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OFS Capital Corp  
Form 10-Q  
August 04, 2017  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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

COMMISSION FILE NUMBER: 814-00813

OFS CAPITAL CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware 46-1339639  
(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

10 S. Wacker Drive, Suite 2500  
Chicago, Illinois 60606  
(Address of principal executive office)

(847) 734-2000  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company

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Emerging growth company

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 Exchange Act). Yes  No

The number of shares of the issuer's Common Stock, \$0.01 par value, outstanding as of August 1, 2017 was 13,331,665.

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OFS CAPITAL CORPORATION

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Defined Terms

We have used "we," "us," "our", "our company", and "the Company" to refer to OFS Capital Corporation in this report. We also have used several other terms in this report, which are explained or defined below:

|                                 |  |
|---------------------------------|--|
| 1940 Act                        | Investment Company Act of 1940, as amended   |
| Administration Agreement        | Administration agreement between the Company and OFS Services  |
| Annual Distribution Requirement | Distributions to our stockholders, for each taxable year, of at least 90% of our ICTI  |
| ASC                             | Accounting Standards Codification, as issued by the FASB   |
| ASC Topic 820                   | ASC Topic 820, "Fair Value Measurements and Disclosures"   |
| ASU                             | Accounting Standards Updates, as issued by the FASB  |
| BDC                             | Business Development Company under the 1940 Act  |
| BLA                             | Business Loan Agreement, as amended, with Pacific Western Bank, as lender, which provides the Company with a senior secured revolving credit facility      |
| Board                           | The Company's board of directors   |
| Code                            | Internal Revenue Code of 1986, as amended  |
| DRIP                            | Distribution reinvestment plan   |
| EBITDA                          | Earnings before interest, taxes, depreciation, and amortization  |
| FASB                            | Financial Accounting Standards Board   |
| FDIC                            | Federal Deposit Insurance Corporation  |
| GAAP                            | Accounting principles generally accepted in the United States  |
| HPCI                            | Hancock Park Corporate Income, Inc., a non-traded BDC with an investment strategy similar to the Company for whom OFS Advisor serves as investment adviser |
| ICTI                            | Investment company taxable income, which is generally net ordinary income plus net short-term capital gains in excess of net long-term capital losses      |
| Investment Advisory Agreement   | Investment advisory agreement between the Company and OFS Advisor  |
| LIBOR                           | London Interbank Offered Rate  |
| OFS Advisor                     | OFS Capital Management, LLC, a wholly-owned subsidiary of OFSAM and registered investment advisor under the 1940 Act                                       |
| OFS Capital WM                  | OFS Capital WM, LLC, a wholly-owned investment company subsidiary  |
| OFS Services                    | OFS Capital Services, LLC, a wholly-owned subsidiary of OFSAM and affiliate of OFS Advisor   |
| OFSAM                           | Orchard First Source Asset Management, LLC, an established investment platform focused on meeting the capital needs of middle-market companies             |
| PWB Credit Facility             | Senior secured revolving credit facility between the Company and Pacific Western Bank, as lender.  |
| RIC                             | Regulated investment company under the Code  |
| SBA                             | U.S. Small Business Administration   |
| SBIC                            | A fund licensed under the SBA small business investment company program  |
| SBIC Acquisition                | The Company's acquisition of the remaining ownership interests in SBIC I LP and SBIC I GP, LLC on December 4, 2013   |
| SBA Act                         | Small Business Investment Act of 1958  |
| SBIC I LP                       | OFS SBIC I, LP, a wholly-owned SBIC subsidiary of the Company  |
| SEC                             | U.S. Securities and Exchange Commission  |

### Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “would,” “should,” “projects,” and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

• our limited experience operating a BDC or an SBIC, or maintaining our tax treatment as a RIC under Subchapter M of the Code;

• our dependence on key personnel;

• our ability to maintain or develop referral relationships;

• our ability to replicate historical results;

• the ability of OFS Advisor to identify, invest in and monitor companies that meet our investment criteria;

• actual and potential conflicts of interest with OFS Advisor and other affiliates of OFSAM;

• constraint on investment due to access to material nonpublic information;

• restrictions on our ability to enter into transactions with our affiliates;

• limitations on the amount of SBA-guaranteed debentures that may be issued by an SBIC;

• our ability to comply with SBA regulations and requirements;

• the use of borrowed money to finance a portion of our investments;

• competition for investment opportunities;

• the ability of SBIC I LP any other portfolio companies to make distributions enabling us to meet RIC requirements;

• our ability to raise capital as a BDC;

• the timing, form and amount of any distributions from our portfolio companies;

• the impact of a protracted decline in the liquidity of credit markets on our business;

• the general economy and its impact on the industries in which we invest;

• uncertain valuations of our portfolio investments; and

• the effect of new or modified laws or regulations governing our operations.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Quarterly Report on Form 10-Q should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include, among others, those described or identified in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q.

We have based the forward-looking statements on information available to us on the date of this Quarterly Report on Form 10-Q. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. The forward-looking statements and projections contained in this Quarterly Reports on Form 10-Q 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.

The following analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes thereto contained elsewhere in this Quarterly Report on Form 10-Q.



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## OFS Capital Corporation and Subsidiaries

## Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)

