availability Services Capital, Inc.	(f)(i)	Software & Services	L+700	1.0%	9/30/21	10,749	10,653	9,970
SunGard Availability Services Capital, Inc.	(i)(l)	Software & Services	L+1000	1.0%	10/1/22	1,000	950	962

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Swift Worldwide Resources US Holdings Corp.	(f)(h)	Energy	L+1000, 1.0% PIK (1.0% Max PIK)	1.0%	7/20/21	\$ 19,489	\$ 19,489	\$ 19,879
ThermaSys Corp.	(f)	Capital Goods	L+400	1.3%	5/3/19	4,522	4,523	4,267
Trace3, LLC	(f)(g)(j)	Software & Services	L+775	1.0%	6/6/23	53,481	53,481	54,751
U.S. Xpress Enterprises, Inc.	(g)(h)(j)	Transportation	L+1075, 0.0% PIK (1.8% Max PIK)	1.5%	5/30/20	66,734	66,734	66,901
USI Senior Holdings, Inc.	(h)(j)	Capital Goods	L+779	1.0%	1/5/22	41,150	41,150	41,383
USI Senior Holdings, Inc.	(p)	Capital Goods	L+725	1.0%	1/5/22	8,373	8,373	8,421
UTEX Industries, Inc.	(k)	Energy	L+400	1.0%	5/21/21	22,057	20,083	21,680
Warren Resources, Inc.	(e)(j)(y)	Energy	L+900, 1.0% PIK (1.0% Max PIK)	1.0%	5/22/20	42,550	42,550	43,613
Waste Pro USA, Inc.	(g)(h)(j)(k)	Commercial & Professional Services	L+750	1.0%	10/15/20	121,116	121,116	123,387
Westbridge Technologies, Inc.	(i)	Software & Services	L+850	1.0%	4/28/23	14,813	14,541	14,701
York Risk Services Holding Corp.	(f)(g)(j)	Insurance	L+375	1.0%	10/1/21	990	983	971
Zeta Interactive Holdings Corp.	(p)	Software & Services	L+750	1.0%	7/29/22	33,826	33,826	34,334
Zeta Interactive Holdings Corp.	(p)	Software & Services	L+750	1.0%	7/29/22	6,424	6,424	6,520
Total Senior Secured Loans—First Lien						<u>3,650,110</u>	<u>3,663,047</u>	
Unfunded Loan Commitments						<u>(241,977)</u>	<u>(241,977)</u>	
Net Senior Secured Loans—First Lien						<u>3,408,133</u>	<u>3,421,070</u>	
Senior Secured Loans—Second Lien—11.5%								
American Bath Group, LLC	(k)	Capital Goods	L+975	1.0%	9/30/24	7,000	6,494	7,018
Arena Energy, LP	(f)(j)	Energy	L+900, 4.0% PIK (4.0% Max PIK)	1.0%	1/24/21	24,844	24,844	23,621
BPA Laboratories Inc.	(j)	Pharmaceuticals, Biotechnology & Life Sciences	L+250		4/29/20	3,272	3,134	3,239
Byrider Finance, LLC	(e)	Automobiles & Components	L+1000, 0.5% PIK (4.0% Max PIK)	1.3%	8/22/20	22,608	22,608	21,280
Checkout Holding Corp.	(k)	Media	L+675	1.0%	4/11/22	10,000	9,953	4,356
Chisholm Oil and Gas Operating, LLC	(j)	Energy	L+800	1.0%	3/21/24	16,000	16,000	15,998
Compuware Corp.	(j)	Software & Services	L+825	1.0%	12/15/22	1,841	1,666	1,850
Crossmark Holdings, Inc.	(k)	Media	L+750	1.3%	12/21/20	7,778	7,788	879
Fairway Group Acquisition Co.	(m)(n)	Food & Staples Retailing	11.0% PIK (11.0% Max PIK)		10/3/21	1,563	1,520	352
Fieldwood Energy LLC	(e)(k)(m)(n)	Energy	L+713	1.3%	9/30/20	1,947	1,602	652
Gruden Acquisition, Inc.	(j)	Transportation	L+850	1.0%	8/18/23	15,000	14,435	14,981
Inmar, Inc.	(k)	Software & Services	L+800	1.0%	5/1/25	2,615	2,579	2,630

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Jazz Acquisition, Inc.	(f)	Capital Goods	L+675	1.0%	6/19/22	\$ 3,700	\$ 3,736	\$ 3,500
JW Aluminum Co.	(e)(f)(k)(y)	Materials	L+850	0.8%	11/17/20	33,874	33,866	34,382
Logan's Roadhouse, Inc.	(y)	Consumer Services	L+850 PIK (L+850 Max PIK)	1.0%	11/23/20	14,728	14,640	6,771
LTI Holdings, Inc.	(j)	Materials	L+875	1.0%	5/16/25	9,259	9,087	9,421
P2 Upstream Acquisition Co.	(k)	Energy	L+800	1.0%	4/30/21	14,500	14,652	13,413
Peak 10 Holding Corp.	(k)	Software & Services	L+725	1.0%	8/1/25	2,786	2,759	2,810
Production Resource Group, LLC	(f)(g)(h)	Media	L+850	1.0%	7/23/19	95,599	95,599	96,256
Spencer Gifts LLC	(k)	Retailing	L+825	1.0%	6/29/22	20,000	20,078	10,800
Talos Production LLC	(g)(j)	Energy	11.0%		4/3/22	4,500	4,213	4,466
Titan Energy Operating, LLC	(g)(j)	Energy	2.0%, L+1100 PIK (L+1100 Max PIK)	1.0%	2/23/20	78,366	67,595	41,557
WP CPP Holdings, LLC	(j)	Capital Goods	L+775	1.0%	4/30/21	6,932	6,913	6,903
Total Senior Secured Loans—Second Lien							<u>385,761</u>	<u>327,135</u>
Other Senior Secured Debt—4.4%								
Advanced Lighting Technologies, Inc.	(y)	Materials	L+700, 10.0% PIK (10.0% Max PIK)	1.0%	10/4/23	10,278	10,278	10,278
Black Swan Energy Ltd.	(o)	Energy	9.0%		1/20/24	1,333	1,333	1,343
FourPoint Energy, LLC	(e)(f)(k)	Energy	9.0%		12/31/21	46,313	44,869	47,065
Global A&T Electronics Ltd.	(e)(k)(m)(n)(o)	Semiconductors & Semiconductor Equipment	10.0%		2/1/19	19,490	19,114	18,069
Mood Media Corp.	(e)(f)(o)(y)	Media	L+600, 8.0% PIK (8.0% Max PIK)	1.0%	6/28/24	23,104	23,104	23,219
Ridgeback Resources Inc.	(e)(o)(w)	Energy	12.0%		12/29/20	331	326	331
Sorenson Communications, Inc.	(j)	Telecommunication Services	9.0%, 0.0% PIK (9.0% Max PIK)		10/31/20	7,058	6,904	7,058
Sunnova Energy Corp.		Energy	6.0%, 6.0% PIK (6.0% Max PIK)		10/24/18	2,117	2,117	2,117
Velvet Energy Ltd.	(o)	Energy	9.0%		10/5/23	15,000	15,000	15,193
Total Other Senior Secured Debt							<u>123,045</u>	<u>124,675</u>

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c)	Amortized Cost	Fair Value ^(d)
Subordinated Debt—12.1%								
Ascent Resources Utica Holdings, LLC	(i)	Energy	10.0%		4/1/22	\$ 40,000	\$ 40,000	\$ 43,226
Aurora Diagnostics, LLC	(j)	Health Care Equipment & Services	10.8%, 1.5% PIK (1.5% Max PIK)		1/15/20	6,143	5,628	5,713
Avantor, Inc.	(k)	Materials / Materials	9.0%		10/1/25	20,000	20,000	19,888
Bellatrix Exploration Ltd.	(o)	Energy	8.5%		5/15/20	5,000	4,947	4,775
Brooklyn Basketball Holdings, LLC	(h)(f)	Consumer Services	L+725		10/25/19	39,746	39,746	40,342
CEC Entertainment, Inc.	(i)	Consumer Services	8.0%		2/15/22	18,715	18,572	17,709
Ceridian HCM Holding, Inc.	(i)(k)	Commercial & Professional Services	11.0%		3/15/21	40,657	40,304	42,534
Coveris Holdings S.A.	(i)(k)(o)	Materials	7.9%		11/1/19	42,534	42,270	42,454
Eclipse Resources Corp.	(i)(o)	Energy	8.9%		7/15/23	9,175	9,028	9,439
EV Energy Partners, L.P.	(e)(m)	Energy	8.0%		4/15/19	259	246	132
Great Lakes Dredge & Dock Corp.	(i)(o)	Capital Goods	8.0%		5/15/22	9,000	9,000	9,453
Greystone Mezzanine Equity Member Corp.	(o)	Diversified Financials	L+650	4.5%	9/15/25	1,011	1,011	1,011
Greystone Mezzanine Equity Member Corp.	(o)(p)	Diversified Financials	L+650	4.5%	9/15/25	18,989	18,989	18,989
Jupiter Resources Inc.	(h)(k)(o)	Energy	8.5%		10/1/22	28,800	27,037	17,784
P.F. Chang's China Bistro, Inc.	(i)(k)(f)	Consumer Services	10.3%		6/30/20	44,078	43,300	40,395
S1 Blocker Buyer Inc.		Commercial & Professional Services	10.0% PIK (10.0% Max PIK)		10/31/22	295	295	330
Sorenson Communications, Inc.	(e)(j)	Telecommunication Services	13.9%, 0.0% PIK (13.9% Max PIK)		10/31/21	5,364	5,119	5,565
SunGard Availability Services Capital, Inc.	(i)	Software & Services	8.8%		4/1/22	5,900	4,632	3,680
TI Group Automotive Systems, LLC	(i)(o)	Automobiles & Components	8.8%		7/15/23	3,408	3,408	3,664
York Risk Services Holding Corp.	(i)(j)(k)	Insurance	8.5%		10/1/22	38,070	35,217	37,499
Total Subordinated Debt						<u>368,749</u>	<u>364,582</u>	
Unfunded Loan Commitments						<u>(18,989)</u>	<u>(18,989)</u>	
Net Subordinated Debt						<u>349,760</u>	<u>345,593</u>	

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c) / Number of Shares	Cost	Fair Value ^(d)
Asset Based Finance—1.6%								
Altus Power America Holdings, LLC, 9.0%, 5.0% PIK, 10/3/2023, Preferred Equity	(t)	Energy				955,284 \$	955 \$	955
CGMS CLO 2013-3A Class Subord.	(o)	Diversified Financials	10.5%		7/15/25	23,263	10,658	14,722
Global Jet Capital Inc.		Commercial & Professional Services	(15.0% Max PIK)		1/30/25	849	849	864
Global Jet Capital Inc.		Commercial & Professional Services	15.0% PIK		4/30/25	5,398	5,398	5,492
Global Jet Capital Inc.		Commercial & Professional Services	(15.0% Max PIK)		9/3/25	1,115	1,115	1,135
Global Jet Capital Inc.		Commercial & Professional Services	15.0% PIK		9/29/25	1,050	1,050	1,068
Global Jet Capital Inc.	(e)(o)	Commercial & Professional Services	(15.0% Max PIK)		12/4/25	7,751	7,751	7,887
Global Jet Capital Inc.	(e)(o)	Commercial & Professional Services	15.0% PIK		12/9/25	1,268	1,268	1,290
Global Jet Capital Inc.	(e)(o)	Commercial & Professional Services	(15.0% Max PIK)		1/29/26	664	664	675
Global Jet Capital Inc.		Commercial & Professional Services	15.0% PIK		12/2/26	2,009	2,009	2,044
NewStar Clarendon 2014-1A Class D	(o)	Diversified Financials	L+435		1/25/27	1,060	1,009	1,062
NewStar Clarendon 2014-1A Class Subord. B	(o)	Diversified Financials	15.8%		1/25/27	12,140	8,768	9,979
							41,494	47,173
Equity/Other—11.6%								
5 Arches, LLC, Common Equity	(o)(f)	Diversified Financials				10,000	250	250
Abaco Energy Technologies LLC, Common Equity	(n)	Energy				3,055,556	3,056	458
Abaco Energy Technologies LLC, Preferred Equity	(n)	Energy				12,734,481	637	2,229
ACP FH Holdings GP, LLC, Common Equity	(e)(n)(y)	Consumer Durables & Apparel				88,571	89	67
ACP FH Holdings, LP, Common Equity	(e)(n)(y)	Consumer Durables & Apparel				8,768,572	8,769	6,668
Advanced Lighting Technologies, Inc., Common Equity	(n)	Materials				265,747	7,471	5,900
Advanced Lighting Technologies, Warrants, 10/4/2027	(n)	Materials				4,189	39	26
Altus Power America Holdings, LLC, Common Equity	(n)	Energy				462,008	462	69
AP Exhaust Holdings, LLC, Class A1 Common Units	(n)(f)	Automobiles & Components				84	—	—
AP Exhaust Holdings, LLC, Class A1 Preferred Units	(n)(f)	Automobiles & Components				8,295	9,248	8,378
Ascent Resources Utica Holdings, LLC, Common Equity	(n)(q)	Energy				128,734,129	38,700	32,184

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^(c) / Number of Shares	Cost	Fair Value ^(d)
ASG Everglades Holdings, Inc., Common Equity	(n)(y)	Software & Services				625,178 \$	13,475 \$	30,727
ASG Everglades Holdings, Inc. Warrants, 6/27/2022	(n)(y)	Software & Services				253,704	7,231	6,951
Aspect Software Parent, Inc., Common Equity	(n)	Software & Services				403,955	19,021	—
ATX Holdings, LLC, Common Equity	(n)(o)	Technology Hardware & Equipment				72,635	116	84
Aurora Diagnostics Holdings, LLC, Warrants, 5/25/2027	(j)(n)	Health Care Equipment & Services				94,193	686	673
BPA Laboratories, Inc., Series A Warrants, 4/29/2024	(j)(n)	Pharmaceuticals, Biotechnology & Life Sciences				10,924	—	—
BPA Laboratories, Inc., Series B Warrants, 4/29/2024	(j)(n)	Pharmaceuticals, Biotechnology & Life Sciences				17,515	—	—
Burleigh Point, Ltd., Warrants, 7/16/2020	(n)(o)	Retailing				3,451,216	1,898	49
Chisholm Oil and Gas Operating, LLC, Series A Units	(n)(f)	Energy				70,947	71	70
Cimarron Energy Holdco Inc., Common Equity	(n)	Energy				3,675,487	3,323	—
Cimarron Energy Holdco Inc., Preferred Equity	(n)	Energy				626,806	627	—
CSF Group Holdings, Inc., Common Equity	(n)	Capital Goods				417,400	417	292
Eastman Kodak Co., Common Equity	(n)(x)	Consumer Durables & Apparel				1,846	36	6
Escape Velocity Holdings, Inc., Common Equity	(n)	Software & Services				33,216	332	784
Fairway Group Holdings Corp., Common Equity	(n)	Food & Staples Retailing				31,626	1,016	—
FourPoint Energy, LLC, Common Equity, Class C-II-A Units	(n)(f)	Energy				13,000	13,000	3,770
FourPoint Energy, LLC, Common Equity, Class D Units	(n)(f)	Energy				2,437	1,610	713
FourPoint Energy, LLC, Common Equity, Class E-II Units	(n)(f)	Energy				29,730	7,432	8,547
FourPoint Energy, LLC, Common Equity, Class E-III Units	(n)(f)	Energy				43,875	10,969	12,724
Global Jet Capital Holdings, LP, Preferred Equity	(e)(n)	Commercial & Professional Services				62,289	6,229	5,606
H.I.G. Empire Holdco, Inc., Common Equity	(n)	Retailing				411	1,227	1,226
Harvey Holdings, LLC, Common Equity	(n)	Capital Goods				666,667	667	1,700
Industrial Group Intermediate Holdings, LLC, Common Equity	(n)(f)	Materials				2,678,947	2,679	4,018
JMC Acquisition Holdings, LLC, Common Equity	(n)	Capital Goods				1,449	1,449	1,964
JSS Holdco, LLC, Net Profits Interest	(n)	Capital Goods				27	—	500
JW Aluminum Co., Common Equity	(e)(k)(n)(y)	Materials				256	—	—
JW Aluminum Co., 12.5% PIK, 11/17/2025, Preferred Equity	(e)(k)(y)	Materials				1,515	12,838	15,074
MB Precision Investment Holdings LLC, Class A-2 Units	(n)(f)	Capital Goods				2,287,659	2,288	—

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company ^(a)	Footnotes	Industry	Rate ^(b)	Floor	Maturity	Principal Amount ^{(c)/ Number of Shares}	Cost	Fair Value ^(d)
Mood Media Corp., Common Equity	(n)(o)(y)	Media				17,400,835 \$	12,644 \$	28,659
North Haven Cadence TopCo, LLC, Common Equity	(n)	Consumer Services				2,916,667	2,917	4,521
PDI Parent LLC, Common Equity	(n)	Capital Goods				2,076,923	2,077	2,181
Professional Plumbing Group, Inc., Common Equity	(e)(n)	Capital Goods				3,000,000	3,000	6,900
PSAV Holdings LLC, Common Equity	(n)	Technology Hardware & Equipment				10,000	10,000	34,000
Ridgeback Resources Inc., Common Equity	(e)(n)(o)(w)	Energy				817,308	5,022	4,962
Roadhouse Holding Inc., Common Equity	(n)(y)	Consumer Services				4,481,763	4,657	—
S1 Blocker Buyer Inc., Common Equity	(n)(o)(x)	Commercial & Professional Services				124	1,240	1,887
SandRidge Energy, Inc., Common Equity	(e)(n)(x)	Energy				253,009	5,647	5,331
Sequential Brands Group, Inc., Common Equity	(e)(n)(x)	Consumer Durables & Apparel				408,685	5,517	727
Sorenson Communications, Inc., Common Equity	(e)(n)	Telecommunication Services				43,796	—	35,917
SSC Holdco Limited, Common Equity	(n)(o)	Health Care Equipment & Services				261,364	5,227	6,247
Sunnova Energy Corp., Common Equity	(n)	Energy				384,746	1,444	—
Sunnova Energy Corp., Preferred Equity	(n)	Energy				70,229	374	283
Swift Worldwide Resources Holdco Limited, Common Equity	(n)(o)(u)	Energy				1,250,000	2,010	687
TE Holdings, LLC, Common Equity	(e)(n)(r)	Energy				717,718	6,101	1,166
TE Holdings, LLC, Preferred Equity	(e)(n)	Energy				475,758	4,751	4,520
The Stars Group Inc., Warrants, 5/15/2024	(n)(o)	Consumer Services				2,000,000	16,832	25,140
Titan Energy, LLC, Common Equity	(e)(n)(x)	Energy				200,040	6,322	304
Warren Resources, Inc., Common Equity	(n)(y)	Energy				2,371,337	11,145	4,031
White Star Petroleum Holdings, LLC, Common Equity	(n)(r)	Energy				1,613,753	1,372	1,210
Zeta Interactive Holdings Corp., Preferred Equity, Series E-1	(n)	Software & Services				620,025	4,929	6,015
Zeta Interactive Holdings Corp., Preferred Equity, Series F	(n)	Software & Services				563,932	4,929	5,261
Zeta Interactive Holdings Corp., Warrants, 4/20/2027	(n)	Software & Services				84,590	—	294
Total Equity/Other						<u>295,515</u>	<u>—</u>	<u>331,950</u>
TOTAL INVESTMENTS—161.1%						<u>\$4,603,708</u>		<u>4,597,594</u>
LIABILITIES IN EXCESS OF OTHER ASSETS—(61.1%)								<u>(1,744,573)</u>
NET ASSETS—100.0%								<u>\$ 2,853,021</u>

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

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

- (b) Certain variable rate securities in the Company's portfolio bear interest at a rate determined by a publicly disclosed base rate plus a basis point spread. As of December 31, 2017, the three-month London Interbank Offered Rate, or LIBOR or L, was 1.69% and the U.S. Prime Lending Rate, or Prime, was 4.50%. PIK means paid-in-kind.
- (c) Denominated in U.S. dollars unless otherwise noted.
- (d) Fair value determined by the Company's board of directors (see Note 8).
- (e) Security or portion thereof held within Cobbs Creek LLC and is pledged as collateral supporting the obligations of Cobbs Creek LLC under the repurchase transaction with JPMorgan Chase Bank, N.A., London Branch (see Note 9).
- (f) Security or portion thereof held within Cooper River LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Citibank, N.A. (see Note 9).
- (g) Security or portion thereof held within Wissahickon Creek LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Wells Fargo Bank, National Association (see Note 9).
- (h) Security or portion thereof held within Darby Creek LLC and is pledged as collateral supporting the amounts outstanding under a revolving credit facility with Deutsche Bank AG, New York Branch (see Note 9).
- (i) Security or portion thereof held within Dunning Creek LLC and is pledged as collateral supporting the amounts outstanding under a revolving credit facility with Deutsche Bank AG, New York Branch (see Note 9).
- (j) Security or portion thereof held within Juniata River LLC and is pledged as collateral supporting the amounts outstanding under a term loan credit facility with JPMorgan Chase Bank, N.A. (see Note 9).
- (k) Security or portion thereof held within Green Creek LLC and is pledged as collateral supporting the amounts outstanding under a term loan with Goldman Sachs Bank USA (see Note 9).
- (l) Position or portion thereof unsettled as of December 31, 2017.
- (m) Security was on non-accrual status as of December 31, 2017.
- (n) Security is non-income producing.
- (o) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended. A business development company may not acquire any asset other than qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. As of December 31, 2017, 90.2% of the Company's total assets represented qualifying assets.
- (p) Security is an unfunded commitment. The stated rate reflects the spread disclosed at the time of commitment and may not indicate the actual rate received upon funding.
- (q) Security held within IC II American Energy Investments, Inc., a wholly-owned subsidiary of the Company.
- (r) Security held within FSIC II Investments, Inc., a wholly-owned subsidiary of the Company.
- (s) Security held within IC II Arches Investments, LLC, a wholly-owned subsidiary of the Company.
- (t) Security held within IC II Altus Investments, LLC, a wholly-owned subsidiary of the Company.
- (u) Investment denominated in British pounds. Cost and fair value are converted into U.S. dollars at an exchange rate of £1.00 to \$1.35 as of December 31, 2017.
- (v) The transfer of a portion of this loan does not qualify for sale accounting under Accounting Standards Codification Topic 860, Transfers and Servicing, and therefore, the entire senior secured loan remains in the unaudited consolidated schedule of investments as of December 31, 2017 (see Note 9).
- (w) Investment denominated in Canadian dollars. Cost and fair value are converted into U.S. dollars at an exchange rate of CAD \$1.00 to \$0.80 as of December 31, 2017.
- (x) Security is classified as Level 1 in the Company's fair value hierarchy (see Note 8).

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company	Fair Value at December 31, 2016	Transfers In or Out	Purchases and Paid-in-Kind Interest	Sales and Repayments	Accretion of Discount	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Fair Value at December 31, 2017	Interest Income ⁽³⁾	PIK Income ⁽³⁾	Fee Income ⁽³⁾
Senior Secured Loans—First Lien											
Advanced Lighting Technologies, Inc.	\$ —	\$ —	\$ 9,055	\$ (1,333)	\$ 63	\$ 4	\$ 1,429	\$ 9,218	\$ 265	\$ —	\$ 403
A.T. Cross Co. ⁽¹⁾	28,081	(31,027)	—	—	(682)	—	3,628	—	(682)	—	—
ASG Everglades Holdings, Inc.	80,505	—	12,509	(91,824)	24	148	(1,362)	—	4,540	508	—
Logan's Roadhouse, Inc. ⁽²⁾	—	—	5,437	(760)	—	—	(8)	4,669	—	544	—
Warren Resources, Inc.	42,122	—	428	—	—	—	1,063	43,613	4,379	428	(180)
Senior Secured Loans—Second Lien											
ASG Everglades Holdings, Inc.	26,179	—	—	(26,989)	408	6,392	(5,990)	—	2,312	—	1,349
JW Aluminum Co.	34,410	—	132	(76)	2	—	(86)	34,382	3,198	132	—
Logan's Roadhouse, Inc.	10,355	—	3,794	—	22	—	(7,400)	6,771	22	743	—
Senior Secured Bonds											
Advanced Lighting Technologies, Inc.	—	—	10,278	—	—	—	—	10,278	152	—	—
Mood Media Corp.	—	23,104	—	—	—	—	115	23,219	3,746	—	—
Subordinated Debt											
Mood Media Corp.	—	6,103	—	(6,930)	47	780	—	—	463	—	—
Equity/Other											
Advanced Lighting Technologies, Inc., Common Equity	—	—	7,471	—	—	—	(1,571)	5,900	—	—	—
Advanced Lighting Technologies, Warrants, 10/4/2027	—	—	39	—	—	—	(13)	26	—	—	—
A.T. Cross Co., Common Equity, Class A Units ⁽¹⁾	—	(1,000)	—	—	—	—	1,000	—	—	—	—
A.T. Cross Co., Preferred Equity, Class A-I Units ⁽¹⁾	—	(243)	—	—	—	—	243	—	—	—	—
A.T. Cross Co., GSO Special Unit ⁽¹⁾	—	—	—	—	—	—	—	—	—	—	—
ASG Everglades Holdings, Inc., Common Equity	29,477	—	—	—	—	—	1,250	30,727	—	—	—
ASG Everglades Holdings, Inc., 6/27/2022, Warrants	6,444	—	—	—	—	—	507	6,951	—	—	—
JW Aluminum Co., Common Equity	11,854	—	—	—	—	—	—	—	—	—	—
JW Aluminum Co., Preferred Equity	—	7,136	1,559	—	—	—	1,661	15,074	222	1,559	—
Mood Media Corp.	—	—	5,508	—	—	—	16,015	28,659	—	—	—
Roadhouse Holding Inc., Common Equity	5,472	—	—	—	—	—	(5,472)	—	—	—	—
Warren Resources, Inc., Common Equity	10,197	—	—	—	—	—	(6,166)	4,031	—	—	—
Total	<u>\$285,096</u>	<u>\$ 4,073</u>	<u>\$56,210</u>	<u>\$(127,912)</u>	<u>\$(116)</u>	<u>\$7,324</u>	<u>\$(1,157)</u>	<u>\$223,518</u>	<u>\$18,617</u>	<u>\$3,914</u>	<u>\$1,572</u>

(y) Under the 1940 Act, the Company generally is deemed to be an "affiliated person" of a portfolio company if it owns 5% or more of the portfolio company's voting securities and generally is deemed to "control" a portfolio company if it owns more than 25% of the portfolio company's voting securities or it has the power to exercise control over the management or policies of such portfolio company. As of December 31, 2017, the Company held investments in portfolio companies of which it is deemed to be an "affiliated person" but is not deemed to be "control". The following table presents certain financial information with respect to investments in portfolio companies of which the Company was deemed to be an affiliated person for the year ended December 31, 2017:

(1) During the year ended December 31, 2017, the Company's ownership increased to over 25% of the portfolio company's voting securities and as a result the Company was deemed to "control" the portfolio company prior to disposition of the investment.

(2) Security includes a partially unfunded commitment as of December 31, 2017 with an amortized cost of \$760 and a fair value of \$752.

(3) Interest, PIK, and fee income presented for the year ended December 31, 2017.

See notes to consolidated financial statements.

FS Investment Corporation II
Consolidated Schedule of Investments (Continued)
As of December 31, 2017
(in thousands, except share amounts)

Portfolio Company	Fair Value at December 31, 2016	Transfers In or Out	Purchases and Paid-in-Kind Interest	Sales and Repayments	Accretion of Discount	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Fair Value at December 31, 2017	Interest Income ⁽²⁾	PIK Income ⁽²⁾	Fee Income ⁽²⁾
Senior Secured Loans—First Lien											
A.T. Cross Co. ⁽¹⁾	\$—	\$31,027	\$9,654	\$(11,099)	\$—	\$(29,582)	\$—	\$—	\$664	\$553	\$—
Equity/Other											
A.T. Cross Co., Common Equity, Class A Units ⁽¹⁾	—	1,000	—	—	—	(1,000)	—	—	—	—	—
A.T. Cross Co., Preferred Equity, Class A-1 Units ⁽¹⁾	—	243	—	—	—	(243)	—	—	—	—	—
A.T. Cross Co., GSO Special Unit ⁽¹⁾	—	—	—	—	—	—	—	—	—	—	—
Total	<u>\$—</u>	<u>\$32,270</u>	<u>\$9,654</u>	<u>\$(11,099)</u>	<u>\$—</u>	<u>\$(30,825)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$664</u>	<u>\$553</u>	<u>\$—</u>

(1) During the year ended December 31, 2017, the Company's ownership increased to over 25% of the portfolio company's voting securities and as a result the Company was deemed to "control" the portfolio company prior to disposition of the investment.

(2) Interest, PIK and fee income presented for the full year ended December 31, 2017.

See notes to consolidated financial statements.

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

Note 1. Principal Business and Organization

FS Investment Corporation II, or the Company, was incorporated under the general corporation laws of the State of Maryland on July 13, 2011 and formally commenced investment operations on June 18, 2012. The Company is an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, the Company has elected to be treated for U.S. federal income tax purposes, and intends to qualify annually, as a regulated investment company, or RIC, as defined under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. As of December 31, 2018, the Company had various wholly-owned subsidiaries, including special-purpose financing subsidiaries and subsidiaries through which it holds interests in portfolio companies. The audited consolidated financial statements include both the Company's accounts and the accounts of its wholly-owned subsidiaries as of December 31, 2018. All significant intercompany transactions have been eliminated in consolidation. Certain of the Company's consolidated subsidiaries are subject to U.S. federal and state income taxes.

The Company's investment objectives are to generate current income and, to a lesser extent, long-term capital appreciation. The Company's portfolio is comprised primarily of investments in senior secured loans and second lien secured loans of private middle-market U.S. companies and, to a lesser extent, subordinated loans of private U.S. companies. In addition, a portion of the Company's portfolio may be comprised of equity and equity-related securities, corporate bonds, structured products, other debt securities and derivatives, including total return swaps and credit default swaps.

The Company is externally managed by FS/KKR Advisor, LLC, or the Advisor, pursuant to an investment advisory and administrative services agreement, dated as of April 9, 2018, or the investment advisory and administrative services agreement. On April 9, 2018, GSO/Blackstone Debt Funds Management LLC, or GDFM, resigned as the investment sub-advisor to the Company and terminated the investment sub-advisory agreement, or the investment sub-advisory agreement, between FSIC II Advisor, LLC, or FSIC II Advisor, and GDFM, effective April 9, 2018. In connection with GDFM's resignation as the investment sub-advisor to the Company, on April 9, 2018, the Company entered into the investment advisory and administrative services agreement, which replaced an investment advisory and administrative services agreement, dated February 8, 2012, or the FSIC II Advisor investment advisory and administrative services agreement, by and between the Company and FSIC II Advisor.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying audited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The Company is considered an investment company under GAAP and follows the accounting and reporting guidance applicable to investment companies under Accounting Standards Codification Topic 946, *Financial Services—Investment Companies*. The Company has evaluated the impact of subsequent events through the date the consolidated financial statements were issued and filed with the U.S. Securities and Exchange Commission, or the SEC.

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

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 Federal Deposit Insurance Corporation.

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

Note 2. Summary of Significant Accounting Policies (continued)

Valuation of Portfolio Investments: The Company determines the fair value of its investment portfolio each quarter. Securities are valued at fair value as determined in good faith by the Company's board of directors. In connection with that determination, the Advisor provides the Company's board of directors with portfolio company valuations which are based on relevant inputs, including, but not limited to, indicative dealer quotes, values of like securities, recent portfolio company financial statements and forecasts, and valuations prepared by independent third-party valuation services.

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

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

- the Company's quarterly fair valuation process begins with the Advisor reviewing and documenting valuations of each portfolio company or investment, which valuations are obtained from an independent third-party valuation service and provide a valuation range;
- the Advisor then provides the valuation committee of the Company's board of directors, or the valuation committee, with its valuation recommendation for each portfolio company or investment, along with supporting materials;
- preliminary valuations are then discussed with the valuation committee;
- the valuation committee reviews the preliminary valuations and the Advisor, together with its independent third-party valuation services, if applicable, supplement the preliminary valuations to reflect any comments provided by the valuation committee;
- following its review, the valuation committee will recommend that the Company's board of directors approve the fair valuations; and
- the Company's board of directors discusses the valuations and determines the fair value of each such investment in the Company's portfolio in good faith based on various statistical and other factors, including the input and recommendation of the Advisor, the valuation committee and any independent third-party valuation services, if applicable.

Determination of fair value involves subjective judgments and estimates. Accordingly, these notes to the Company's audited consolidated 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 consolidated financial statements. In making its determination of fair value, the Company's board of directors may use any approved independent third-party pricing or valuation services. However, the Company's board of directors is not required to determine fair value in accordance with the valuation provided by any single source, and may use any relevant data, including information obtained from the Advisor or any approved independent third-party valuation or pricing service that the Company's board of directors deems to be

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

Note 2. Summary of Significant Accounting Policies (continued)

reliable in determining fair value under the circumstances. Below is a description of factors that the Advisor, any approved independent third-party valuation services and the Company's board of directors may consider when determining the fair value of the Company's 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 may incorporate these factors into discounted cash flow models to arrive at fair value. Other factors that may be considered include the borrower's ability to adequately service its debt, the fair market value of the borrower in relation to the face amount of its outstanding debt and the quality of collateral securing the Company's debt investments.

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

The Company's 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 determination 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 Advisor, any approved independent third-party valuation services and the Company's board of directors may also consider private merger and acquisition statistics, public trading multiples discounted for illiquidity and other factors, valuations implied by third-party investments in the portfolio companies or industry practices in determining fair value. The Advisor, any approved independent third-party valuation services and the Company's board of directors may also consider the size and scope of a portfolio company and its specific strengths and weaknesses, and may apply discounts or premiums, where and as appropriate, due to the higher (or lower) financial risk and/or the smaller size of portfolio companies relative to comparable firms, as well as such other factors as the Company's board of directors, in consultation with the Advisor and any approved independent third-party valuation services, if applicable, may consider relevant in assessing fair 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.