|   | June 30,<br>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
|   | (unaudited)      |                      |
| Assets  |                  |                      |
| Investments, at fair value:   |                  |                      |
| Non-control/non-affiliate investments (amortized cost of \$213,626 and \$178,279, respectively)   | \$ 200,020       | \$ 173,219           |
| Affiliate investments (amortized cost of \$64,922 and \$76,306, respectively)   | 70,982           | 81,708               |
| Control investments (amortized cost of \$22,148 and \$24,722, respectively)   | 25,906           | 26,700               |
| Total investments at fair value (amortized cost of \$300,696 and \$279,307, respectively)   | 296,908          | 281,627              |
| Cash and cash equivalents   | 46,920           | 17,659               |
| Interest receivable   | 1,250            | 1,770                |
| Prepaid expenses and other assets   | 3,882            | 3,974                |
| Total assets  | \$ 348,960       | \$ 305,030           |
| Liabilities   |                  |                      |
| Revolving line of credit  | \$ 6,000         | \$ 9,500             |
| SBA debentures (net of deferred debt issuance costs of \$2,847 and \$3,037, respectively)   | 147,033          | 146,843              |
| Interest payable  | 1,596            | 1,599                |
| Management and incentive fees payable   | 1,484            | 2,119                |
| Administration fee payable  | 369              | 435                  |
| Accrued professional fees   | 422              | 477                  |
| Other liabilities   | 60               | 279                  |
| Total liabilities   | 156,964          | 161,252              |
| Commitments and contingencies (Note 6)  |                  |                      |
| Net assets  |                  |                      |
| Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of June 30, 2017, and December 31, 2016, respectively                     | \$ —             | \$ —                 |
| Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 13,331,655 and 9,700,297 shares issued and outstanding as of June 30, 2017, and December 31, 2016, respectively | 133              | 97                   |
| Paid-in capital in excess of par  | 187,791          | 134,300              |
| Accumulated undistributed net investment income   | 6,888            | 6,731                |
| Accumulated undistributed net realized gain   | 972              | 330                  |
| Net unrealized appreciation (depreciation) on investments   | (3,788)          | )2,320               |
| Total net assets  | 191,996          | 143,778              |
| Total liabilities and net assets  | \$ 348,960       | \$ 305,030           |
| Number of shares outstanding  | 13,331,655       | 9,700,297            |
| Net asset value per share   | \$ 14.40         | \$ 14.82             |

See Notes to Financial Statements.



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OFS Capital Corporation and Subsidiaries  
 Consolidated Statements of Operations (unaudited)  
 (Dollar amounts in thousands, except per share data)

|   | Three Months<br>Ended June 30, |          | Six Months<br>Ended June 30, |         |
|---|--------------------------------|----------|------------------------------|---------|
|   | 2017                           | 2016     | 2017                         | 2016    |
| Investment income   |                                |          |                              |         |
| Interest income:  |                                |          |                              |         |
| Non-control/non-affiliate investments   | \$4,681                        | \$4,431  | \$9,522                      | \$9,167 |
| Affiliate investments   | 1,708                          | 1,671    | 3,586                        | 3,357   |
| Control investment  | 581                            | 490      | 1,143                        | 831     |
| Total interest income   | 6,970                          | 6,592    | 14,251                       | 13,355  |
| Dividend income:  |                                |          |                              |         |
| Non-control/non-affiliate investments   | 129                            | 134      | 212                          | 162     |
| Affiliate investments   | 312                            | 294      | 702                          | 823     |
| Control investments   | 137                            | 111      | 170                          | 111     |
| Total dividend income   | 578                            | 539      | 1,084                        | 1,096   |
| Fee income:   |                                |          |                              |         |
| Non-control/non-affiliate investments   | 169                            | 517      | 325                          | 995     |
| Affiliate investments   | 176                            | 7        | 234                          | 39      |
| Control investments   | 85                             | 28       | 118                          | 41      |
| Total fee income  | 430                            | 552      | 677                          | 1,075   |
| Total investment income   | 7,978                          | 7,683    | 16,012                       | 15,526  |
| Expenses  |                                |          |                              |         |
| Interest expense  | 1,339                          | 1,308    | 2,726                        | 2,616   |
| Management fees   | 1,224                          | 1,089    | 2,416                        | 2,204   |
| Incentive fee   | (22)                           | )857     | 1,159                        | 1,590   |
| Professional fees   | 293                            | 303      | 556                          | 617     |
| Administration fee  | 307                            | 326      | 708                          | 754     |
| General and administrative expenses   | 521                            | 343      | 791                          | 633     |
| Total expenses  | 3,662                          | 4,226    | 8,356                        | 8,414   |
| Net investment income   | 4,316                          | 3,457    | 7,656                        | 7,112   |
| Net realized and unrealized gain (loss) on investments                                      |                                |          |                              |         |
| Net realized gain on non-control/non-affiliate investments                                  | 163                            | —        | 163                          | 2,566   |
| Net realized gain on affiliate investments  | 874                            | —        | 874                          | —       |
| Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments | (5,505)                        | )962     | (8,546)                      | (3,130) |
| Net change in unrealized appreciation/depreciation on affiliate investments                 | (3,366)                        | )296     | 658                          | 442     |
| Net change in unrealized appreciation/depreciation on control investment                    | 1,237                          | (377)    | )1,780                       | (373)   |
| Net gain (loss) on investments  | (6,597)                        | )881     | (5,071)                      | (495)   |
| Net increase (decrease) in net assets resulting from operations                             | \$(2,281)                      | )\$4,338 | \$2,585                      | \$6,617 |
| Net investment income per common share – basic and diluted                                  | \$0.33                         | \$0.36   | \$0.67                       | \$0.73  |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Net increase (decrease) in net assets resulting from operations per common share – basic and diluted | \$(0.17 )  | \$ 0.45    | \$ 0.23    | \$ 0.68    |
| Distributions declared per common share  | \$0.34     | \$ 0.34    | \$ 0.68    | \$ 0.68    |
| Basic and diluted weighted average shares outstanding  | 13,197,759 | 19,692,346 | 11,458,790 | 16,917,764 |

See Notes to Financial Statements.

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OFS Capital Corporation and Subsidiaries  
 Consolidated Statements of Changes in Net Assets (unaudited)  
 (Dollar amounts in thousands)

|  | Six Months Ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2017                         | 2016      |
| Increase in net assets resulting from operations:                  |                              |           |
| Net investment income  | \$7,656                      | \$7,112   |
| Net realized gain on investments                                   | 1,037                        | 2,566     |
| Net change in unrealized appreciation/depreciation on investments  | (6,108)                      | (3,061)   |
| Net increase in net assets resulting from operations               | 2,585                        | 6,617     |
| Distributions to stockholders from:                                |                              |           |
| Accumulated net investment income                                  | (7,830)                      | (6,590)   |
| Total distributions to stockholders                                | (7,830)                      | (6,590)   |
| Common stock transactions:   |                              |           |
| Public offering of common stock, net of expenses                   | 53,373                       | —         |
| Reinvestment of stockholder distributions                          | 90                           | 41        |
| Net increase in net assets resulting from capital transactions     | 53,463                       | 41        |
| Net increase in net assets   | 48,218                       | 68        |
| Net assets:  |                              |           |
| Beginning of period  | \$143,778                    | \$143,012 |
| End of period  | \$191,996                    | \$143,080 |
| Accumulated undistributed net investment income                    | \$6,888                      | \$5,160   |
| Common stock activity:   |                              |           |
| Public offering of common stock                                    | 3,625,000                    | —         |
| Common stock issued from reinvestment of stockholder distributions | 6,358                        | 3,152     |
| Shares issued and outstanding at beginning of period               | 9,700,297                    | 9,691,170 |
| Shares issued and outstanding at end of period                     | 13,331,655                   | 9,694,322 |

See Notes to Financial Statements.

OFS Capital Corporation and Subsidiaries  
Consolidated Statements of Cash Flows (unaudited)  
(Dollar amounts in thousands)

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2017                         | 2016      |
| Cash flows from operating activities  |                              |           |
| Net increase in net assets resulting from operations  | \$2,585                      | \$6,617   |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities: |                              |           |
| Net realized gain on investments  | (1,037 )                     | (2,566 )  |
| Net change in unrealized appreciation/depreciation on investments   | 6,108                        | 3,061     |
| Amortization of Net Loan Fees   | (669 )                       | (831 )    |
| Amendment fees collected  | 27                           | 71        |
| Payment-in-kind interest and dividend income  | (1,428 )                     | (1,193 )  |
| Amortization of deferred debt issuance costs  | 260                          | 241       |
| Amortization of intangible asset  | 98                           | 98        |
| Purchase and origination of portfolio investments   | (72,219 )                    | (20,290 ) |
| Proceeds from principal payments on portfolio investments   | 51,409                       | 31,558    |
| Proceeds from sale or redemption of portfolio investments   | 2,400                        | 2,115     |
| Changes in operating assets and liabilities:  |                              |           |
| Interest receivable   | 520                          | —         |
| Interest payable  | (3 )                         | 43        |
| Management and incentive fees payable   | (635 )                       | (291 )    |
| Administration fee payable  | (66 )                        | (108 )    |
| Other assets and liabilities  | (297 )                       | (102 )    |
| Net cash provided by (used in) operating activities   | (12,947 )                    | 18,423    |
| Cash flows from financing activities  |                              |           |
| Proceeds from common stock offering, net of expenses  | 53,448                       | —         |
| Distributions paid to stockholders  | (7,740 )                     | (6,549 )  |
| Borrowings under revolving line of credit   | 11,000                       | —         |
| Repayments under revolving line of credit   | (14,500 )                    | —         |
| Net cash provided by (used in) financing activities   | 42,208                       | (6,549 )  |
| Net increase in cash and cash equivalents   | 29,261                       | 11,874    |
| Cash and cash equivalents — beginning of year   | 17,659                       | 32,714    |
| Cash and cash equivalents — end of year   | \$46,920                     | \$44,588  |
| Supplemental Disclosure of Cash Flow Information:   |                              |           |
| Cash paid during the period for interest  | \$2,469                      | \$2,331   |
| Distributions paid by issuance of common stock  | 90                           | 41        |

See Notes to Financial Statements.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments

June 30, 2017

(Dollar amounts in thousands)

| Portfolio Company(1)<br>Investment Type      | Industry  | Interest<br>Rate (2) | Spread<br>Above<br>Index (2) | Maturity   | Principal<br>Amount | Amortized<br>Cost | Fair<br>Value | Percent<br>of Net<br>Assets |
|--|---|----------------------|------------------------------|------------|---------------------|-------------------|---------------|-----------------------------|
| Non-control/Non-affiliate<br>Investments     |   |                      |                              |            |                     |                   |               |                             |
| Armor Holdings II LLC                        | Other<br>Professional,<br>Scientific, and<br>Technical Services | 10.25%               | (L<br>+9.00%)                | 12/26/2020 | \$ 3,500            | \$ 3,472          | \$ 3,500      | 1.8 %                       |
| AssuredPartners, Inc                         | Insurance<br>Agencies and<br>Brokerages                         | 10.23%               | (L<br>+9.00%)                | 10/20/2023 | 5,000               | 4,865             | 5,100         | 2.7                         |
| Avison Young Canada,<br>Inc.                 | Offices of Real<br>Estate Agents and<br>Brokers                 | 9.50%                | N/A                          | 12/15/2021 | 4,000               | 3,931             | 4,029         | 2.1                         |
| Senior Secured Loan (4)<br>(5)               |   |                      |                              |            |                     |                   |               |                             |
| BCC Software, LLC (4)                        | Custom Computer<br>Programming<br>Services                      | 9.23%                | (L<br>+8.00%)                | 6/20/2019  | 6,852               | 6,788             | 6,826         | 3.6                         |
| Senior Secured Loan<br>(Revolver) (9) (3)    |   | N/A                  | (L<br>+8.00%)                | 6/20/2019  | —                   | (6 )              | (4 )          | —                           |
|  |   |                      |                              |            | 6,852               | 6,782             | 6,822         | 3.6                         |
| BJ's Wholesale Club, Inc.                    | Warehouse Clubs<br>and Supercenters                             | 8.71%                | (L<br>+7.50%)                | 2/3/2025   | 7,300               | 7,267             | 7,157         | 3.7                         |
| Community Intervention<br>Services, Inc. (4) | Outpatient Mental<br>Health and<br>Substance Abuse<br>Centers   | 7.0%                 | N/A                          | 1/16/2021  | 8,274               | 7,639             | 3,285         | 1.7                         |
| Subordinated Loan (6)<br>(10)                |   | cash /<br>6.0%       |                              |            |                     |                   |               |                             |