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

The fair values of the Company's investments are determined in good faith by the Company's board of directors. The Company's board of directors is 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 board of directors has delegated day-to-day responsibility for implementing its valuation policy to the Advisor, and has authorized the Advisor to

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

Note 2. Summary of Significant Accounting Policies (continued)

utilize independent third-party valuation and pricing services that have been approved by the Company's board of directors. The valuation committee is responsible for overseeing the Advisor's implementation of the 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 records dividend income on the ex-dividend date. Distributions received from limited liability company ("LLC") and limited partnership ("LP") investments are evaluated to determine if the distribution should be recorded as dividend income or a return of capital. The Company does not accrue as a receivable interest or dividends on loans and securities if it has reason to doubt its ability to collect such income. The Company's policy is to place investments on non-accrual status when there is reasonable doubt that interest income will be collected. The Company considers many factors relevant to an investment when placing it on or removing it from non-accrual status including, but not limited to, the delinquency status of the investment, economic and business conditions, the overall financial condition of the underlying investment, the value of the underlying collateral, bankruptcy status, if any, and any other facts or circumstances relevant to the investment. If there is reasonable doubt that the Company will receive any previously accrued interest, then the interest income will be written-off. Payments received on non-accrual investments may be recognized as income or applied to principal depending upon the collectability of the remaining principal and interest. Non-accrual investments may be restored to accrual status when principal and interest become current and are likely to remain current based on the Company's judgment.

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

Effective January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers, or ASC Topic 606, using the cumulative effect method applied to in-scope contracts with customers that have not been completed as of the date of adoption. The Company did not identify any in-scope contracts that had not been completed as of the date of adoption and, as a result, the Company did not recognize a cumulative effect on stockholders' equity in connection with the adoption of the new revenue recognition guidance.

The new revenue recognition guidance applies to all entities and all contracts with customers to provide goods or services in the ordinary course of business, excluding, among other things, financial instruments as well as certain other contractual rights and obligations. Under the new revenue recognition guidance, which the Company has applied to all new in-scope contracts as of the date of adoption, structuring and other upfront fees are recognized as revenue based on the transaction price as the performance obligation is fulfilled. The related performance obligation consists of structuring activities and is satisfied over time as such activities are performed. Consideration is variable and is constrained from being included in the transaction price until the uncertainty associated with the variable consideration is resolved, typically as of the trade date of the related transaction. Payment is typically due on the settlement date of the related transaction.

For the year ended December 31, 2018, the Company recognized \$8,674 in structuring fee revenue under the new revenue recognition guidance and included such revenue in the fee income line item on its consolidated statement of operations. Comparative periods are presented in accordance with revenue

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

Note 2. Summary of Significant Accounting Policies (continued)

recognition guidance effective prior to January 1, 2018, under which the Company recorded structuring and other non-recurring upfront fees as income when earned. The Company has determined that the adoption of the new revenue recognition guidance did not have a material impact on the amount of revenue recognized for the year ended December 31, 2018.

Net Realized Gains or Losses, Net Change in Unrealized Appreciation or Depreciation and Net Change in Unrealized Gains or Losses on Foreign Currency: Gains or losses on the sale of investments are calculated by using the specific identification method. 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 fees. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized gains or losses when gains or losses are realized. Net change in unrealized gains or losses on foreign currency reflects the change in the value of receivables or accruals during the reporting period due to the impact of foreign currency fluctuations.

Capital Gains Incentive Fee: Pursuant to the terms of the investment advisory and administrative services agreement, the incentive fee on capital gains is determined and payable in arrears as of the end of each calendar year (or upon termination of 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 capital gain incentive fees previously paid by the Company. On a quarterly basis, the Company accrues for the capital gains incentive fee by calculating such fees as if it were due and payable as of the end of such period.

The Company includes unrealized gains in the calculation of the capital gains incentive fee expense and related accrued capital gains incentive fee. This accrual reflects the incentive fees that would be payable to the Advisor if the Company's entire portfolio was liquidated at its fair value as of the balance sheet date even though the Advisor is not entitled to an incentive fee with respect to unrealized gains unless and until such gains are actually realized.

Subordinated Income Incentive Fee: Pursuant to the terms of the investment advisory and administrative services agreement, the Advisor may also be entitled to receive a subordinated incentive fee on income. The subordinated incentive fee on income under the investment advisory and administrative services agreement, which is calculated and payable quarterly in arrears, equals 20.0% of the Company's "pre-incentive fee net investment income" for the immediately preceding quarter and is subject to a hurdle rate, expressed as a rate of return on adjusted capital equal to 1.75% per quarter (1.875% under the FSIC II Advisor investment advisory and administrative services agreement), or an annualized hurdle rate of 7.0% (7.5% under the FSIC II Advisor investment advisory and administrative services agreement). For purposes of this fee, "adjusted capital" means cumulative gross proceeds generated from sales of the Company's common stock (including proceeds from its distribution reinvestment plan) reduced for distributions paid to stockholders from proceeds of non-liquidating dispositions of the Company's investments and amounts paid for share repurchases pursuant to the Company's share repurchase program. As a result, the Advisor will not earn this incentive fee for any quarter until the Company's pre-incentive fee net investment income for such quarter exceeds the hurdle rate of 1.75% (1.875% under the FSIC II Advisor investment advisory and administrative services agreement). Once the Company's pre-incentive fee net investment income in any quarter exceeds the hurdle rate, the Advisor will be entitled to a "catch-up" fee equal to the amount of the Company's pre-incentive fee net investment income in excess of the hurdle rate, until the Company's pre-incentive fee net investment income for such quarter equals 2.1875%, or 8.75% annually (2.34375%, or 9.375% annually under the FSIC II Advisor investment advisory and administrative services agreement), of

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

Note 2. Summary of Significant Accounting Policies (continued)

the Company's adjusted capital. Thereafter, the Advisor will be entitled to receive 20.0% of the Company's pre-incentive fee net investment income.

Income Taxes: The Company has elected to be treated for U.S. federal income tax purposes, and intends to qualify annually, as a RIC under Subchapter M of the Code. To qualify for and maintain qualification as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements, as well as distribute to its stockholders, for each tax year, at least 90% of its "investment company taxable income," which is generally the Company's net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses, determined without regard to any deduction for distributions paid. As a RIC, the Company will not have to pay corporate-level U.S. federal income taxes on any income that it distributes to its stockholders. The Company intends to make distributions in an amount sufficient to qualify for and maintain its RIC tax status each tax year and to not pay any U.S. federal income taxes on income so distributed. The Company is also subject to nondeductible federal excise taxes if it does not distribute in respect of each calendar year an amount at least equal to the sum of 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 U.S. federal income taxes. The Company accrued \$2,483, \$2,190 and \$1,968 in estimated excise taxes payable in respect of income received during the years ended December 31, 2018, 2017 and 2016, respectively. During the years ended December 31, 2018, 2017 and 2016, the Company paid \$2,585, \$1,825 and \$2,069, respectively, in excise and other 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 benefits or liabilities in the Company's consolidated financial statements. Recognition of a tax benefit or liability with respect to an uncertain tax position is required only when the position is "more likely than not" to be sustained assuming examination by taxing authorities. The Company recognizes interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in its consolidated statements of operations. During the years ended December 31, 2018, 2017 and 2016, 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 for uncertain tax positions 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 the Company's stockholders are recorded as of the record date. Subject to the restrictions and discretion of the Company's board of directors and applicable legal restrictions, the Company intends to declare regular cash distributions on a quarterly basis and pay such distributions on a monthly basis. Net realized capital gains, if any, are distributed or deemed distributed at least annually.

Partial Loan Sales: The Company follows the guidance in Accounting Standards Codification Topic 860, *Transfers and Servicing*, or ASC Topic 860, when accounting for loan participations and other partial loan sales. This guidance requires a participation or other partial loan sale to meet the definition of a participating interest, as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain on the Company's consolidated balance sheets and the proceeds are recorded as a secured borrowing until the participation or other partial loan sale meets the definition. Secured borrowings are carried at fair value to correspond with the related investments, which are carried at fair value. See Note 9 for additional information.

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

Note 2. Summary of Significant Accounting Policies (continued)

Reclassifications: Certain amounts in the consolidated financial statements for the years ended December 31, 2017 and 2016 have been reclassified to conform to the classifications used to prepare the consolidated financial statements for the year ended December 31, 2018. These reclassifications had no material impact on the Company's consolidated financial position, results of operations or cash flows as previously reported.

Derivative Instruments: The Company recognizes all derivative instruments as assets or liabilities at fair value in its consolidated financial statements. Derivative contracts entered into by the Company are not designated as hedging instruments, and as a result, the Company presents changes in fair value through net change in unrealized appreciation (depreciation) on derivative instruments in the consolidated statements of operations. Realized gains and losses that occur upon the cash settlement of the derivative instruments are included in net realized gains (losses) on derivative instruments in the consolidated statements of operations.

Recent Accounting Pronouncements: In August 2018, the FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement—Disclosures Framework—Changes to Disclosure Requirements of Fair Value Measurement* (Topic 820), or ASU 2018-13. ASU 2018-13 introduces new fair value disclosure requirements and eliminates and modifies certain existing fair value disclosure requirements. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2018-13 on its financial statements.

Note 3. Share Transactions

Below is a summary of transactions with respect to shares of the Company's common stock during the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,					
	2018		2017		2016	
	Shares	Amount	Shares	Amount	Shares	Amount
Reinvestment of Distributions . . .	13,007,438	\$ 110,569	13,588,265	\$ 122,786	16,100,331	\$138,013
Share Repurchase Program	(13,310,455)	(114,173)	(13,749,655)	(124,590)	(10,698,480)	(91,792)
Net Proceeds from Share Transactions	<u>(303,017)</u>	<u>\$ (3,604)</u>	<u>(161,390)</u>	<u>\$ (1,804)</u>	<u>5,401,851</u>	<u>\$ 46,221</u>

During the period from January 1, 2019 to March 12, 2019, the Company issued 2,116,898 shares of common stock pursuant to its distribution reinvestment plan, or DRP, for gross proceeds of \$17,041 at an average price per share of \$8.05.

Share Repurchase Program

The Company intends to continue to conduct quarterly tender offers pursuant to its share repurchase program. The Company's board of directors will consider the following factors, among others, in making its determination regarding whether to cause the Company to offer to repurchase shares of common stock 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 the Company's assets (including fees and costs associated with disposing of assets);
- the Company's investment plans and working capital requirements;

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

Note 3. Share Transactions (continued)

- the relative economies of scale with respect to the Company's size;
- the Company's history in repurchasing shares of common stock or portions thereof; and
- the condition of the securities markets.

Historically, the Company limited the number of shares of common stock to be repurchased during any calendar year to the lesser of (i) the number of shares of common stock that the Company could repurchase with the proceeds it received from the issuance of shares of common stock under the DRP and (ii) 10% of the weighted average number of shares of common stock outstanding in the prior calendar year, or 2.5% in each calendar quarter. On May 8, 2017, the board of directors of the Company amended the share repurchase program. As amended, the Company limits the maximum number of shares of common stock to be repurchased for any repurchase offer to the greater of (A) the number of shares of common stock that the Company can repurchase with the proceeds it has received from the sale of shares of common stock under the DRP during the twelve-month period ending on the date the applicable repurchase offer expires (less the amount of proceeds used to repurchase shares of common stock on each previous repurchase date for repurchase offers conducted during such twelve-month period) (the Company refers to this limitation as the twelve-month repurchase limitation) and (B) the number of shares of common stock that the Company can repurchase with the proceeds it received from the sale of shares of common stock under the DRP during the three-month period ending on the date the applicable repurchase offer expires (the Company refers to this limitation as the three-month repurchase limitation). In addition to this limitation, the maximum number of shares of common stock to be repurchased for any repurchase offer will also be limited to 10% of the weighted average number of shares of common stock outstanding in the prior calendar year, or 2.5% in each calendar quarter. As a result, the maximum number of shares of common stock to be repurchased for any repurchase offer will not exceed the lesser of (i) 10% of the weighted average number of shares of common stock outstanding in the prior calendar year, or 2.5% in each calendar quarter, and (ii) whichever is greater of the twelve-month repurchase limitation described in clause (A) above and the three-month repurchase limitation described in clause (B) above. 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 the liquidation of securities investments as of the end of the applicable period to repurchase shares of common stock. The actual number of shares of common stock that the Company offers to repurchase may be less in light of the limitations noted above. The Company's board of directors may amend, suspend or terminate the share repurchase program at any time upon 30 days' notice.

Under the Company's share repurchase program, the Company intends to offer to repurchase shares of common stock at a price equal to the price at which shares of common stock are issued pursuant to the DRP on the distribution date coinciding with the applicable share repurchase date. The price at which shares of common stock are issued under the DRP is determined by the Company's board of directors or a committee thereof, in its sole discretion, and will be (i) not less than the net asset value per share of the Company's common stock as determined in good faith by the Company's board of directors or a committee thereof, in its sole discretion, immediately prior to the payment date of the distribution and (ii) not more than 2.5% greater than the net asset value per share as of such date.

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

Note 3. Share Transactions (continued)

The following table provides information concerning the Company's repurchases of shares of common stock pursuant to its share repurchase program during the years ended December 31, 2018, 2017 and 2016:

For the Three Months Ended	Repurchase Date	Shares Repurchased	Percentage of Shares Tendered That Were Repurchased	Percentage of Outstanding Shares Repurchased	Repurchase Price Per Share	Aggregate Consideration for Repurchased Shares
Fiscal 2016						
December 31, 2015	January 4, 2016	1,779,357	100%	0.55%	\$8.55	\$ 15,214
March 31, 2016	April 1, 2016	2,715,325	100%	0.84%	\$8.30	22,537
June 30, 2016	July 1, 2016	2,874,151	100%	0.88%	\$8.55	24,574
September 30, 2016	October 1, 2016	3,329,647	100%	1.02%	\$8.85	29,467
Total		<u>10,698,480</u>				<u>\$ 91,792</u>
Fiscal 2017						
December 31, 2016	January 3, 2017	2,344,810	100%	0.72%	\$8.95	\$ 20,986
March 31, 2017	April 3, 2017	3,353,328	100%	1.02%	\$9.10	30,515
June 30, 2017	July 3, 2017	4,513,119	100%	1.38%	\$9.10	41,069
September 30, 2017	October 2, 2017	3,538,398	55%	1.08%	\$9.05	32,020
Total		<u>13,749,655</u>				<u>\$124,590</u>
Fiscal 2018						
December 31, 2017	January 12, 2018	3,408,305	28%	1.04%	\$8.80	\$ 29,993
March 31, 2018	April 2, 2018	3,367,488	21%	1.03%	\$8.60	28,960
June 30, 2018	July 3, 2018	3,296,879	20%	1.01%	\$8.50	28,023
September 30, 2018	October 5, 2018	3,237,783	17%	0.99%	\$8.40	27,197
Total		<u>13,310,455</u>				<u>\$114,173</u>

On January 2, 2019, the Company repurchased 3,283,214 shares of common stock (representing 16.6% of the shares of the common stock tendered for repurchase and 1.01% of the shares outstanding as of such date) at \$8.05 per share for aggregate consideration totaling \$26,430.

Note 4. Related Party Transactions

Compensation of the Investment Adviser

Pursuant to the investment advisory and administrative services agreement, the Adviser is entitled to a base management fee calculated at an annual rate of 1.50% of the average weekly value of the Company's gross assets (gross assets equal the total assets of the Company as set forth on the Company's consolidated balance sheets) and an incentive fee based on the Company's performance. The base management fee is payable quarterly in arrears. All or any part of the base management fee not taken as to any quarter shall be deferred without interest and may be taken in such other quarter as the adviser shall determine. See Note 2 for a discussion of the capital gains and subordinated income incentive fees that the Adviser may be entitled to under the investment advisory and administrative services agreement.

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

Note 4. Related Party Transactions (continued)

Pursuant to the FSIC II Advisor investment advisory and administrative services agreement, which was in effect until April 9, 2018, FSIC II Advisor was entitled to an annual base management fee equal to 2.0% of the average value of the Company's gross assets (gross assets equal the total assets of the Company as set forth on the Company's consolidated balance sheets) and an incentive fee based on the Company's performance. Effective March 5, 2015, FSIC II Advisor had agreed to permanently waive 0.25% of its base management fee to which it was entitled under the FSIC II Advisor investment advisory and administrative services agreement, so that the fee received equaled 1.75% of the average value of the Company's gross assets. Pursuant to the investment sub-advisory agreement, GDFM was entitled to receive 50% of all management and incentive fees payable to FSIC II Advisor under the FSIC II Advisor investment advisory and administrative services agreement with respect to each year.

Pursuant to the investment advisory and administrative services agreement, the Advisor oversees the Company's day-to-day operations, including the provision of general ledger accounting, fund accounting, legal services, investor relations, certain government and regulatory affairs activities, and other administrative services. The Advisor also performs, or oversees the performance of, the Company's corporate operations and required administrative services, which includes being responsible for the financial records that the Company is required to maintain and preparing reports for the Company's stockholders and reports filed with the SEC. In addition, the Advisor assists the Company in calculating its net asset value, overseeing the preparation and filing of tax returns and the printing and dissemination of reports to the Company's stockholders, and generally overseeing the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others.

Pursuant to the investment advisory and administrative services agreement, the Company reimburses the Advisor for expenses necessary to perform services related to its administration and operations, including the Advisor's allocable portion of the compensation and related expenses of certain personnel of Franklin Square Holdings, L.P. (which does business as FS Investments) and KKR Credit Advisors (US), LLC, or KKR Credit, for providing administrative services to the Company on behalf of the Advisor. The Company reimburses the Advisor no less than monthly for expenses necessary to perform services related to the Company's administration and operations. The amount of this reimbursement is set at the lesser of (1) the Advisor's actual costs incurred in providing such services and (2) the amount that the Company estimates it would be required to pay alternative service providers for comparable services in the same geographic location. The Advisor allocates the cost of such services to the Company based on factors such as total assets, revenues, time allocations and/or other reasonable metrics. The Company's board of directors reviews the methodology employed in determining how the expenses are allocated to the Company and the proposed allocation of administrative expenses among the Company and certain affiliates of the Advisor. The Company's board of directors then assesses the reasonableness of such reimbursements for expenses allocated to it based on the breadth, depth and quality of such services as compared to the estimated cost to the Company of obtaining similar services from third-party service providers known to be available. In addition, the Company's board of directors considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, the Company's board of directors compares the total amount paid to the Advisor for such services as a percentage of the Company's net assets to the same ratio as reported by other comparable BDCs. The administrative services provisions of the FSIC II Advisor investment advisory and administrative services agreement were substantially similar to the administrative services provisions of the investment advisory and administrative services agreement.

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

Note 4. Related Party Transactions (continued)

The following table describes the fees and expenses accrued under the investment advisory and administrative services agreement and the FSIC II Advisor investment advisory and administrative services agreement, as applicable, during the years ended December 31, 2018, 2017 and 2016:

Related Party	Source Agreement	Description	Year Ended December 31,		
			2018	2017	2016
FSIC II Advisor and the Advisor	FSIC II Advisor Investment Advisory and Administrative Services Agreement and Investment Advisory and Administrative Services Agreement	Base Management Fee ⁽¹⁾	\$75,562	\$89,974	\$85,475
FSIC II Advisor and the Advisor	FSIC II Advisor Investment Advisory and Administrative Services Agreement and Investment Advisory and Administrative Services Agreement	Subordinated Incentive Fee on Income ⁽²⁾	\$24,790	\$61,481	\$62,329
FSIC II Advisor and the Advisor	FSIC II Advisor Investment Advisory and Administrative Services Agreement and Investment Advisory and Administrative Services Agreement	Administrative Services Expenses ⁽³⁾	\$ 3,313	\$ 3,329	\$ 3,736

- (1) FSIC II Advisor agreed, effective March 5, 2015, to permanently waive a portion of the base management fee to which it was entitled under the FSIC II Advisor investment advisory and administrative services agreement so that the fee received equaled 1.75% of the average value of the Company's gross assets. As a result, the amounts shown for the years ended December 31, 2018, 2017 and 2016 are net of waivers of \$3,432, \$12,853 and \$12,211, respectively. During the years ended December 31, 2018, 2017 and 2016, \$80,901, \$88,989 and \$85,394, respectively, in base management fees were paid to FSIC II Advisor and the Advisor. As of December 31, 2018, \$17,256 in base management fees were payable to the Advisor.
- (2) During the years ended December 31, 2018, 2017 and 2016, \$38,123, \$58,845 and \$62,090, respectively, of subordinated incentive fees on income were paid to FSIC II Advisor and the Advisor. As of December 31, 2018, a subordinated incentive fee on income of \$5,796 was payable to the Advisor.
- (3) During the years ended December 31, 2018, 2017 and 2016, \$2,783, \$3,184 and \$3,573, respectively, of the accrued administrative services expenses related to the allocation of costs of administrative personnel for services rendered to the Company by FSIC II Advisor and the Advisor and the remainder related to other reimbursable expenses. The Company paid \$3,516, \$3,553 and \$4,336, in administrative services expenses to FSIC II Advisor and the Advisor during the years ended December 31, 2018, 2017 and 2016, respectively.

Potential Conflicts of Interest

The members of the senior management and investment teams of the Advisor serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as the Company does, or of investment vehicles managed by the same personnel. For example, the Advisor is the investment adviser to FS KKR Capital Corp., FS Investment Corporation III, FS Investment Corporation IV and Corporate Capital Trust II, and the officers, managers and other personnel of the Advisor may serve in similar or other capacities for the investment advisers to future investment vehicles affiliated with FS Investments or KKR Credit. In serving in these multiple and other capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the Company's best interests or in the best interest of the Company's stockholders. The Company's investment objectives may overlap with the investment objectives of such investment funds, accounts or other investment vehicles.

Exemptive Relief

As a BDC, the Company is subject to certain regulatory restrictions in making its investments. For example, BDCs generally are not permitted to co-invest with certain affiliated entities in transactions

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

Note 4. Related Party Transactions (continued)

originated by the BDC or its affiliates in the absence of an exemptive order from the SEC. However, BDCs are permitted to, and may, simultaneously co-invest in transactions where price is the only negotiated term.

In an order dated June 4, 2013, or the FS Order, the SEC granted exemptive relief permitting the Company, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions with certain affiliates of FSIC II Advisor, including FS Energy and Power Fund, FS KKR Capital Corp., FS Investment Corporation III, FS Investment Corporation IV and any future BDCs that are advised by FSIC II Advisor or its affiliated investment advisers. However, in connection with the investment advisory relationship with the Advisor, and in an effort to mitigate potential future conflicts of interest, the Company's board of directors authorized and directed that the Company (i) withdraw from the FS Order, except with respect to any transaction in which the Company participated in reliance on the FS Order prior to April 9, 2018, and (ii) rely on an exemptive relief order, dated April 3, 2018, that permits the Company, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions, including investments originated and directly negotiated by the Advisor or KKR Credit, with certain affiliates of the Advisor.

Note 5. Distributions

The following table reflects the cash distributions per share that the Company declared and paid on its common stock during the years ended December 31, 2018, 2017 and 2016:

For the Year Ended December 31,	Distribution	
	Per Share	Amount
2016	\$0.7540	\$244,088
2017	\$0.7540	\$244,970
2018	\$0.7540	\$244,565

The Company intends to declare regular cash distributions on a quarterly basis and pay such distributions on a monthly basis. On November 6, 2018 and February 19, 2019, the Company's board of directors declared regular monthly cash distributions for January 2019 through March 2019 and April 2019 through June 2019, respectively, each in the amount of \$0.06283 per share. These distributions have been or will be paid monthly to stockholders of record as of monthly record dates previously determined by the Company's board of directors. 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 cash distribution, its stockholders will receive the distribution in cash unless they specifically "opt in" to the DRP so as to have their cash distributions reinvested in additional shares of the Company's common stock. However, certain state authorities or regulators may impose restrictions from time to time that may prevent or limit a stockholder's ability to participate in the DRP.

Under the Company's DRP, cash distributions to participating stockholders will be reinvested in additional shares of the Company's common stock at a purchase price determined by the Company's board of directors, or a committee thereof, in its sole discretion, that is (i) not less than the net asset value per share of the Company's common stock as determined in good faith by the Company's board of directors or a committee thereof, in its sole discretion, immediately prior to the payment of the distribution and (ii) not more than 2.5% greater than the net asset value per share of the Company's common stock as of such date. Although distributions paid in the form of additional shares of common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, stockholders who elect to

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

Note 5. Distributions (continued)

participate in the Company's DRP will not receive any corresponding cash distributions with which to pay any such applicable taxes. Stockholders receiving distributions in the form of additional shares of common stock will be treated as receiving a distribution in the amount of the fair market value of the Company's shares of common stock.

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

The following table reflects the sources of the cash distributions on a tax basis that the Company paid on its common stock during the years ended December 31, 2018, 2017 and 2016:

Source of Distribution	Year Ended December 31,					
	2018		2017		2016	
	Distribution Amount	Percentage	Distribution Amount	Percentage	Distribution Amount	Percentage
Offering proceeds	\$ —	—	\$ —	—	\$ —	—
Borrowings	—	—	—	—	—	—
Net investment income ⁽¹⁾	244,565	100%	244,970	100%	238,200	98%
Short-term capital gains proceeds from the sale of assets	—	—	—	—	—	—
Long-term capital gains proceeds from the sale of assets	—	—	—	—	5,888	2%
Gains from credit default swaps (ordinary income for tax)	—	—	—	—	—	—
Non-capital gains proceeds from the sale of assets	—	—	—	—	—	—
Distributions on account of preferred and common equity	—	—	—	—	—	—
Expense reimbursement from sponsor	—	—	—	—	—	—
Total	<u>\$244,565</u>	<u>100%</u>	<u>\$244,970</u>	<u>100%</u>	<u>\$244,088</u>	<u>100%</u>

(1) During the years ended December 31, 2018, 2017 and 2016, 94.5%, 93.2% and 92.3%, respectively, of the Company's gross investment income was attributable to cash income earned, 1.6%, 1.9% and 2.7%, respectively, was attributable to non-cash accretion of discount and 3.9%, 4.9% and 5.0%, respectively, was attributable to paid-in-kind, or PIK, interest.

The Company's net investment income on a tax basis for the years ended December 31, 2018, 2017 and 2016 was \$232,110, \$258,183 and \$249,910, respectively. As of December 31, 2018 and 2017, the Company had \$58,028 and \$70,483 of undistributed net investment income and \$194,360 and \$202,496 of accumulated capital losses on a tax basis.

The Company's undistributed net investment income on a tax basis as of December 31, 2017 was adjusted following the filing of the Company's 2017 tax return in October 2018. The adjustment was

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

Note 5. Distributions (continued)

primarily due to tax-basis income received by the Company during the year ended December 31, 2017 exceeding GAAP-basis income on account of certain collateralized securities and interests in partnerships held in its investment portfolio during such period. The tax notices for such collateralized securities and interests in partnerships were received by the Company subsequent to the filing of the Company's annual report on Form 10-K for the year ended December 31, 2017.

The difference between the Company's GAAP-basis net investment income and its tax-basis net investment income is primarily due to the reclassification of unamortized original issue discount and prepayment fees recognized upon prepayment of loans from income for GAAP purposes to realized gains or deferred to future periods for tax purposes, the impact of consolidating certain subsidiaries for purposes of computing GAAP-basis net investment income but not for purposes of computing tax-basis net investment income and income recognized for tax purposes on certain transactions but not recognized for GAAP purposes.

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, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
GAAP-basis net investment income	\$236,363	\$271,355	\$254,528
Income subject to tax not recorded for GAAP	3,683	(856)	6,763
Excise taxes	2,483	2,190	1,968
GAAP versus tax-basis of consolidation of certain subsidiaries	7,021	7,918	5,587
Reclassification of unamortized original issue discount and prepayment fees	(17,420)	(23,081)	(18,920)
Other miscellaneous differences	(20)	657	(16)
Tax-basis net investment income	<u>\$232,110</u>	<u>\$258,183</u>	<u>\$249,910</u>

The Company may make certain adjustments to the classification of stockholders' equity as a result of permanent book-to-tax differences. During the year ended December 31, 2018, the Company increased accumulated earnings (loss) by \$10,349 and decreased capital in excess of par value by and \$10,349. During the year ended December 31, 2017, the Company increased accumulated earnings (loss) on investments and gain (loss) on foreign currency and undistributed net investment income by \$9,241 respectively, and decreased capital in excess of par value by \$9,241.

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. The actual tax characteristics of distributions to stockholders are reported to stockholders annually on Form 1099-DIV.

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

Note 5. Distributions (continued)

As of December 31, 2018 and 2017, the components of accumulated earnings on a tax basis were as follows:

	December 31,	
	2018	2017
Distributable ordinary income	\$ 58,028	\$ 70,483
Capital loss carryover ⁽¹⁾	(194,360)	(202,496)
Other temporary differences	(139)	(168)
Net unrealized appreciation (depreciation) on investments, secured borrowing and gain (loss) on foreign currency ⁽²⁾	(287,442)	(20,073)
Total	<u><u>\$ (423,913)</u></u>	<u><u>\$ (152,254)</u></u>

(1) Net capital losses recognized for tax years beginning after December 22, 2010, may be carried forward indefinitely, and their character is retained as short-term or long-term losses. As of December 31, 2018, the Company had short-term and long-term capital loss carryforwards available to offset future realized capital gains of \$0 and \$194,360, respectively.

(2) As of December 31, 2018 and 2017, the gross unrealized appreciation was \$135,578 and \$208,211, respectively. As of December 31, 2018 and 2017, the gross unrealized depreciation was \$423,020 and \$228,284, respectively.

The aggregate cost of the Company's investments for U.S. federal income tax purposes totaled \$4,647,131 and \$4,617,073 as of December 31, 2018 and 2017, respectively. The aggregate net unrealized appreciation (depreciation) on investments on a tax basis was \$(287,851) and \$(19,479) as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, the Company had a deferred tax liability of \$5,310 resulting from unrealized appreciation on investments held by the Company's wholly-owned taxable subsidiaries and a deferred tax asset of \$21,093 resulting from net operating losses and capital losses of the Company's wholly-owned taxable subsidiaries. As of December 31, 2018, the wholly-owned taxable subsidiaries anticipated that they would be unable to fully utilize their generated net operating losses, therefore the deferred tax asset was offset by a valuation allowance of \$15,783. For the year ended December 31, 2018, the Company did not record a provision for taxes related to its wholly-owned taxable subsidiaries.

FS Investment Corporation II
Notes to Consolidated Financial Statements (continued)
(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, 2018 and 2017:

	December 31, 2018			December 31, 2017		
	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio
Senior Secured Loans—First Lien . . .	\$3,382,158	\$3,293,291	75%	\$3,408,133	\$3,421,070	74%
Senior Secured Loans—Second Lien . .	418,015	333,986	8%	385,761	327,135	7%
Other Senior Secured Debt	207,181	196,616	5%	123,045	124,673	3%
Subordinated Debt	242,792	221,858	5%	349,760	345,593	8%
Asset Based Finance	42,050	46,152	1%	41,494	47,173	1%
Equity/Other	268,409	267,377	6%	295,515	331,950	7%
Total	\$4,560,605	\$4,359,280	100%	\$4,603,708	\$4,597,594	100%

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

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

As of December 31, 2018, the Company did not “control” any of its portfolio companies. As of December 31, 2018, the Company held investments in seven portfolio companies of which it is deemed to be an “affiliated person” but is not deemed to “control.” For additional information with respect to such portfolio companies, see footnote (u) to the consolidated schedule of investments as of December 31, 2018.

As of December 31, 2017, the Company did not “control” any of its portfolio companies. During the year, the company held investments in one portfolio company of which it was deemed to “control” which was sold prior to December 31, 2017. As of December 31, 2017, the Company held investments in six portfolio companies of which it is deemed to be an “affiliated person” but is not deemed to “control”. For additional information with respect to such portfolio companies, see footnote (x) to the consolidated schedule of investments as of December 31, 2017.

The Company's investment portfolio may contain loans and other unfunded arrangements that are in the form of lines of credit, revolving credit facilities, delayed draw credit facilities or other investments, pursuant to which the Company may be required to provide funding when requested by portfolio companies in accordance with the terms of the underlying agreements. As of December 31, 2018, the Company had unfunded debt investments with aggregate unfunded commitments of \$172,963 and an unfunded commitment to purchase up to \$47 in shares of preferred stock of Altus Power America Holdings, LLC. As of December 31, 2017, the Company had twenty-two unfunded debt investments with aggregate unfunded commitments of \$260,966, one unfunded commitment to purchase up to \$295 in shares of preferred stock of Altus Power America Holdings, LLC and one unfunded commitment to purchase up to \$4 in shares of common stock of Chisholm Oil and Gas, LLC. The Company maintains sufficient cash on hand, available borrowings and liquid securities to fund such unfunded commitments should the need arise. For additional details regarding the Company's unfunded debt investments, see the Company's audited consolidated schedule of investments as of December 31, 2018 and December 31, 2017.