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|                                 |  | PIK    |            |           |        |        |        |     |
|---------------------------------|--|--------|------------|-----------|--------|--------|--------|-----|
| Common equity (Success Fee) (9) |  |        |            | —         | —      | —      | —      |     |
|                                 |  |        |            | 8,274     | 7,639  | 3,285  | 1.7    |     |
| Confie Seguros Holdings II Co.  | Insurance Agencies and Brokerages                  |        |            |           |        |        |        |     |
| Senior Secured Loan             |  | 11.05% | (L +9.75%) | 5/8/2019  | 7,850  | 7,814  | 7,752  | 4.0 |
| Constellis Holdings, LLC        | Other Justice, Public Order, and Safety Activities |        |            |           |        |        |        |     |
| Senior Secured Loan             |  | 6.30%  | (L +5.00%) | 4/21/2024 | 4,975  | 4,926  | 4,949  | 2.6 |
| Senior Secured Loan             |  | 10.3%  | (L +9.00%) | 4/21/2025 | 9,950  | 9,804  | 9,876  | 5.1 |
|                                 |  |        |            |           | 14,925 | 14,730 | 14,825 | 7.7 |
| Elgin Fasteners Group           | Bolt, Nut, Screw, Rivet, and Washer Manufacturing  |        |            |           |        |        |        |     |
| Senior Secured Loan             |  | 8.55%  | (L +7.25%) | 8/27/2018 | 3,996  | 3,986  | 3,650  | 1.9 |

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

| Portfolio Company(1)<br>Investment Type                                       | Industry   | Interest Rate (2)             | Spread Above Index (2) | Maturity       | Principal Amount | Amortized Cost | Fair Value | Percent of Net Assets |
|---|--|-------------------------------|------------------------|----------------|------------------|----------------|------------|-----------------------|
| Inhance Technologies Holdings LLC<br>Senior Secured Loan                      | Other Basic Inorganic Chemical Manufacturing                     | 5.80%                         | (L +4.50%)             | 6/30/2019      | \$ 1,971         | \$ 1,959       | \$1,965    | 1.0 %                 |
| Intrafusion Holding Corp. (4)<br>Senior Secured Loan (8)                      | Other Outpatient Care Centers                                    | 11.00%                        | (L +6.75%)             | 9/25/2020      | 14,250           | 14,213         | 14,250     | 7.4                   |
| Jobson Healthcare Information, LLC (4)<br>Senior Secured Loan (10)            | Other Professional, Scientific, and Technical Services           | 10.13%<br>cash /<br>4.80% PIK | (L +12.93%)            | 7/21/2019      | 15,055           | 14,781         | 12,888     | 6.7                   |
| Warrants (1,056,428 member units) (9)   |  |                               |                        | 7/21/2019 (11) |                  | 454            | —          | —                     |
|   |  |                               |                        |                | 15,055           | 15,235         | 12,888     | 6.7                   |
| LRI Holding, LLC (4)<br>Senior Secured Loan                                   | Electrical Contractors and Other Wiring Installation Contractors | 10.55%                        | (L +9.25%)             | 6/30/2022      | 18,500           | 18,338         | 18,338     | 9.6                   |
| Preferred Equity (238,095 units)  |  |                               |                        |                |                  | 300            | 300        | 0.2                   |
|   |  |                               |                        |                | 18,500           | 18,638         | 18,638     | 9.8                   |
| Maverick Healthcare Equity, LLC (4)<br>Preferred Equity (1,250,000 units) (9) | Home Health Equipment Rental                                     |                               |                        |                |                  | 900            | 358        | 0.2                   |
| Common Equity (1,250,000 units) (9)   |  |                               |                        |                |                  | —              | —          | —                     |
|   |  |                               |                        |                |                  | 900            | 358        | 0.2                   |
| MN Acquisition, LLC (4)   | Software Publishers  |                               |                        |                |                  |                |            |                       |

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|   |   |        |              |           |       |       |       |     |
|---|---|--------|--------------|-----------|-------|-------|-------|-----|
| Senior Secured Loan                       |   | 11.65% | (L + 10.50%) | 3/17/2022 | 4,108 | 4,038 | 4,060 | 2.1 |
| My Alarm Center, LLC (4)                  | Security Systems Services (except Locksmiths) |        |              |           |       |       |       |     |
| Senior Secured Loan (6)                   |   | 12.15% | (L +11.00%)  | 7/9/2019  | 6,896 | 6,701 | 1,745 | 0.9 |
| Preferred Equity (100 Class A units) (9)  |   |        |              |           |       | 203   | —     | —   |
| Preferred Equity (25 Class A-1 units) (9) |   |        |              |           |       | 44    | —     | —   |
|   |   |        |              |           | 6,896 | 6,948 | 1,745 | 0.9 |
| MYI Acquiror Limited (5)                  | Insurance Agencies and Brokerages             |        |              |           |       |       |       |     |
| Senior Secured Loan                       |   | 5.75%  | (L +4.50%)   | 5/28/2019 | 4,686 | 4,681 | 4,686 | 2.4 |
| NVA Holdings, Inc.                        | Veterinary Services                           |        |              |           |       |       |       |     |
| Senior Secured Loan                       |   | 8.30%  | (L +7.00%)   | 8/14/2022 | 743   | 743   | 750   | 0.4 |

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

| Portfolio Company(1)<br>Investment Type        | Industry                                      | Interest Rate (2) | Spread Above Index (2) | Maturity   | Principal Amount | Amortized Cost | Fair Value | Percent of Net Assets |
|--|---|-------------------|------------------------|------------|------------------|----------------|------------|-----------------------|
| O2 Holdings, LLC (4)                           | Fitness and Recreational Sports Centers       | 12.22%            | (L +11.00%)            | 9/2/2021   | \$ 10,000        | \$ 9,925       | \$9,874    | 5.1 %                 |
| Planet Fitness Midwest LLC (4)                 | Fitness and Recreational Sports Centers       | 13.00%            | N/A                    | 12/16/2021 | 5,000            | 4,959          | 5,029      | 2.6                   |
| PM Acquisition LLC                             | All Other General Merchandise Stores          | 11.50%            | N/A                    | 10/31/2021 | 6,254            | 6,200          | 6,180      | 3.2                   |
| Senior Secured Loan                            |   |                   |                        |            |                  | 499            | 348        | 0.2                   |
| Common equity (499 units) (9)                  |   |                   |                        |            | 6,254            | 6,699          | 6,528      | 3.4                   |
| Quantum Spatial, Inc.                          | Other Information Services                    | 0.0675            | (L +5.50%)             | 8/27/2017  | 2,419            | 2,417          | 2,412      | 1.3                   |
| Senior Secured Loan                            |   |                   |                        |            |                  |                |            |                       |
| Ranpak Corp.                                   | Packaging Machinery Manufacturing             | 8.42%             | (L +7.25%)             | 10/3/2022  | 1,680            | 1,666          | 1,661      | 0.9                   |
| Senior Secured Loan                            |   |                   |                        |            |                  |                |            |                       |
| Resource Label Group, LLC                      | Commercial Printing (except Screen and Books) | 5.80%             | (L +4.50%)             | 5/26/2023  | 1,929            | 1,910          | 1,910      | 1.0                   |
| Senior Secured Loan                            |   |                   |                        |            |                  |                |            |                       |
| Senior Secured Loan                            |   | 8.80%             | (L +7.50%)             | 11/26/2023 | 4,821            | 4,749          | 4,751      | 2.5                   |
|  |   |                   |                        |            | 6,750            | 6,659          | 6,661      | 3.5                   |
| Security Alarm Financing Enterprises, L.P. (4) | Security Systems Services (except Locksmiths) |                   | (L +13.00%)            | 6/19/2020  | 12,505           | 12,404         | 12,230     | 6.4                   |
| Subordinated Loan                              |   |                   |                        |            |                  |                |            |                       |