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

Note 6. Investment Portfolio (continued)

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, 2018 and 2017:

Industry Classification	December 31, 2018		December 31, 2017	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Automobiles & Components	\$ 34,508	1%	\$ 33,322	1%
Capital Goods	893,250	21%	787,878	17%
Commercial & Professional Services	328,760	8%	501,745	11%
Consumer Durables & Apparel	227,470	5%	351,135	8%
Consumer Services	231,589	5%	394,163	9%
Diversified Financials	277,500	6%	76,847	2%
Energy	372,720	9%	499,739	11%
Food & Staples Retailing	6,797	0%	3,477	0%
Food, Beverage & Tobacco	96,787	2%	52,484	1%
Health Care Equipment & Services	361,228	8%	261,085	6%
Insurance	117,149	3%	118,271	2%
Materials	295,084	7%	423,964	9%
Media	254,278	6%	298,418	6%
Pharmaceuticals, Biotechnology & Life Sciences	20,012	0%	3,239	0%
Retailing	257,260	6%	182,631	4%
Semiconductors & Semiconductor Equipment	14,155	0%	18,069	0%
Software & Services	339,451	8%	284,561	6%
Technology Hardware & Equipment	46,178	1%	78,154	2%
Telecommunication Services	168,930	4%	147,780	3%
Transportation	16,174	0%	80,632	2%
Total	<u>\$4,359,280</u>	<u>100%</u>	<u>\$4,597,594</u>	<u>100%</u>

Note 7. Financial Instruments

The following is a summary of the fair value and location of the Company's derivative instruments in the consolidated balance sheets held as of December 31, 2018:

Derivative Instrument	Statement Location	Fair Value
Interest Rate Swaps	Unrealized depreciation on interest rate swaps	<u>\$(1,743)</u>
Total		<u><u>(1,743)</u></u>

Net realized and unrealized gains and losses on derivative instruments recorded by the Company for the year ended December 31, 2018 are in the following locations in the consolidated statements of operations:

Derivative Instrument	Statement Location	Fair Value
Interest Rate Swaps	Net realized gains (losses) on interest rate swaps	<u>\$—</u>
Total		<u><u>\$—</u></u>

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

Note 7. Financial Instruments (continued)

Derivative Instrument	Statement Location	Fair Value
Interest Rate Swaps	Net change in unrealized appreciation (depreciation) on interest rate swaps	\$(1,743)
Total		<u><u>\$(1,743)</u></u>

Offsetting of Derivative Instruments

The Company has derivative instruments that are subject to master netting agreements. These agreements include provisions to offset positions with the same counterparty in the event of default by one of the parties. The Company's unrealized appreciation and depreciation on derivative instruments are reported as gross assets and liabilities, respectively, in the condensed consolidated statements of assets and liabilities. The following tables present the Company's assets and liabilities related to derivatives by counterparty, net of amounts available for offset under a master netting arrangement and net of any collateral received or pledged by the Company for such assets and liabilities as of December 31, 2018:

Counterparty	Derivative Assets Subject to Master Netting Agreement	Derivatives Available for Offset	Non-cash Collateral Received ⁽¹⁾	Cash Collateral Received ⁽¹⁾	Net Amount of Derivative Assets ⁽²⁾
JP Morgan Chase Bank	\$—	\$—	\$—	\$—	\$—
	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

Counterparty	Derivative Liabilities Subject to Master Netting Agreement	Derivatives Available for Offset	Non-cash Collateral Received ⁽¹⁾	Cash Collateral Received ⁽¹⁾	Net Amount of Derivative Liabilities ⁽³⁾
JP Morgan Chase Bank	\$1,743	\$—	\$—	\$—	\$1,743
	<u>\$1,743</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$1,743</u>

- (1) In some instances, the actual amount of the collateral received and/or pledged may be more than the amount shown due to overcollateralization.
- (2) Net amount of derivative assets represents the net amount due from the counterparty to the Company in the event of default.
- (3) Net amount of derivative liabilities represents the net amount due from the Company to the counterparty in the event of default.

Interest Rate Swaps

Interest rate swap contracts are privately negotiated agreements between the Company and a counterparty. Pursuant to interest rate swap agreements, the Company makes fixed-rate payments to a counterparty in exchange for payments on a floating benchmark interest rate. Payments received or made are recorded as realized gains or losses. During the term of the outstanding swap agreement, changes in the underlying value of the swap are recorded as unrealized gains or losses. The value of the swap is determined by changes in the relationship between two rates of interest. The Company is exposed to credit loss in the event of non-performance by the swap counterparty. Risk may also arise from movements in interest rates. The Company attempts to limit counterparty risk by dealing only with well-known counterparties.

The interest rate swaps open at the end of the period are generally indicative of the volume of activity during the period.

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

Note 7. Financial Instruments (continued)

As of December 31, 2018, the Company's open interest rate swaps were as follows:

Counterparty	Notional Amount	Company Receives Floating Rate	Company Pays Fixed Rate	Termination Date	Premiums Paid/(Received)	Value	Unrealized Depreciation
JP Morgan Chase							
Bank	\$80,000	3-Month LIBOR	2.78%	12/18/2023	\$—	\$(1,090)	\$(1,090)
JP Morgan Chase							
Bank	\$80,000	3-Month LIBOR	2.81%	12/18/2021	—	(653)	(653)
					\$—	\$(1,743)	\$(1,743)

Note 8. 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 valuation techniques that 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, 2018 and 2017, the Company's investments and interest rate swaps were categorized as follows in the fair value hierarchy:

Valuation Inputs	December 31, 2018		December 31, 2017	
	Investments	Interest Rate Swaps	Investments	Interest Rate Swaps
Level 1—Price quotations in active markets	\$ 517	\$ —	\$ 6,368	\$—
Level 2—Significant other observable inputs	906,192	(1,743)	—	—
Level 3—Significant unobservable inputs	3,452,571	—	4,591,226	—
Total	\$4,359,280	\$(1,743)	\$4,597,594	\$—

The Company has elected the fair value option under ASC Topic 825, *Financial Instruments*, relating to accounting for debt obligations at their fair value for its secured borrowings which arose due to partial loan sales which did not meet the criteria for sale treatment under ASC Topic 860. The Company reports changes in the fair value of its secured borrowing as a component of the net change in unrealized appreciation (depreciation) on secured borrowing in the consolidated statements of operations. The net gain or loss reflects the difference between the fair value and the principal amount due on maturity.

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

Note 8. Fair Value of Financial Instruments (continued)

The Company's investments consist primarily of debt investments that were acquired directly from the issuer. Debt investments, for which broker quotes are not available, are valued by independent valuation firms, which determine the fair value of such investments by considering, among other factors, the borrower's ability to adequately service its debt, prevailing interest rates for like investments, expected cash flows, call features, anticipated repayments and other relevant terms of the investments. Except as described below, all of the Company's equity/other investments are also valued by independent valuation firms, which determine the fair value of such investments by considering, among other factors, contractual rights ascribed to such investments, as well as various income scenarios and multiples of earnings before interest, taxes, depreciation and amortization, or EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. An investment that is newly issued and purchased near the date of the financial statements is valued at cost if the Company's board of directors determines that the cost of such investment is the best indication of its fair value. Such investments described above are typically classified as Level 3 within the fair value hierarchy. Investments that are traded on an active public market are valued at their closing price as of the date of the financial statements and are classified as Level 1 within the fair value hierarchy. Except as described above, the Company typically values its other investments by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which are provided by independent third-party pricing services and screened for validity by such services and are typically classified as Level 2 within the fair value hierarchy.

The Company periodically benchmarks the bid and ask prices it receives from the third-party pricing services and/or dealers and independent valuation firms as applicable, against the actual prices at which the Company purchases and sells its investments. Based on the results of the benchmark analysis and the experience of the Company's management in purchasing and selling these investments, the Company believes that these prices are reliable indicators of fair value. The valuation committee and the board of directors reviewed and approved the valuation determinations made with respect to these investments in a manner consistent with the Company's valuation policy.

The following is a reconciliation for the years ended December 31, 2018 and 2017 of investments for which significant unobservable inputs (Level 3) were used in determining fair value:

	For the Year Ended December 31, 2018						
	Senior Secured Loans—First Lien	Senior Secured Loans—Second Lien	Other Senior Secured Debt	Subordinated Debt	Asset Based Finance	Equity/ Other	Total
Fair value at beginning of period	\$ 3,421,070	\$ 327,135	\$ 124,673	\$ 345,593	\$ 47,173	\$ 325,582	\$ 4,591,226
Accretion of discount (amortization of premium)	2,638	161	541	1	4	206	3,551
Net realized gain (loss)	(76,446)	(12,390)	(1,852)	—	—	27,661	(63,027)
Net change in unrealized appreciation (depreciation)	(87,424)	(25,964)	(7,951)	(951)	(1,577)	(33,325)	(157,192)
Purchases	1,163,121	140,112	3,373	23,639	694	42,071	1,373,010
Paid-in-kind interest	4,450	1,837	2,661	93	2,892	4,785	16,718
Sales and redemptions	(1,207,256)	(136,149)	(19,255)	(58,264)	(3,034)	(96,310)	(1,520,268)
Net transfers in or out of Level 3 ⁽¹⁾	(392,341)	(82,452)	(7,058)	(303,910)	—	(5,686)	(791,447)
Fair value at end of period	<u>\$ 2,827,812</u>	<u>\$ 212,290</u>	<u>\$ 95,132</u>	<u>\$ 6,201</u>	<u>\$ 46,152</u>	<u>\$ 264,984</u>	<u>\$ 3,452,571</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to investments still held at the reporting date	<u>\$ (89,990)</u>	<u>\$ (32,052)</u>	<u>\$ (8,992)</u>	<u>\$ (355)</u>	<u>\$ (23)</u>	<u>\$ (15,073)</u>	<u>\$ (146,485)</u>

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

Note 8. Fair Value of Financial Instruments (continued)

	For the Year Ended December 31, 2017						
	Senior Secured Loans—First Lien	Senior Secured Loans—Second Lien	Other Senior Secured Debt	Subordinated Debt	Asset Based Finance	Equity/ Other	Total
Fair value at beginning of period	\$ 2,864,089	\$ 718,971	\$148,085	\$ 385,178	\$41,280	\$330,409	\$ 4,488,012
Accretion of discount (amortization of premium)	4,936	13,004	626	28,245	5	—	46,816
Net realized gain (loss)	(30,321)	(19,760)	(15,768)	(14,935)	(167)	(34,379)	(115,330)
Net change in unrealized appreciation (depreciation)	35,281	(28,348)	22,080	7,659	2,871	74	39,617
Purchases	1,555,659	141,861	40,746	158,364	4,014	44,107	1,944,751
Paid-in-kind interest	10,469	10,684	54	40	2,788	1,558	25,593
Sales and redemptions	(1,019,043)	(509,277)	(71,150)	(218,958)	(3,618)	(16,187)	(1,838,233)
Net transfers in or out of Level 3	—	—	—	—	—	—	—
Fair value at end of period	<u>\$ 3,421,070</u>	<u>\$ 327,135</u>	<u>\$124,673</u>	<u>\$ 345,593</u>	<u>\$47,173</u>	<u>\$325,582</u>	<u>\$ 4,591,226</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to investments still held at the reporting date	<u>\$ 14,361</u>	<u>\$ (42,487)</u>	<u>\$ 3,610</u>	<u>\$ (4,445)</u>	<u>\$ 3,029</u>	<u>\$ 6,189</u>	<u>\$ (19,743)</u>

(1) As of June 30, 2018, the Company determined to classify investments whose valuations were obtained from independent third-party pricing services as Level 2 in the fair value hierarchy as the Company identified significant other observable inputs in these market quotations. It is the Company's policy to recognize transfers between levels at the beginning of the reporting period.

The following is a reconciliation for the years ended December 31, 2018 and 2017 of the secured borrowing for which significant unobservable inputs (Level 3) were used in determining fair value:

	For the Year Ended December 31,	
	2018	2017
Fair value at beginning of period	\$—	\$(8,273)
Amortization of premium (accretion of discount)	—	(16)
Net realized gain (loss)	—	(59)
Net change in unrealized appreciation (depreciation)	—	134
Repayments on secured borrowing	—	8,214
Fair value at end of period	<u>\$—</u>	<u>\$ —</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to a secured borrowing still held at the reporting date	<u>\$—</u>	<u>\$ —</u>

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

Note 8. Fair Value of Financial Instruments (continued)

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements as of December 31, 2018 and 2017 were as follows:

Type of Investment	Fair Value at December 31, 2018	Valuation Technique ⁽¹⁾	Unobservable Input	Range	Weighted Average
Senior Secured Loans—					
First Lien	\$2,668,002	Market Comparables	Market Yield (%)	5.5% - 16.8%	10.5%
			EBITDA Multiples (x)	5.3x - 9.5x	6.9x
			Revenue Multiples (x)	0.1x - 0.1x	0.1x
	61,692	Other ⁽²⁾	Other	N/A	N/A
	98,118	Cost	Cost	99.0% - 100.0%	99.5%
Senior Secured Loans—					
Second Lien	157,615	Market Comparables	Market Yield (%)	8.9% - 15.0%	12.6%
	8,316	Other ⁽²⁾	Other	N/A	N/A
	46,359	Cost	Cost	98.5% - 98.5%	98.5%
Other Senior Secured					
Debt	95,132	Market Comparables	Market Yield (%)	8.2% - 13.6%	9.7%
			EBITDA Multiples (x)	7.0x - 8.5x	7.5x
Subordinated Debt					
	6,201	Market Comparables	Market Yield (%)	12.0% - 20.0%	14.3%
			EBITDA Multiples (x)	9.6x - 10.1x	9.9x
Asset Based Finance					
	24,385	Market Comparables	Market Yield (%)	17.7% - 19.0%	18.4%
			Net Aircraft Book Value Multiple (x)	1.0x - 1.0x	1.0x
	21,767	Market Quotes	Indicative Dealer Quotes	51.8% - 99.6%	61.9%
Equity/Other					
	223,197	Market Comparables	Capacity Multiple (\$/kW)	\$1,875.0 - \$2,125.0	\$2,000.0
			EBITDA Multiples (x)	4.0x - 14.3x	7.6x
			Net Aircraft Book Value Multiple (x)	1.0x - 1.0x	1.0x
			Price to Book Multiple (x)	1.0x - 1.0x	1.0x
			Production Multiples (Mboe/d)	\$25,000.0 - \$38,750.0	\$28,034.2
			Production Multiples (MMcfe/d)	\$4,708.0 - \$5,167.0	\$4,937.5
			Proved Reserves Multiples (Bcfe)	\$1.2 - \$1.3	\$1.2
			Proved Reserves Multiples (Mmboe)	\$3.5 - \$13.8	\$5.4
			PV-10 Multiples (x)	0.8x - 2.3x	1.7x
	19,929	Discounted Cash Flow	Discount Rate (%)	11.8% - 13.8%	12.8%
	471	Option Valuation Model	Volatility (%)	30.0% - 30.0%	30.00%
	20,251	Other ⁽²⁾	Other	N/A	N/A
	1,136	Cost	Cost	100.0% - 100.0%	100.0%
Total	<u>\$3,452,571</u>				

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

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

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

Note 8. Fair Value of Financial Instruments (continued)

Type of Investment	Fair Value at December 31, 2017	Valuation Technique ⁽¹⁾	Unobservable Input	Range	Weighted Average
Senior Secured Loans—					
First Lien	\$2,947,886	Market Comparables	Market Yield (%)	4.8% - 14.0%	9.2%
			EBITDA Multiples (x)	5.0x - 8.0x	7.3x
	80,848	Other ⁽²⁾	Other	N/A	N/A
	392,336	Market Quotes	Indicative Dealer Quotes	25.0% - 102.8%	98.2%
Senior Secured Loans—					
Second Lien	244,330	Market Comparables	Market Yield (%)	8.3% - 20.7%	14.2%
			EBITDA Multiples (x)	5.0x - 6.5x	6.1x
	82,805	Market Quotes	Indicative Dealer Quotes	13.2% - 102.3%	89.2%
Other Senior Secured					
Debt	89,268	Market Comparables	Market Yield (%)	7.7% - 12.3%	8.7%
			EBITDA Multiples (x)	4.8x - 8.0x	7.7x
			Production Multiples (Mboe/d)	\$42,250.0 - \$44,750.0	\$43,500.0
			Proved Reserves Multiples (Mmboe)	\$10.3 - \$11.3	\$10.8
			PV-10 Multiples (x)	0.8x - 0.8x	0.8x
	28,347	Other ⁽²⁾	Other	N/A	N/A
	7,058	Market Quotes	Indicative Dealer Quotes	100.5% - 100.5%	100.5%
Subordinated Debt	41,683	Market Comparables	Market Yield (%)	7.8% - 12.1%	8.1%
			EBITDA Multiples (x)	10.5x - 11.0x	10.8x
	303,910	Other ⁽²⁾	Indicative Dealer Quotes	52.0% - 108.5%	97.9%
Asset Based Finance	21,410	Market Comparables	Market Yield (%)	14.3% - 15.8%	14.5%
	25,763	Market Quotes	Indicative Dealer Quotes	63.3% - 100.2%	72.1%
Equity/Other	259,465	Market Comparables	Capacity Multiple (\$/kW)	\$2,000.0 - \$2,250.0	\$2,125.0
			EBITDA Multiples (x)	4.8x - 23.5x	7.9x
			Production Multiples (Mboe/d)	\$32,500.0 - \$51,250.0	\$35,881.4
			Production Multiples (MMcfe/d)	\$5,000.0 - \$5,500.0	\$5,250.0
			Proved Reserves Multiples (Bcfe)	\$1.8 - \$2.0	\$1.9
			Proved Reserves Multiples (Mmboe)	\$8.3 - \$11.3	\$8.9
			PV-10 Multiples (x)	0.8x - 2.6x	2.2x
		Discounted Cash Flow	Discount Rate (%)	11.0% - 13.0%	12.0%
		Option Valuation Model	Volatility (%)	30.0% - 36.5%	35.4%
	60,431	Other ⁽²⁾	Other	N/A	N/A
	5,686	Market Quotes	Indicative Dealer Quotes	0.0% - 9.8%	8.1%
Total	<u>\$4,591,226</u>				

- (1) Investments using a market quotes valuation technique were valued by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by independent third-party pricing services and screened for validity by such services. Investments valued using an EBITDA multiple or a revenue multiple pursuant to the market comparables valuation technique may be conducted using an enterprise valuation waterfall analysis. For investments utilizing a market comparables valuation technique, a significant increase (decrease) in the market yield, in isolation, would result in a significantly lower (higher) fair value measurement, and a significant increase (decrease) in any of the valuation multiples, in isolation, would result in a significantly higher (lower) fair value measurement. For investments utilizing a discounted cash flow valuation technique, a significant increase (decrease) in the discount rate, in isolation, would result in a significantly lower (higher) fair value measurement. For investments utilizing an option valuation model valuation technique, a significant increase (decrease) in the volatility, in isolation, would result in a significantly higher (lower) fair value measurement.
- (2) Fair value based on expected outcome of proposed corporate transactions and/or other factors.