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14.00%  
cash /  
0.3% PIK

|   |  |        |                       |       |       |       |     |
|---|--|--------|-----------------------|-------|-------|-------|-----|
| Sentry Centers Holdings, LLC            | Other Professional, Scientific, and Technical Services |        |                       |       |       |       |     |
| Senior Secured Loan                     |  | 12.73% | (L +11.50%) 7/24/2019 | 4,202 | 4,150 | 4,284 | 2.2 |
| Preferred Equity (5,000 units) (9) (12) |  |        |                       |       | 506   | 506   | —   |
|   |  |        |                       | 4,202 | 4,656 | 4,790 | 2.2 |
| smarTours, LLC (4)                      | Tour Operators   |        |                       |       |       |       |     |
| Preferred Equity (500,000 units) (9)    |  |        |                       |       | 439   | 1,080 | 0.6 |

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

| Portfolio Company(1)<br>Investment Type                  | Industry  | Interest<br>Rate (2)  | Spread<br>Above<br>Index (2) | Maturity          | Principal<br>Amount | Amortized<br>Cost | Fair<br>Value | Percent<br>of Net<br>Assets |
|--|---|-----------------------|------------------------------|-------------------|---------------------|-------------------|---------------|-----------------------------|
| Southern Technical<br>Institute, LLC (4)                 | Colleges,<br>Universities, and<br>Professional<br>Schools | 10.30%                | (L<br>+12.00%)               | 12/2/2020         | \$ 3,494            | \$ 3,419          | \$ 3,013      | 1.6 %                       |
| Subordinated Loan  |   | cash /<br>3.0%<br>PIK |                              |                   |                     |                   |               |                             |
| Preferred Equity<br>(1,764,720 units), 15.75%<br>PIK (9) |   |                       |                              |                   |                     | 2,094             | 1,455         | 0.8                         |
| Warrants (2,174,905 units)<br>(9)                        |   |                       |                              | 3/30/2026<br>(11) |                     | 46                | —             | —                           |
|  |   |                       |                              |                   | 3,494               | 5,559             | 4,468         | 2.4                         |
| Stancor, L.P. (4)  | Pump and<br>Pumping<br>Equipment<br>Manufacturing         |                       |                              |                   |                     |                   |               |                             |
| Senior Secured Loan                                      |   | 10.22%                | (L<br>+9.00%)                | 8/19/2019         | 8,787               | 8,754             | 8,706         | 4.5                         |
| Preferred Equity<br>(1,250,000 units), 8% PIK<br>(7) (9) |   |                       |                              |                   |                     | 1,501             | 875           | 0.5                         |
|  |   |                       |                              |                   | 8,787               | 10,255            | 9,581         | 5.0                         |
| TravelCLICK, Inc.  | Computer<br>Systems Design<br>and Related<br>Services     |                       |                              |                   |                     |                   |               |                             |
| Senior Secured Loan                                      |   | 8.98%                 | (L<br>+7.75%)                | 11/8/2021         | 7,334               | 7,298             | 7,334         | 3.8                         |
| Truck Hero, Inc.   | Truck Trailer<br>Manufacturing                            |                       |                              |                   |                     |                   |               |                             |
| Senior Secured Loan                                      |   | 9.41%                 | (L<br>+8.25%)                | 4/21/2025         | 4,941               | 4,868             | 4,901         | 2.6                         |
| Senior Secured Loan                                      |   | 5.16%                 | (L<br>+4.00%)                | 4/21/2024         | 1,384               | 1,370             | 1,376         | 0.7                         |
|  |   |                       |                              |                   | 6,325               | 6,238             | 6,277         | 3.3                         |
| United Biologics Holdings,<br>LLC (4)                    | Medical<br>Laboratories                                   |                       |                              |                   |                     |                   |               |                             |
| Senior Secured Loan (10)                                 |   |                       | N/A                          | 4/30/2018         | 4,230               | 4,182             | 4,220         | 2.2                         |

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|   |  |                                |     |                    |         |         |         |       |
|---|--|--------------------------------|-----|--------------------|---------|---------|---------|-------|
|   |  | 12.0%<br>cash /<br>2.0%<br>PIK |     |                    |         |         |         |       |
| Subordinated Loan (9)                             |  | 8.0%<br>PIK                    | N/A | 4/30/2019          | 7       | 7       | 6       | —     |
| Preferred Equity (151,787 units) (9)              |  |                                |     |                    |         | 9       | 20      | —     |
| Warrants (29,374 units) (9)                       |  |                                |     | 03/05/2022<br>(11) |         | 82      | 58      | —     |
|   |  |                                |     |                    | 4,237   | 4,280   | 4,304   | 2.2   |
| VanDeMark Chemical Inc.                           | Other Basic<br>Inorganic<br>Chemical<br>Manufacturing                  |                                |     |                    |         |         |         |       |
| Senior Secured Loan                               |  | 6.55%<br>(L<br>+5.25%)         |     | 11/30/2017         | 2,338   | 2,331   | 2,331   | 1.2   |
| Total<br>Non-control/Non-affiliate<br>Investments |  |                                |     |                    | 209,231 | 213,626 | 200,020 | 104.0 |
| Affiliate Investments                             |  |                                |     |                    |         |         |         |       |
| All Metals Holding, LLC<br>(4)                    | Metal Service<br>Centers and<br>Other Metal<br>Merchant<br>Wholesalers |                                |     |                    |         |         |         |       |
| Senior Secured Loan                               |  | 12.0%<br>cash /<br>1.0%<br>PIK | N/A | 12/28/2021         | 12,932  | 12,272  | 12,932  | 6.7   |
| Common Equity (637,954 units) (9)                 |  |                                |     |                    |         | 565     | 1,458   | 0.8   |
|   |  |                                |     |                    | 12,932  | 12,837  | 14,390  | 7.5   |

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

| Portfolio Company(1)<br>Investment Type                   | Industry  | Interest Rate (2)       | Spread Above Index (2) | Maturity  | Principal Amount | Amortized Cost | Fair Value | Percent of Net Assets |
|---|---|-------------------------|------------------------|-----------|------------------|----------------|------------|-----------------------|
| Contract DataScan Holdings, Inc. (4)<br>Subordinated Loan | Office Machinery and Equipment Rental and Leasing                 | 12.00%                  | N/A                    | 2/5/2021  | \$ 8,000         | \$ 7,983       | \$8,000    | 4.2 %                 |
|   |   |                         |                        |           |                  | 4,069          | 5,427      | 2.8                   |
|   |   |                         |                        |           |                  | 104            | —          | —                     |
|   |   |                         |                        |           | 8,000            | 12,156         | 13,427     | 7.0                   |
| Master Cutlery, LLC (4)<br>Subordinated Loan              | Sporting and Recreational Goods and Supplies Merchant Wholesalers | 13.00%                  | N/A                    | 4/17/2020 | 4,705            | 4,689          | 3,993      | 2.1                   |
|   |   |                         |                        |           |                  | 3,483          | —          | —                     |
|   |   |                         |                        |           |                  | —              | —          | —                     |
|   |   |                         |                        |           | 4,705            | 8,172          | 3,993      | 2.1                   |
| NeoSystems Corp. (4)<br>Subordinated Loan                 | Other Accounting Services   | 10.50% cash / 2.25% PIK | N/A                    | 8/13/2019 | 2,125            | 2,117          | 2,064      | 1.1                   |
|   |   |                         |                        |           |                  | 1,323          | 1,332      | 0.7                   |
|   |   |                         |                        |           | 2,125            | 3,440          | 3,396      | 1.8                   |
| Pfanstiehl Holdings, Inc. (4)<br>Subordinated Loan        | Pharmaceutical Preparation Manufacturing                          | 10.50%                  | N/A                    | 9/29/2021 | 3,788            | 3,827          | 3,788      | 2.0                   |
|   |   |                         |                        |           |                  |                |            |                       |

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|  |  |  |            |        |        |             |
|--|--|--|------------|--------|--------|-------------|
| Common Equity<br>(400 shares)                                    |  |  |            | 217    | 4,463  | 2.3         |
|  |  |  | 3,788      | 4,044  | 8,251  | 4.3         |
| Strategic Pharma<br>Solutions, Inc. (4)                          | Other Professional,<br>Scientific, and Technical<br>Services   |  |            |        |        |             |
| Senior Secured<br>Loan   |  | 11.43% (L<br>+10.00%)                  | 12/18/2020 | 8,411  | 8,353  | 8,579 4.5   |
| Preferred Equity<br>(1,191 units), 6%<br>PIK (9)                 |  |  |            |        | 1,972  | 5,700 3.0   |
|  |  |  |            | 8,411  | 10,325 | 14,279 7.5  |
| TRS Services,<br>LLC (4)   | Commercial and<br>Industrial Machinery and<br>Equipment (except<br>Automotive and<br>Electronic) Repair and<br>Maintenance |  |            |        |        |             |
| Senior Secured<br>Loan   |  | 9.97%<br>cash / (L +9.25%)<br>0.5% PIK | 12/10/2019 | 9,796  | 9,630  | 9,796 5.1   |
| Preferred Equity<br>(329,266 Class<br>AA units), 15%<br>PIK (9)  |  |  |            |        | 372    | 381 0.2     |
| Preferred Equity<br>(3,000,000 Class<br>A units), 11%<br>PIK (9) |  |  |            |        | 3,374  | 3,069 1.6   |
| Common Equity<br>(3,000,000 units)<br>(9)                        |  |  |            |        | 572    | — —         |
|  |  |  |            | 9,796  | 13,948 | 13,246 6.9  |
| Total Affiliate<br>Investments                                   |  |  |            | 49,757 | 64,922 | 70,982 37.1 |

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

| Portfolio Company(1)<br>Investment Type<br>Control Investments                            | Industry   | Interest Rate (2)      | Spread Above Index (2) | Maturity   | Principal Amount | Amortized Cost | Fair Value | Percent of Net Assets |
|---|--|------------------------|------------------------|------------|------------------|----------------|------------|-----------------------|
| Malabar International (4)   | Other Aircraft Parts and Auxiliary Equipment Manufacturing | 11.25% cash / 2.0% PIK | N/A                    | 11/13/2021 | \$7,693          | \$7,714        | \$7,829    | 4.1 %                 |
| Subordinated Loan   |  |                        |                        |            |                  |                |            |                       |
| Preferred Stock (1,644 shares), 6% cash   |  |                        |                        |            |                  | 4,283          | 7,476      | 3.9                   |
|   |  |                        |                        |            | 7,693            | 11,997         | 15,305     | 8.0                   |
| MTE Holding Corp. (4)   | Travel Trailer and Camper Manufacturing                    | 12.73% cash / 1.5% PIK | (L +13.00%)            | 11/25/2020 | 7,131            | 7,082          | 7,083      | 3.7                   |
| Subordinated Loan (to Mirage Trailers, LLC, a controlled subsidiary of MTE Holding Corp.) |  |                        |                        |            |                  |                |            |                       |
| Common Equity (554 shares)  |  |                        |                        |            |                  | 3,069          | 3,518      | 1.8                   |
| Total Control Investment  |  |                        |                        |            | 7,131            | 10,151         | 10,601     | 5.5                   |
|   |  |                        |                        |            | 14,824           | 22,148         | 25,906     | 13.5                  |
| Total Investments   |  |                        |                        |            | \$273,812        | \$300,696      | \$296,908  | 154.6 %               |

(1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company.