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

Note 9. Financing Arrangements

The following tables present summary information with respect to the Company's outstanding financing arrangements as of December 31, 2018 and 2017.

As of December 31, 2018					
Arrangement ⁽¹⁾	Type of Arrangement	Rate	Amount Outstanding	Amount Available	Maturity Date
Green Creek Credit Facility	Term Loan Credit Facility	L+2.50%	\$ 500,000	\$ —	December 15, 2019
Cooper River Credit Facility	Revolving Credit Facility	L+2.25%	107,000	93,000	May 29, 2020
Darby Creek Credit Facility	Revolving Credit Facility	L+2.50%	135,000	115,000	August 19, 2020
Juniata River Credit Facility	Term Loan Credit Facility	L+2.68%	850,000	—	October 11, 2020
Senior Secured Revolving Credit Facility	Revolving Credit Facility	L+2.00% - 2.25% ⁽²⁾	298,254 ⁽³⁾	351,746	August 9, 2023
Total			\$1,890,254	\$559,746	

As of December 31, 2017					
Arrangement ⁽¹⁾	Type of Arrangement	Rate	Amount Outstanding	Amount Available	Maturity Date
Green Creek Credit Facility	Term Loan Credit Facility	L+2.50%	\$ 500,000	\$ —	December 15, 2019
Cooper River Credit Facility	Revolving Credit Facility	L+2.25%	180,933	19,067	May 29, 2020
Wissahickon Creek Credit Facility	Revolving Credit Facility	L+1.50% to L+2.50%	240,146	9,854	February 18, 2022
Darby Creek Credit Facility	Revolving Credit Facility	L+2.50%	250,000	—	August 19, 2020
Dunning Creek Credit Facility	Revolving Credit Facility	L+1.80%	150,000	—	May 14, 2018
Juniata River Credit Facility	Term Loan Credit Facility	L+2.68%	850,000	—	October 11, 2020
FSIC II Revolving Credit Facility	Revolving Credit Facility	See Note (4)	13,400 ⁽⁵⁾	106,600	February 23, 2021
Total			\$2,184,479	\$135,521	

- (1) The carrying amount outstanding under the facility approximates its fair value.
- (2) The spread over LIBOR is determined by reference to the ratio of the value of the borrowing base to the aggregate amount of certain outstanding indebtedness of the Company.
- (3) Amount includes borrowing in U.S. dollars, Euros, and Canadian Dollars. Euro balance outstanding of €1,500 has been converted to U.S. dollars at an exchange rate of €1.00 to \$1.13 as of December 31, 2018 to reflect total amount outstanding in U.S. dollars. Canadian dollar balance outstanding of CAD\$63,500 has been converted to U.S. dollars at an exchange rate of CAD \$1.00 to \$0.77 as of December 31, 2018 to reflect total amount outstanding in U.S. dollars.
- (4) Interest under the FSIC II revolving credit facility for (i) loans for which the Company elects the base rate option is payable at a rate equal to 0.75% per annum plus the greatest of (a) the "U.S. Prime Rate" as published in The Wall Street Journal, (b) the federal funds effective rate for such day plus 0.5%, (c) the three-month LIBOR plus 1% per annum and (d) zero; and (ii) loans for which the Company elects the Eurocurrency option is payable at a rate equal to LIBOR plus 1.75% per annum.
- (5) Amount includes borrowings in Euros and Canadian Dollars. Euro balance outstanding of €9,000 has been converted to U.S. dollars at an exchange rate of €1.00 to \$1.20 as of December 31, 2017 to reflect total amount outstanding in U.S. dollars. Canadian dollar balance outstanding of CAD \$3,229 has been converted to U.S. dollars at an exchange rate of CAD \$1.00 to \$0.80 as of December 31, 2017 to reflect total amount outstanding in U.S. dollars.

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

Note 9. Financing Arrangements (continued)

For the years ended December 31, 2018, 2017 and 2016, the components of total interest expense for the Company's financing arrangements were as follows:

Arrangement ⁽¹⁾	Year Ended December 31,								
	2018			2017			2016		
	Direct Interest Expense ⁽²⁾	Amortization of Deferred Financing Costs	Total Interest Expense	Direct Interest Expense ⁽²⁾	Amortization of Deferred Financing Costs	Total Interest Expense	Direct Interest Expense ⁽²⁾	Amortization of Deferred Financing Costs	Total Interest Expense
JPM Facility	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$14,096	\$ 35	\$14,131
Goldman Repurchase Facility	—	—	—	5,249	202	5,451	12,886	547	13,433
Green Creek Credit Facility	23,555	539	24,094	11,460	341	11,801	—	—	—
Cooper River Credit Facility	7,378	468	7,846	6,320	464	6,784	5,519	503	6,022
Wissahickon Creek Credit Facility	6,342	2,342	8,684	8,907	1,012	9,919	7,509	684	8,193
Darby Creek Credit Facility	9,752	664	10,416	9,973	1,367	11,340	8,309	1,035	9,344
Dunning Creek Credit Facility	2,914	136	3,050	4,223	392	4,615	2,736	497	3,233
Juniata River Credit Facility	41,672	1,464	43,136	33,423	1,464	34,887	14,300	384	14,684
FSIC II Revolving Credit Facility	488	29	517	1,252	67	1,319	1,033	135	1,168
Senior Secured Revolving Credit Facility	4,930	381	5,311	—	—	—	—	—	—
Partial Loan Sale ⁽³⁾	—	—	—	392	16	408	200	—	200
Total	<u>\$97,031</u>	<u>\$6,023</u>	<u>\$103,054</u>	<u>\$81,199</u>	<u>\$5,325</u>	<u>\$86,524</u>	<u>\$66,588</u>	<u>\$3,820</u>	<u>\$70,408</u>

- (1) Borrowings of each of the Company's wholly owned, special-purpose financing subsidiaries are considered borrowings of the Company for purposes of complying with the asset coverage requirements applicable to BDCs under the 1940 Act.
- (2) Direct interest expense includes the effect of non-usage fees.
- (3) Total interest expense for the secured borrowing includes the effect of amortization of discount.

The Company's average borrowings and weighted average interest rate, including the effect of non-usage fees, for the year ended December 31, 2018 were \$2,008,089 and 4.77%, respectively. As of December 31, 2018, the Company's weighted average effective interest rate on borrowings, including the effect of non-usage fees, was 5.23%.

The Company's average borrowings and weighted average interest rate, including the effect of non-usage fees, for the year ended December 31, 2017 were \$2,133,720 and 3.81%, respectively. As of December 31, 2017, the Company's weighted average effective interest rate on borrowings, including the effect of non-usage fees, was 3.91%.

JPM Facility

On April 23, 2013, through its two wholly-owned, special-purpose financing subsidiaries, Lehigh River LLC, or Lehigh River, and Cobbs Creek LLC, or Cobbs Creek, the Company entered into an amendment, or the April 2013 amendment, to its debt financing arrangement, or the JPM Facility, with JPMorgan Chase Bank, N.A., London Branch, or JPM, which the Company originally entered into on October 26, 2012 (and previously amended on February 6, 2013). The April 2013 amendment, among other things: (i) increased the amount of debt financing available under the arrangement from \$300,000 to \$550,000; and (ii) extended the final repurchase date under the financing arrangement from February 20, 2017 to May 20, 2017. On October 11, 2016, in connection with the entrance into certain amendments to the Juniata River

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

Note 9. Financing Arrangements (continued)

Credit Facility (as defined below), Lehigh River and Cobbs Creek entered into documentation under the JPM Facility which, among other things, resulted in the prepayment and termination of the JPM Facility and the merger of Lehigh River into Juniata River (as defined below).

Goldman Repurchase Facility

On December 15, 2014, the Company, through its two wholly-owned, special-purpose financing subsidiaries, Green Creek LLC, or Green Creek, and Schuylkill River LLC, or Schuylkill River, entered into a debt financing arrangement, or the Goldman Repurchase Facility, with Goldman Sachs Bank USA, or Goldman. Prior to its termination, the amount borrowed under the Goldman Repurchase Facility was \$400,000. On May 15, 2017, in connection with the closing of the Green Creek Credit Facility (described under “—Green Creek Credit Facility”), (i) all of the Floating Rate Notes, or Notes, issued by Green Creek to Schuylkill River were canceled and the indenture under which the Notes were issued was discharged, (ii) the master repurchase agreement between Schuylkill River and Goldman and each transaction thereunder was terminated and (iii) accordingly, the Goldman Repurchase Facility was prepaid in full and terminated.

The Company incurred costs in connection with obtaining the Goldman Repurchase Facility, which the Company had recorded as deferred financing costs on its consolidated balance sheets and amortized to interest expense over the life of the Goldman Repurchase Facility. As of May 15, 2017, \$863 of such deferred financing costs had yet to be amortized to interest expense. Pursuant to the May 15, 2017 refinancing described under “—Green Creek Credit Facility”, the remaining unamortized deferred financing costs of \$863 will be amortized over the contractual term of the Green Creek Credit Facility

Green Creek Credit Facility

On May 15, 2017, Green Creek entered into a Credit Agreement with Goldman, as lender, sole lead arranger and administrative agent, Citibank, N.A., or Citibank, as collateral agent, and Virtus Group, LP, or Virtus, as collateral administrator, pursuant to which Goldman advanced \$400,000 to Green Creek with a 60-day availability period for Green Creek to borrow an additional \$100,000, or the Green Creek Credit Facility. On July 14, 2017, Green Creek borrowed the additional \$100,000 commitment under the Green Creek Credit Facility to increase the amount outstanding to \$500,000. Pursuant to the Green Creek Credit Facility, the Company may contribute cash, loans or bonds to Green Creek from time to time, subject to certain restrictions, and will retain a residual interest in any assets contributed through its ownership of Green Creek or will receive fair market value for any assets sold to Green Creek. Green Creek may purchase additional assets from various sources. Green Creek has appointed the Company to manage its portfolio of assets pursuant to the terms of an investment management agreement. Green Creek’s obligations to Goldman under the Green Creek Credit Facility are secured by a first priority security interest in substantially all of the assets of Green Creek, including its portfolio of assets. The obligations of Green Creek under the Green Creek Credit Facility are non-recourse to the Company, and the Company’s exposure under the Green Creek Credit Facility is limited to the value of the Company’s investment in Green Creek.

Borrowings under the Green Creek Credit Facility accrue interest at a rate equal to three-month LIBOR plus 2.50% per annum. Interest is payable quarterly in arrears. The Green Creek Credit Facility will mature, and the principal and accrued and unpaid interest thereunder, will be due and payable, on December 15, 2019.

If the Green Creek Credit Facility is accelerated prior to its stated maturity date due to an event of default or all or a portion of the borrowings are prepaid, then Green Creek must pay to Goldman a fee equal to the present value of the aggregate amount of the spread over LIBOR (2.50% per annum) that would have been payable to Goldman on the subject borrowings through the facility’s maturity date had the acceleration or prepayment not occurred.

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

Note 9. Financing Arrangements (continued)

The Company incurred costs in connection with obtaining the Green Creek Credit Facility, which the Company has recorded as deferred financing costs, along with \$863 of unamortized fees from the Goldman Repurchase Facility, on its consolidated balance sheets and amortizes to interest expense over the life of the facility. As of December 31, 2018, \$516 of such deferred financing costs had yet to be amortized to interest expense.

Cooper River Credit Facility

On May 29, 2015, the Company's wholly-owned, special-purpose financing subsidiary, Cooper River LLC, or Cooper River, entered into a revolving credit facility, or the Cooper River Credit Facility, which amends and restates that certain credit facility dated as of March 27, 2013, with Citibank, as administrative agent, and the financial institutions and other lenders from time to time party thereto. The Cooper River Credit Facility provides for a reinvestment period, that will terminate on March 31, 2019, during which Cooper River, subject to compliance with the terms of the facility, including maintenance of the required borrowing base, is permitted to borrow, repay and re-borrow advances up to a maximum commitment of \$200,000. Any amounts borrowed under the Cooper River Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on May 29, 2020.

The Company may contribute cash or debt securities to Cooper River from time to time, subject to certain restrictions set forth in the Cooper River Credit Facility, and will retain a residual interest in any assets contributed through its ownership of Cooper River or will receive fair market value for any debt securities sold to Cooper River. Cooper River may purchase additional debt securities from various sources. Cooper River has appointed the Company to manage its portfolio of debt securities pursuant to the terms of an investment management agreement. Cooper River's obligations to the lenders under the Cooper River Credit Facility are secured by a first priority security interest in substantially all of the assets of Cooper River, including its portfolio of debt securities. The obligations of Cooper River under the Cooper River Credit Facility are non-recourse to the Company and the Company's exposure under the Cooper River Credit Facility is limited to the value of the Company's investment in Cooper River.

Borrowings under the Cooper River Credit Facility accrue interest at a rate per annum equal to three-month LIBOR (subject to a 0% floor) plus a spread of (i) 2.25% during the reinvestment period, (ii) 2.75% during the first year after the reinvestment period and (iii) 3.75% thereafter.

Under the Cooper River Credit Facility, Cooper River pays a commitment fee of 0.75% per annum of the aggregate principal amount available under the Cooper River Credit Facility that has not been borrowed.

Under the Cooper River Credit Facility, Cooper River has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. The Cooper River Credit Facility contains events of default customary for similar financing transactions, including: (a) the failure to make principal payments when due or interest payments within five business days of when due; (b) the insolvency or bankruptcy of Cooper River or the Company; (c) the failure of Cooper River to be beneficially owned and controlled by the Company; (d) the resignation or removal of the Company as Cooper River's investment manager; and (e) the Advisor (or any affiliate thereof or any replacement thereof approved in writing by Citibank) no longer serving as the investment adviser to the Company. Upon the occurrence of an event of default, Citibank may declare the outstanding principal and interest and all other amounts owing under the Cooper River Credit Facility immediately due and payable. During the continuation of an event of default, Cooper River must pay interest at a default rate.

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

Note 9. Financing Arrangements (continued)

The Company incurred costs in connection with obtaining the Cooper River Credit Facility (including the original facility and amended and restated facility), which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the Cooper River Credit Facility. As of December 31, 2018, \$718 of such deferred financing costs had yet to be amortized to interest expense.

Wissahickon Creek Credit Facility

On February 19, 2014, the Company's wholly-owned, special-purpose financing subsidiary, Wissahickon Creek LLC, or Wissahickon Creek, entered into a revolving credit facility, or the Wissahickon Creek Credit Facility, with Wells Fargo Securities, LLC, as administrative agent, each of the conduit lenders and institutional lenders from time to time party thereto and Wells Fargo Bank, National Association, or, collectively with Wells Fargo Securities, LLC, Wells Fargo, as the collateral agent, account bank and collateral custodian under the Wissahickon Creek Credit Facility. The Wissahickon Creek Credit Facility provided for borrowings in an aggregate principal amount up to \$250,000 on a committed basis.

In connection with entering into the Senior Secured Revolving Credit Facility described under “—Senior Secured Revolving Credit Facility”, the Company repaid and terminated all loans outstanding under the Wissahickon Creek Credit Facility. The \$2,342 of remaining unamortized deferred financing costs for the Wissahickon Creek Credit Facility were charged to interest expense.

Darby Creek Credit Facility

On February 20, 2014, the Company's wholly-owned, special-purpose financing subsidiary, Darby Creek LLC, or Darby Creek, entered into a revolving credit facility, or the Darby Creek Credit Facility, with Deutsche Bank AG, New York Branch, or Deutsche Bank, as administrative agent, each of the lenders from time to time party thereto, the other agents party thereto and Wells Fargo Bank, National Association, as the collateral agent and collateral custodian. The Darby Creek Credit Facility provides for borrowings in an aggregate principal amount up to \$250,000 on a committed basis. On August 19, 2016, the Darby Creek Credit Facility was amended to extend the end of the revolving period from August 20, 2016 to February 19, 2019 and extend the maturity date from February 20, 2018 to August 19, 2020.

The Company may sell or contribute assets to Darby Creek from time to time and will retain a residual interest in any assets contributed through its ownership of Darby Creek or will receive fair market value for any assets sold to Darby Creek. Darby Creek may purchase additional assets from various sources. Darby Creek has appointed the Company to manage its portfolio of assets pursuant to the terms of an investment management agreement. Darby Creek's obligations to Deutsche Bank under the Darby Creek Credit Facility are secured by a first priority security interest in substantially all of the assets of Darby Creek, including its portfolio of assets. The obligations of Darby Creek under the Darby Creek Credit Facility are non-recourse to the Company and the Company's exposure under the facility is limited to the value of its investment in Darby Creek.

Pricing under the Darby Creek Credit Facility is based on LIBOR for a three-month interest period (for each committed lender) or the commercial paper rate of each conduit lender, plus, in each case, a spread of 2.50% per annum. Darby Creek is subject to a non-usage fee of 0.50% per annum to the extent the aggregate principal amount available under the Darby Creek Credit Facility is not borrowed. In addition, Darby Creek is subject to (i) a make-whole fee on a quarterly basis effectively equal to a portion of the spread that would have been payable if the full amount under the Darby Creek Credit Facility had been borrowed, less the non-usage fee accrued during such quarter and (ii) an administration fee. Any amounts borrowed under the Darby Creek Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on August 19, 2020.

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

Note 9. Financing Arrangements (continued)

On February 20, 2019, the Darby Creek Credit Facility was amended to, among other things, (i) extend the end of the revolving period to February 26, 2022, (ii) extend the maturity date to February 26, 2024, (iii) permit borrowings in certain foreign currencies up to a specified sublimit, (iv) decrease the interest rate to, during the revolving period, 1.95% per annum, and after the revolving period, 2.05% per annum, in each case, plus 3-month LIBOR (or the relevant reference rate for any foreign currency borrowings), and (v) decrease the non-usage fee to 0.375%.

Borrowings under the Darby Creek Credit Facility are subject to compliance with a borrowing base, pursuant to which the amount of funds available to be advanced to Darby Creek varies depending upon the types of assets in Darby Creek's portfolio. Under the Darby Creek Credit Facility, Darby Creek has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. The Darby Creek Credit Facility contains events of default customary for similar financing transactions, including: (a) the failure to make principal or interest payments within two business days of when due; (b) the aggregate principal amount of the advances exceeds the borrowing base and is not cured within two business days; (c) the insolvency or bankruptcy of Darby Creek or the Company; (d) a change of control of Darby Creek shall have occurred; (e) the failure of Darby Creek to qualify as a bankruptcy-remote entity; and (f) the minimum equity condition is not satisfied and such condition is not cured within two business days. Upon the occurrence and during the continuation of an event of default, Deutsche Bank may declare the outstanding advances and all other obligations under the Darby Creek Credit Facility immediately due and payable. During the continuation of an event of default, Darby Creek must pay interest at a default rate.

The Company incurred costs in connection with obtaining and amending the facility, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the facility. As of December 31, 2018, \$869 of such deferred financing costs had yet to be amortized to interest expense.

Dunning Creek Credit Facility

On May 14, 2014, the Company's wholly-owned, special-purpose financing subsidiary, Dunning Creek LLC, or Dunning Creek, entered into a revolving credit facility, or the Dunning Creek Credit Facility, with Deutsche Bank, as administrative agent and lender, and each of the other lenders from time to time party thereto. As of June 28, 2018, the Dunning Creek Credit Facility provided for borrowings in an aggregate principal amount up to \$75,000 on a committed basis.

In connection with entering into the Senior Secured Revolving Credit Facility described under "—Senior Secured Revolving Credit Facility", the Company repaid and terminated all loans outstanding under the Dunning Creek Credit Facility.

Juniata River Credit Facility

On November 14, 2014, the Company's wholly-owned, special-purpose financing subsidiary, Juniata River LLC, or Juniata River, entered into a \$300,000 senior secured term loan facility, or the Juniata River Credit Facility, with JPMorgan Chase Bank, N.A., or JPMorgan, as administrative agent, and the financial institutions and other lenders from time to time party thereto, Citibank, as collateral agent, and Virtus, as collateral administrator. On October 11, 2016, Juniata River entered into amendments to the Juniata River Credit Facility which, among other things, (i) provided for an immediate upside of \$550,000, resulting in a total facility amount of \$850,000, (ii) extended the maturity date of the facility to October 11, 2020 and (iii) increased the margin payable on borrowing to 2.6833% over the three-month LIBOR.

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

Note 9. Financing Arrangements (continued)

The Company may contribute cash, loans or bonds to Juniata River from time to time, subject to certain restrictions set forth in the Juniata River Credit Facility, and will retain a residual interest in any assets contributed through its ownership of Juniata River or will receive fair market value for any assets sold to Juniata River. Juniata River may purchase additional assets from various sources. Juniata River has appointed the Company to manage its portfolio of assets pursuant to the terms of an investment management agreement. Juniata River's obligations to the lenders under the Juniata River Credit Facility are secured by a first priority security interest in substantially all of the assets of Juniata River, including its portfolio of debt securities. The obligations of Juniata River under the Juniata River Credit Facility are non-recourse to the Company, and the Company's exposure under the Juniata River Credit Facility is limited to the value of the Company's investment in Juniata River.

Pricing under the Juniata River Credit Facility is based on LIBOR for a six-month interest period for the first interest payment due and thereafter a three-month interest period, in each case, plus a spread of 2.6833% per annum. Interest is payable quarterly in arrears. Any amounts borrowed under the Juniata River Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on October 11, 2020.

Borrowings under the Juniata River Credit Facility are subject to a compliance condition which will be satisfied at any given time if the ratio of (i) outstanding advances to Juniata River minus the amount of principal and certain interest proceeds in Juniata River's accounts to (ii) the net asset value of Juniata River's portfolio of assets is not greater than fifty-three percent (53%).

On March 13, 2019, the Juniata River Credit Facility was amended and restated to, among other things, (i) permit borrowings in certain foreign currencies up to a specified sublimit, (ii) provide for a reinvestment period during which Juniata River is permitted to borrow, repay and re-borrow advances through October 11, 2019, (iii) provide for an unfunded fee in an amount equal to the product of the interest rate applicable to U.S. Dollar borrowings on any day multiplied by the unborrowed amount, if any, below 80% of the committed facility amount, or the Minimum Funding Amount, as of such day, (iv) provide for an unused fee of 0.75% per annum on the average daily unborrowed portion of the committed facility amount above the Minimum Funding Amount, and (v) replace both Citibank, in its role as collateral agent and securities intermediary, and Virtus, in its role as collateral administrator, with Wells Fargo Bank, National Association.

Under the Juniata River Credit Facility, Juniata River has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. The Juniata River Credit Facility contains events of default customary for similar financing transactions, including: (a) the failure to make principal payments when due or any other payments within two business days of when due; (b) the insolvency or bankruptcy of Juniata River or the Company; (c) a change of control of Juniata River shall have occurred; (d) the transaction documents are amended in a manner materially adverse to JPMorgan, as administrative agent, without JPMorgan's consent; and (e) the Advisor or an affiliate thereof ceases to be the Company's investment advisor. Upon the occurrence and during the continuation of an event of default, JPMorgan may declare the outstanding advances and all other obligations under the Juniata River Credit Facility immediately due and payable.

The Company incurred costs in connection with obtaining the facility, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the facility. As of December 31, 2018, \$2,606 of such deferred financing costs had yet to be amortized to interest expense.

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

Note 9. Financing Arrangements (continued)

FSIC II Revolving Credit Facility

On February 23, 2016, the Company entered into a revolving credit facility, or the FSIC II Revolving Credit Facility with ING Capital LLC, or ING, as administrative agent, and the lenders party thereto. The FSIC II Revolving Credit Facility provided for borrowings in U.S. dollars and certain agreed upon foreign currencies in an initial aggregate amount of up to \$95,000, with an option for the Company to request, at one or more times after closing, that existing or new lenders, at their election, provide up to \$80,000 of additional commitments. On April 26, 2016, the Company entered into an incremental commitment and assumption agreement pursuant to which an additional lender provided an additional commitment of \$25,000. The FSIC II Revolving Credit Facility provided for the issuance of letters of credit in an aggregate face amount not to exceed \$25,000 if one of the lenders or another party assumes the role of letter of credit issuer. The Company's obligations under the FSIC II Revolving Credit Facility were guaranteed by all of the Company's subsidiaries, other than its special-purpose financing subsidiaries, tax blocker subsidiaries and foreign subsidiaries. The Company's obligations under the FSIC II Revolving Credit Facility were secured by a first priority security interest in substantially all of the assets of the Company and the subsidiary guarantors thereunder.

In connection with entering into the Senior Secured Revolving Credit Facility described under "—Senior Secured Revolving Credit Facility", the Company repaid and terminated all loans outstanding under the FSIC II Revolving Credit Facility. The Company incurred costs in connection with obtaining the FSIC II Revolving Credit Facility, which the Company had recorded as deferred financing costs on its consolidated balance sheets and amortized to interest expense over the life of the facility. As of August 9, 2018, \$131 of such deferred financing costs had yet to be amortized to interest expense. Pursuant to the terms of the Senior Secured Revolving Credit Facility, the remaining unamortized deferred financing costs of \$131 will be amortized over the contractual term of the Senior Secured Revolving Credit Facility.

Senior Secured Revolving Credit Facility

On August 9, 2018, the Company entered into a senior secured revolving credit facility, or the Senior Secured Revolving Credit Facility, with FS KKR Corp. (formerly FS Investment Corporation), or FSK, FS Investment Corporation III, or FSIC III, and prior to its merger with and into FSK, Corporate Capital Trust, Inc., JPMorgan, as administrative agent, ING as collateral agent and the lenders party thereto. The Senior Secured Revolving Credit Facility provided for borrowings in U.S. dollars and certain agreed upon foreign currencies in an initial aggregate amount of up to \$3,435,000, with an option for the Company to request, at one or more times, that existing or new lenders, at their election, provide up to \$1,717,500 of additional commitments. The Senior Secured Revolving Credit Facility initially provided for a sublimit available for the Company to borrow up to \$650,000 of the total facility amount subject to increase or reduction from time to time pursuant to the terms of the Senior Secured Revolving Credit Facility and the oversight and approval of the Company's board of directors. A sublimit of the total facility amount also is available to each of FSK and FSIC III, as additional borrowers, and the obligations of the other borrowers under the Senior Secured Revolving Credit Facility are several (and not joint) in all respects. The Senior Secured Revolving Credit Facility provides for the issuance of letters of credit on behalf of the Company in an aggregate face amount not to exceed \$25,000.

On November 8, 2018, the total facility amount was increased to \$3,515,000. The Company's sublimit did not change in connection with this increase.

Availability under the Senior Secured Revolving Credit Facility will terminate on August 9, 2022, or the Revolver Termination Date, and the outstanding loans under the Senior Secured Revolving Credit Facility will mature on August 9, 2023. The Senior Secured Revolving Credit Facility also requires mandatory prepayment of interest and principal upon certain events during the term-out period commencing on the Revolver Termination Date.

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

Note 9. Financing Arrangements (continued)

The proceeds of the Senior Secured Revolving Credit Facility initially drawn by the Company were used in part to prepay in full all loans outstanding as of August 9, 2018 under (i) the FSIC II Revolving Credit Facility, (ii) the Dunning Creek Credit Facility, and (iii) the Wissahickon Creek Credit Facility.

Borrowings under the Senior Secured Revolving Credit Facility are subject to compliance with a borrowing base test. Interest under the Senior Secured Revolving Credit Facility for (i) loans for which the Company elects the base rate option, (A) if the value of the borrowing base is equal to or greater than 1.85 times the aggregate amount of certain outstanding indebtedness of the Company, or the Combined Debt Amount, is payable at an “alternate base rate” (which is the greatest of (a) the prime rate as publicly announced by JPMorgan, (b) the sum of (x) the greater of (I) the federal funds effective rate and (II) the overnight bank funding rate plus (y) 0.5%, and (c) the one month LIBOR plus 1% per annum) plus 1.00% and, (B) if the value of the borrowing base is less than 1.85 times the Combined Debt Amount, the alternate base rate plus 1.25%; and (ii) loans for which the Company elects the Eurocurrency option (A) if the value of the borrowing base is equal to or greater than 1.85 times the Combined Debt Amount, is payable at a rate equal to LIBOR plus 2.00% and (B) if the value of the borrowing base is less than 1.85 times the Combined Debt Amount, is payable at a rate equal to LIBOR plus 2.25%. The Company will pay a non-usage fee of at least 0.375% and up to 0.50% per annum (based on the immediately preceding quarter’s average usage) on the unused portion of its sublimit under the Senior Secured Revolving Credit Facility during the revolving period. The Company also will be required to pay letter of credit participation fees and a fronting fee on the average daily amount of any lender’s exposure with respect to any letters of credit issued under the Senior Secured Revolving Credit Facility.

In connection with the Senior Secured Revolving Credit Facility, the Company has made certain representations and warranties and must comply with various covenants and reporting requirements customary for facilities of this type. In addition, the Company must comply with the following financial covenants: (a) the Company must maintain a minimum shareholders’ equity, measured as of each fiscal quarter end; and (b) the Company must maintain at all times a 200% asset coverage ratio.

The Senior Secured Revolving Credit Facility contains events of default customary for facilities of this type. Upon the occurrence of an event of default, JPMorgan, at the instruction of the lenders, may terminate the commitments and declare the outstanding advances and all other obligations under the Senior Secured Revolving Credit Facility immediately due and payable.

The Company’s obligations under the Senior Secured Revolving Credit Facility are guaranteed by certain of the Company’s subsidiaries. The Company’s obligations under the Senior Secured Revolving Credit Facility are secured by a first priority security interest in substantially all of the assets of the Company and the subsidiary guarantors thereunder.

The Company incurred costs in connection with obtaining the Senior Secured Revolving Credit Facility, which the Company has recorded as deferred financing costs, along with \$131 of unamortized fees from the FSIC II Revolving Credit Facility, on its consolidated balance sheets and which the company amortizes to interest expense over the life of the facility. As of December 31, 2018, \$4,415 of such deferred financing costs had yet to be amortized to interest expense.

Partial Loan Sale

Certain partial loan sales do not qualify for sale accounting under ASC Topic 860 because these sales do not meet the definition of a participating interest, as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment on the consolidated balance sheets and the portion sold is recorded as a

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

Note 9. Financing Arrangements (continued)

secured borrowing in the liabilities section of the consolidated balance sheets. For these partial loan sales, the interest earned on the entire loan balance is recorded within interest income and the interest earned by the buyer in the partial loan sale is recorded within interest expense in the consolidated statements of operations.

As of December 31, 2016, the Company recognized a secured borrowing at fair value of \$8,273, respectively, and the fair value of the loan that is associated with the secured borrowing was \$43,099. The secured borrowing was the result of the Company's completion of a partial sale of a senior secured loan associated with one portfolio company that did not meet the definition of a participating interest. As a result, sale treatment was not allowed and the partial loan sale was treated as a secured borrowing.

During the year ended December 31, 2017, the secured borrowing was fully repaid.

Note 10. Commitments and Contingencies

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

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

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

Note 11. Senior Securities Asset Coverage

Information about the Company's senior securities is shown in the table below for the years ended December 31, 2018, 2017, 2016, 2015, and 2014:

<u>Year Ended December 31,</u>	<u>Total Amount Outstanding Exclusive of Treasury Securities</u>	<u>Asset Coverage per Unit⁽¹⁾</u>	<u>Involuntary Liquidation Preference per Unit⁽²⁾</u>	<u>Average Market Value per Unit⁽³⁾ (Exclude Bank Loans)</u>
2014	\$1,641,194	2.75	—	N/A
2015	\$2,045,840	2.32	—	N/A
2016	\$1,983,593	2.47	—	N/A
2017	\$2,184,479	2.31	—	N/A
2018	\$1,890,254	2.36	—	N/A

(1) Asset coverage per unit is the ratio of the carrying value of the Company's total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness.

(2) The amount to which such class of senior security would be entitled upon the voluntary liquidation of the Company in preference to any security junior to it. The "—" in this column indicates that the SEC expressly does not require this information to be disclosed for certain types of senior securities.

(3) Not applicable because senior securities are not registered for public trading on an exchange.