The majority of investments that bear interest at a variable rate are indexed to LIBOR (L), and reset monthly, quarterly, or semi-annually. Approximately 16% of the Company's LIBOR referenced investments are subject to an (2) interest rate floor. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at June 30, 2017. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.

(3) The negative fair value is the result of the unfunded commitment being below par.

(4) Investments held by OFS SBIC I, LP. All other investments pledged as collateral under the PWB Credit Facility.

(5)

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Non-qualifying assets under Section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of the Company's assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of June 30, 2017, 97.18% of the Company's assets were qualifying assets.

(6) Investment was on non-accrual status as of June 30, 2017, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 2, Non-accrual loans for further details.

(7) Recognition of PIK and/or dividend income discontinued as of June 30, 2017. See Note 2, Dividend Income for further details.

(8) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 11% at June 30, 2017, includes additional interest of 1.75% per annum as specified under the contractual arrangement among the Company and the co lenders.

(9) Non-income producing.

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments - Continued

June 30, 2017

(Dollar amounts in thousands)

The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest (10)rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of June 30, 2017:

| Portfolio Company                     | Investment Type     | Range of PIK Option | Range of Cash Option | Maximum PIK Rate Allowed |
|---------------------------------------|---------------------|---------------------|----------------------|--------------------------|
| Community Intervention Services, Inc. | Subordinated Loan   | 0% or 6.00%         | 13.00% or 7.00%      | 6.00 %                   |
| Jobson Healthcare Information, LLC    | Senior Secured Loan | 1.5% or 4.80%       | 10.13% or 13.43%     | 4.80 %                   |
| MTE Holding Corp.                     | Subordinated Loan   | 0% or 1.5%          | 12.73% or 14.23%     | 1.50 %                   |
| United Biologics Holdings, LLC        | Senior Secured Loan | 0% or 2.00%         | 14.00% or 12.00%     | 2.00 %                   |

(11) Represents expiration date of the warrants.

(12) Investment held by a wholly-owned subsidiary subject to income tax. See Note 2, Income taxes for further details.

See Notes to Financial Statements.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2016

(Dollar amounts in thousands)

| Portfolio Company (1)<br>Investment Type   | Industry   | Interest<br>Rate (2)       | Spread<br>Above<br>Index (2) | Maturity   | Principal<br>Amount | Amortized<br>Cost | Fair<br>Value | Percent<br>of<br>Net<br>Assets |
|--|--|----------------------------|------------------------------|------------|---------------------|-------------------|---------------|--------------------------------|
| Non-control/Non-affiliate Investments  |  |                            |                              |            |                     |                   |               |                                |
| Accurate Group<br>Holdings, Inc. (4)<br>Subordinated Loan                        | Offices of Real<br>Estate Appraisers                         | 13.00%                     | N/A                          | 8/23/2018  | \$ 10,000           | \$ 10,032         | \$ 10,000     | 7.0 %                          |
| Armor Holdings II<br>LLC   | Other Professional,<br>Scientific, and<br>Technical Services | 10.25%                     | (L<br>+9.00%)                | 12/26/2020 | 3,500               | 3,469             | 3,496         | 2.4                            |
| AssuredPartners, Inc   | Insurance Agencies<br>and Brokerages                         | 10.00%                     | (L<br>+9.00%)                | 10/20/2023 | 5,000               | 4,854             | 5,013         | 3.5                            |
| Avison Young<br>Canada, Inc.<br>Senior Secured Loan<br>(4) (5)                   | Offices of Real<br>Estate Agents and<br>Brokers              | 9.50%                      | N/A                          | 12/15/2021 | 4,000               | 3,923             | 3,923         | 2.7                            |
| BCC Software, LLC<br>(4)   | Custom Computer<br>Programming<br>Services                   | 9.00%                      | (L<br>+8.00%)                | 6/20/2019  | 5,143               | 5,105             | 5,143         | 3.6                            |
| Senior Secured Loan<br>(Revolver) (10) (3)                                       |  | N/A                        | (L<br>+8.00%)                | 6/20/2019  | —                   | (8 )              | —             | —                              |
|  |  |                            |                              |            | 5,143               | 5,097             | 5,143         | 3.6                            |
| Community<br>Intervention Services,<br>Inc. (4)<br>Subordinated Loan<br>(6) (11) | Outpatient Mental<br>Health and Substance<br>Abuse Centers   | 7.0%<br>cash /<br>6.0% PIK | N/A                          | 1/16/2021  | 8,030               | 7,639             | 5,393         | 3.8                            |
| Confie Seguros<br>Holdings II Co.<br>Senior Secured Loan                         | Insurance Agencies<br>and Brokerages                         | 10.25%                     | (L<br>+9.00%)                | 5/8/2019   | 4,000               | 3,976             | 3,973         | 2.8                            |

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|  |   |        |               |           |        |        |        |      |
|--|---|--------|---------------|-----------|--------|--------|--------|------|
| C7 Data Centers, Inc.<br>(4)<br>Senior Secured Loan<br>(9) | Other Computer<br>Related Services                      | 12.47% | (L<br>+8.50%) | 6/22/2020 | 14,850 | 14,738 | 14,883 | 10.4 |
| Elgin Fasteners Group                                      | Bolt, Nut, Screw,<br>Rivet, and Washer<br>Manufacturing | 8.50%  | (L<br>+7.25%) | 8/27/2018 | 4,104  | 4,090  | 3,555  | 2.5  |
| Inhance Technologies<br>Holdings LLC                       | Other Basic<br>Inorganic Chemical<br>Manufacturing      | 5.50%  | (L<br>+4.50%) | 2/7/2018  | 2,032  | 2,027  | 2,017  | 1.4  |