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

Note 12. Financial Highlights

The following is a schedule of financial highlights of the Company for the years ended December 31, 2018, 2017, 2016, 2015, and 2014:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Per Share Data:⁽¹⁾					
Net asset value, beginning of period	\$ 8.73	\$ 8.90	\$ 8.37	\$ 9.30	\$ 9.39
Results of operations ⁽²⁾					
Net investment income	0.73	0.83	0.79	0.92	0.80
Net realized gain (loss) and unrealized appreciation (depreciation)	(0.85)	(0.25)	0.49	(1.11)	(0.17)
Net increase (decrease) in net assets resulting from operations	(0.12)	0.58	1.28	(0.19)	0.63
Stockholder distributions ⁽³⁾					
Distributions from net investment income	(0.75)	(0.75)	(0.73)	(0.72)	(0.69)
Distributions from net realized gain on investments	—	—	(0.02)	(0.03)	(0.05)
Net decrease in net assets resulting from stockholder distributions	(0.75)	(0.75)	(0.75)	(0.75)	(0.74)
Capital share transactions					
Issuance of common stock ⁽⁴⁾	—	—	—	0.01	0.03
Repurchases of common stock ⁽⁵⁾	—	—	—	—	—
Offering costs ⁽²⁾	—	—	—	—	(0.01)
Net increase (decrease) in net assets resulting from capital share transactions	—	—	—	0.01	0.02
Net asset value, end of period	\$ 7.86	\$ 8.73	\$ 8.90	\$ 8.37	\$ 9.30
Shares outstanding, end of period	326,445,320	326,748,337	326,909,727	321,507,876	313,037,127
Total return ⁽⁶⁾	(1.64)%	6.59%	16.07%	(2.37)%	6.97%
Total return (without assuming reinvestment of distributions) ⁽⁶⁾	(1.37)%	6.52%	15.29%	(1.94)%	6.92%
Ratio/Supplemental Data:					
Net assets, end of period	\$ 2,567,409	\$ 2,853,021	\$ 2,909,860	\$ 2,690,412	\$ 2,911,790
Ratio of net investment income to average net assets ⁽⁷⁾	8.68%	9.32%	9.28%	10.03%	8.43%
Ratio of operating expenses and excise taxes to average net assets ⁽⁷⁾	8.12%	9.10%	8.96%	8.59%	5.43%
Ratio of net operating expenses and excise taxes to average net assets ⁽⁷⁾	7.99%	8.66%	8.51%	8.24%	5.43%
Portfolio turnover	43.12%	39.62%	31.77%	31.79%	43.79%
Total amount of senior securities outstanding, exclusive of treasury securities	\$ 1,890,254	\$ 2,184,479	\$ 1,983,593	\$ 2,045,840	\$ 1,641,194
Asset coverage per unit ⁽⁸⁾	2.36	2.31	2.47	2.32	2.75

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

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

(3) The per share data for distributions reflect the actual amount of distributions paid per share during the applicable period.

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

Note 12. Financial Highlights (continued)

- (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 pursuant to the Company's distribution reinvestment plan. The issuance of common stock at a price that is greater than the net asset value per share results in an increase in net asset value per share.
- (5) The per share impact of the Company's distribution reinvestment plan is a reduction to net asset value of less than \$0.01 per share during the period.
- (6) The total return based on net asset value for each year presented was calculated by taking the net asset value per share as of the end of the applicable year, adding the cash distributions per share that were declared during the applicable calendar year and dividing the total by the net asset value per share at the beginning of the applicable year. Total return based on net asset value does not consider the effect of any sales commissions or charges that may be incurred in connection with the sale of shares of the Company's common stock. The historical calculation of total return based on net asset value in the table should not be considered a representation of the Company's future total return based on net asset value, which may be greater or less than the return shown in the table due to a number of factors, including the Company's ability or inability to make investments in companies that meet its investment criteria, the interest rates payable on the debt securities the Company acquires, the level of the Company's expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which the Company encounters competition in its markets and general economic conditions. As a result of these factors, results for any previous period should not be relied upon as being indicative of performance in future periods. The total return calculations set forth above represent the total return on the Company's investment portfolio during the applicable period and do not represent an actual return to stockholders.
- (7) Weighted average net assets during the applicable period are used for this calculation. The following is a schedule of supplemental ratios for the years ended December 31, 2018, 2017, 2016, 2015, and 2014:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Ratio of accrued capital gains incentive fees to average net assets	—	—	—	—	(0.32)%
Ratio of subordinated income incentive fees to average net assets	0.91%	2.11%	2.27%	2.51%	1.16%
Ratio of interest expense to average net assets	3.78%	2.97%	2.57%	2.13%	1.16%
Ratio of excise taxes to average net assets	0.09%	0.08%	0.07%	0.07%	0.04%

- (8) Asset coverage per unit is the ratio of the carrying value of the Company's total consolidated assets, less liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness.

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

Note 13. Selected Quarterly Financial Data (Unaudited)

The following are the quarterly results of operations for the years ended December 31, 2018 and 2017. 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, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Investment income	\$ 110,794	\$ 117,386	\$ 108,102	\$ 117,702
Operating expenses				
Total operating expenses and excise taxes . .	52,670	59,601	50,039	55,311
Net investment income	58,124	57,785	58,063	62,391
Realized and unrealized gain (loss)	(116,892)	(21,782)	(27,309)	(107,823)
Net increase (decrease) in net assets resulting from operations	<u>\$ (58,768)</u>	<u>\$ 36,003</u>	<u>\$ 30,754</u>	<u>\$ (45,432)</u>
Per share information—basic and diluted				
Net investment income	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.19</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ (0.18)</u>	<u>\$ 0.11</u>	<u>\$ 0.09</u>	<u>\$ (0.14)</u>
Weighted average shares outstanding	<u>324,473,345</u>	<u>324,359,144</u>	<u>324,462,550</u>	<u>324,916,879</u>
	Quarter Ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Investment income	\$ 146,980	\$ 120,902	\$ 123,861	\$ 131,943
Operating expenses				
Total operating expenses and excise taxes . .	70,467	58,589	61,329	61,946
Net investment income	76,513	62,313	62,532	69,997
Realized and unrealized gain (loss)	(88,994)	(995)	(30,049)	38,618
Net increase (decrease) in net assets resulting from operations	<u>\$ (12,481)</u>	<u>\$ 61,318</u>	<u>\$ 32,483</u>	<u>\$ 108,615</u>
Per share information—basic and diluted				
Net investment income	<u>\$ 0.24</u>	<u>\$ 0.19</u>	<u>\$ 0.19</u>	<u>\$ 0.21</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ (0.04)</u>	<u>\$ 0.19</u>	<u>\$ 0.10</u>	<u>\$ 0.33</u>
Weighted average shares outstanding	<u>324,620,532</u>	<u>324,993,290</u>	<u>326,055,490</u>	<u>325,822,908</u>

The sum of quarterly per share amounts does not necessarily equal per share amounts reported for the years ended December 31, 2018 and 2017. 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.**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 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 Exchange Act Rule 13(a)-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, 2018. 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.

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 Exchange Act 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 GAAP.

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.

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.

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 74.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2018, there was no change in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) or 15d-15(f)) that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

We will file a definitive Proxy Statement for our 2019 Annual Meeting of Stockholders with the SEC, pursuant to Regulation 14A promulgated under the Exchange Act, 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 2019 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of our 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 2019 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of our 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 2019 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of our 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 2019 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of our 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 2019 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of our 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	73
Reports of Independent Registered Public Accounting Firm	74
Consolidated Balance Sheets as of December 31, 2018 and 2017	76
Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016	77
Consolidated Statements of Changes in Net Assets for the years ended December 31, 2018, 2017 and 2016	78
Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016	79
Consolidated Schedules of Investments as of December 31, 2018 and 2017	80
Notes to Consolidated Financial Statements	105

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 the Company 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 annual report or hereby incorporated by reference to exhibits previously filed with the SEC:

Item 15.b. Exhibits.

- 3.1 Articles of Amendment and Restatement of the Company. (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 14, 2012.)
- 3.2 Articles Supplementary of the Company. (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 1, 2017.)
- 3.3 Articles Supplementary of the Company. (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 13, 2017.)
- 3.4 Third Amended and Restated Bylaws of the Company. (Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on June 13, 2017.)
- 4.1 Amended and Restated Distribution Reinvestment Plan of the Company, effective as of March 26, 2014. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on February 24, 2014.)
- 10.1 Investment Advisory and Administrative Services Agreement, dated as of April 9, 2018, by and between FS Investment Corporation II and FS/KKR Advisor, LLC. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 9, 2018.)
- 10.2 Investment Advisory and Administrative Services Agreement, dated as of February 8, 2012, by and between the Company and FSIC II Advisor, LLC. (Incorporated by reference to Exhibit (g)(1) filed with Pre-Effective Amendment No. 3 to the Company's registration statement on Form N-2 (File No. 333-175654) filed on February 10, 2012.)

- 10.3 Investment Sub-Advisory Agreement, dated as of February 8, 2012, by and between FSIC II Advisor, LLC and GSO / Blackstone Debt Funds Management LLC. (Incorporated by reference to Exhibit (g)(2) filed with Pre-Effective Amendment No. 3 to the Company's registration statement on Form N-2 (File No. 333-175654) filed on February 10, 2012.)
- 10.4 Custodian Agreement, dated as of February 8, 2012, by and between the Company and State Street Bank and Trust Company. (Incorporated by reference to Exhibit (j) filed with Pre-Effective Amendment No. 3 to the Company's registration statement on Form N-2 (File No. 333-175654) filed on February 10, 2012.)
- 10.5 Amended and Restated Credit Agreement, dated as of May 29, 2015, by and among Cooper River LLC, as borrower, Citibank, N.A., as administrative agent, Citibank, N.A. acting through its Agency and Trust division, as collateral custodian and collateral agent, each of the lenders from time to time party thereto and Virtus Group, LP, as collateral administrator. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 4, 2015.)
- 10.6 Second Amendment, dated as of June 1, 2018, by and among Cooper River LLC, as borrower, Citibank, N.A., as administrative agent, Citibank, N.A. acting through its Agency and Trust division, as collateral custodian and collateral agent, each of the lenders from time to time party thereto and Virtus Group, LP, as collateral administrator. (Incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 filed on August 14, 2018.)
- 10.7 Third Amendment, dated as of July 30, 2018, by and among Cooper River LLC, as borrower, Citibank, N.A., as administrative agent, Citibank, N.A. acting through its Agency and Trust division, as collateral custodian and collateral agent, each of the lenders from time to time party thereto and Virtus Group, LP, as collateral administrator. (Incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 filed on November 14, 2018.)
- 10.8 Fourth Amendment, dated as of September 10, 2018, by and among Cooper River LLC, as borrower, Citibank, N.A., as administrative agent, Citibank, N.A. acting through its Agency and Trust division, as collateral custodian and collateral agent, each of the lenders from time to time party thereto and Virtus Group, LP, as collateral administrator. (Incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 filed on November 14, 2018.)
- 10.9* Fifth Amendment, dated as of November 30, 2018, by and among Cooper River LLC, as borrower, Citibank, N.A., as administrative agent, Citibank, N.A. acting through its Agency and Trust division, as collateral custodian and collateral agent, each of the lenders from time to time party thereto and Virtus Group, LP, as collateral administrator.
- 10.10 Loan Financing and Servicing Agreement, dated as of February 20, 2014, by and among Darby Creek LLC, as borrower, Deutsche Bank AG, New York Branch, as administrative agent, Wells Fargo Bank, National Association, as collateral agent and collateral custodian, and the other lenders and lender agents from time to time party thereto. (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on February 25, 2014.)
- 10.11 Amendment No. 1 to Loan Financing and Servicing Agreement, dated as of January 12, 2015, by and among Darby Creek LLC, as borrower, Deutsche Bank AG, New York Branch, as administrative agent, Wells Fargo Bank, National Association, as collateral agent and collateral custodian, and the other lenders and lender agents from time to time party thereto. (Incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K filed on March 25, 2016.)
- 10.12 Amendment No. 2 to Loan Financing and Servicing Agreement, dated as of February 3, 2015, by and among Darby Creek LLC, as borrower, Deutsche Bank AG, New York Branch, as administrative agent, Wells Fargo Bank, National Association, as collateral agent and collateral custodian, and the other lenders and lender agents from time to time party thereto. (Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K filed on March 25, 2016.)

- 10.13 Amendment No. 3 to Loan Financing and Servicing Agreement, dated as of May 7, 2015, by and among Darby Creek LLC, as borrower, Deutsche Bank AG, New York Branch, as administrative agent, Wells Fargo Bank, National Association, as collateral agent and collateral custodian, and the other lenders and lender agents from time to time party thereto. (Incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K filed on March 25, 2016.)
- 10.14 Amendment No. 4 to Loan Financing and Servicing Agreement, dated as of October 8, 2015, by and among Darby Creek LLC, as borrower, Deutsche Bank AG, New York Branch, as administrative agent, Wells Fargo Bank, National Association, as collateral agent and collateral custodian, and the other lenders and lender agents from time to time party thereto. (Incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed on March 25, 2016.)
- 10.15 Amendment No. 6 to Loan Financing and Servicing Agreement, dated as of August 19, 2016, by and among Darby Creek LLC, as borrower, Deutsche Bank AG, New York Branch, as administrative agent, Wells Fargo Bank, National Association, as collateral agent and collateral custodian, and the other lenders and lender agents from time to time party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 22, 2016.)
- 10.16* Amendment No. 7 to Loan Financing and Servicing Agreement, dated as of February 15, 2019, by and among Darby Creek LLC, as borrower, Deutsche Bank AG, New York Branch, as administrative agent, Wells Fargo Bank, National Association, as collateral agent and collateral custodian, and the other lenders and lender agents from time to time party thereto.
- 10.17 Omnibus Amendment, dated as of February 20, 2019, between Darby Creek LLC, as borrower, Deutsche Bank AG, New York Branch, as facility agent, each lender party thereto, each agent party thereto, and Wells Fargo Bank, National Association, as collateral agent and collateral custodian. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 25, 2019.)
- 10.18 Loan Agreement, dated as of November 14, 2014, by and among Juniata River LLC, as borrower, JPMorgan Chase Bank, National Association, as administrative agent and lender, Citibank, N.A., as collateral agent and Virtus Group, LP as collateral administrator. (Incorporated by reference to Exhibit 10.51 to the Company's Annual Report on Form 10-K filed on March 18, 2015.)
- 10.19 Amendment No. 1 to Loan Agreement, dated as of October 11, 2016, by and among Juniata River LLC, as borrower, JPMorgan Chase Bank, National Association, as administrative agent and lender, Citibank, N.A., as collateral agent and Virtus Group, LP as collateral administrator. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 13, 2016.)
- 10.20* Amended and Restated Loan and Security Agreement, dated as of March 13, 2019, by and between Juniata River LLC, as borrower, JPMorgan Chase Bank, National Association, as administrative agent, the lenders party thereto, and Wells Fargo Bank, National Association, as collateral administrator, collateral agent and securities intermediary.
- 10.21 Credit Agreement, dated as of May 15, 2017, among Green Creek LLC, Goldman Sachs Bank USA, as lender, sole lead arranger and administrative agent, Citibank, N.A., as collateral agent, and Virtus Group, LP, as collateral administrator. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 16, 2017.)
- 10.22 Senior Secured Revolving Credit Agreement, dated as of August 9, 2018, among Corporate Capital Trust, Inc., FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III, each other person designated as a "borrower" thereunder pursuant to section 9.19 thereof, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and ING Capital LLC, as collateral agent. (Incorporated by reference to Exhibit 10.56 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 filed on August 14, 2018.)

- 10.23* Commitment Increase Agreement, dated as of November 8, 2018, among BNP Paribas, Corporate Capital Trust, Inc., FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III, JPMorgan Chase Bank, N.A., Bank of Montreal, Suntrust Bank, and ING Capital LLC.
- 10.24* Commitment Increase Agreement, dated as of November 8, 2018, among U.S. Bank National Association, Corporate Capital Trust, Inc., FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III, JPMorgan Chase Bank, N.A., Bank of Montreal, Suntrust Bank, and ING Capital LLC.
- 21.1* Subsidiaries of the Company.
- 31.1* Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 31.2* Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 32.1* Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

* Filed herewith.

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 consolidated financial statements.

Item 16. Form 10-K Summary.

None.

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 II

Date: March 19, 2019

/s/ MICHAEL C. FORMAN

Michael C. Forman
Chief Executive Officer
(Principal 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 capacities and on the dates indicated.

Date: March 19, 2019

/s/ MICHAEL C. FORMAN

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

Date: March 19, 2019

/s/ WILLIAM GOEBEL

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

Date: March 19, 2019

/s/ BARBARA ADAMS

Barbara Adams
Director

Date: March 19, 2019

/s/ FREDERICK ARNOLD

Frederick Arnold
Director

Date: March 19, 2019

/s/ BRIAN R. FORD

Brian R. Ford
Director

Date: March 19, 2019

/s/ TODD BUILIONE

Todd Builione
Director

Date: March 19, 2019

/s/ RICHARD GOLDSTEIN

Richard Goldstein
Director

Date: March 19, 2019

/s/ MICHAEL J. HAGAN

Michael J. Hagan
Director

Date: March 19, 2019

/s/ JEFFREY K. HARROW

Jeffrey K. Harrow
Director

Date: March 19, 2019

/s/ JEREL A. HOPKINS

Jerel A. Hopkins
Director

Date: March 19, 2019

/s/ JAMES H. KROPP

James H. Kropp
Director

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This is neither an offer to sell nor a solicitation of an offer to buy any securities described herein. This annual report to stockholders must be read in conjunction with FSIC II's periodic and other reports filed with the Securities and Exchange Commission (the "SEC") in order to fully understand all of the implications and risks of an investment in FSIC II. None of the SEC, the Attorney General of the State of New York nor any state securities commission has approved or disapproved of any securities described herein. Any representation to the contrary is a criminal offense.