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

| Portfolio Company (1)<br>Investment Type   | Industry   | Interest Rate (2)                 | Spread Above Index (2) | Maturity       | Principal Amount | Amortized Cost | Fair Value | Percent of Net Assets |
|--|--|-----------------------------------|------------------------|----------------|------------------|----------------|------------|-----------------------|
| Intrafusion Holding Corp. (4)<br>Senior Secured Loan (8)   | Other Outpatient Care Centers                          | 11.33%                            | (L +6.75%)             | 9/25/2020      | \$ 14,250        | \$ 14,207      | \$ 14,393  | 10.0 %                |
| Jobson Healthcare Information, LLC (4)<br>Senior Secured Loan (11)   | Other Professional, Scientific, and Technical Services | 10.13%<br>cash /<br>4.295%<br>PIK | (L<br>+12.425%)        | 7/21/2019      | 14,762           | 14,423         | 12,346     | 8.6                   |
| Warrants (1,056,428 member units) (10)   |  |                                   |                        | 7/21/2019 (12) |                  | 454            | —          | —                     |
|  |  |                                   |                        |                | 14,762           | 14,877         | 12,346     | 8.6                   |
| Maverick Healthcare Equity, LLC (4)<br>Preferred Equity (1,250,000 units) (10)<br>Common Equity (1,250,000 units) (10) | Home Health Equipment Rental                           |                                   |                        |                |                  | 900            | 1,037      | 0.7                   |
|  |  |                                   |                        |                |                  | —              | —          | —                     |
|  |  |                                   |                        |                |                  | 900            | 1,037      | 0.7                   |
| MN Acquisition, LLC (4)<br>Senior Secured Loan   | Software Publishers                                    | 10.50%                            | (L + 9.50%)            | 8/24/2021      | 4,989            | 4,896          | 4,949      | 3.4                   |
| My Alarm Center, LLC (4)   | Security Systems Services (except Locksmiths)          |                                   |                        |                |                  |                |            |                       |

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|  |   |        |             |            |       |       |       |     |
|--|---|--------|-------------|------------|-------|-------|-------|-----|
| Senior Secured Loan                        |   | 12.00% | (L +11.00%) | 7/9/2019   | 6,250 | 6,034 | 6,260 | 4.4 |
| Preferred Equity (100 Class A units) (10)  |   |        |             |            |       | 203   | 205   | 0.1 |
| Preferred Equity (25 Class A-1 units) (10) |   |        |             |            |       | 44    | 36    | —   |
|  |   |        |             |            | 6,250 | 6,281 | 6,501 | 4.5 |
| MYI Acquiror Limited (5)                   | Insurance Agencies and Brokerages       |        |             |            |       |       |       |     |
| Senior Secured Loan                        |   | 5.75%  | (L +4.50%)  | 5/28/2019  | 4,686 | 4,680 | 4,613 | 3.2 |
| NHR Holdings, LLC                          | Other Telecommunications                |        |             |            |       |       |       |     |
| Senior Secured Loan                        |   | 5.50%  | (L +4.25%)  | 11/30/2018 | 2,666 | 2,652 | 2,630 | 1.8 |
| NVA Holdings, Inc.                         | Veterinary Services                     |        |             |            |       |       |       |     |
| Senior Secured Loan                        |   | 8.00%  | (L +7.00%)  | 8/14/2022  | 650   | 650   | 651   | 0.5 |
| O2 Holdings, LLC (4)                       | Fitness and Recreational Sports Centers |        |             |            |       |       |       |     |
| Senior Secured Loan                        |   | 11.77% | (L +11.00%) | 9/2/2021   | 9,500 | 9,417 | 9,430 | 6.6 |

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

| Portfolio Company<br>(1)<br>Investment Type                    | Industry   | Interest<br>Rate (2)        | Spread<br>Above<br>Index (2) | Maturity   | Principal<br>Amount | Amortized<br>Cost | Fair<br>Value | Percent<br>of<br>Net<br>Assets |
|--|--|-----------------------------|------------------------------|------------|---------------------|-------------------|---------------|--------------------------------|
| PM Acquisition LLC   | All Other General<br>Merchandise Stores                      |                             |                              |            |                     |                   |               |                                |
| Senior Secured Loan  |  | 11.50%                      | N/A                          | 10/31/2021 | \$ 6,402            | \$ 6,340          | \$ 6,340      | 4.4 %                          |
| Common equity<br>(499 units) (10)                              |  |                             |                              |            |                     | 499               | 499           | 0.3                            |
|  |  |                             |                              |            | 6,402               | 6,839             | 6,839         | 4.7                            |
| Planet Fitness<br>Midwest LLC (4)                              | Fitness and<br>Recreational Sports<br>Centers                |                             |                              |            |                     |                   |               |                                |
| Subordinated Loan  |  | 13.00%                      | N/A                          | 12/16/2021 | 5,000               | 4,955             | 4,980         | 3.5                            |
| Quantum Spatial,<br>Inc. (f/k/a<br>Aero-Metric, Inc.)          | Other Information<br>Services                                |                             |                              |            |                     |                   |               |                                |
| Senior Secured Loan  |  | 6.75%<br>cash /<br>1.0% PIK | (L<br>+6.50%)                | 8/27/2017  | 2,440               | 2,427             | 2,340         | 1.6                            |
| Ranpak Corp.   | Packaging Machinery<br>Manufacturing                         |                             |                              |            |                     |                   |               |                                |
| Senior Secured Loan  |  | 8.25%                       | (L<br>+7.25%)                | 10/3/2022  | 2,000               | 1,996             | 1,885         | 1.3                            |
| Security Alarm<br>Financing<br>Enterprises, L.P. (4)           | Security Systems<br>Services (except<br>Locksmiths)          |                             |                              |            |                     |                   |               |                                |
| Subordinated Loan  |  | 14.00%                      | (L<br>+13.00%)               | 6/19/2020  | 12,500              | 12,382            | 12,382        | 8.6                            |
| Sentry Centers<br>Holdings, LLC                                | Other Professional,<br>Scientific, and<br>Technical Services |                             |                              |            |                     |                   |               |                                |
| Senior Secured Loan  |  | 12.40%                      | (L<br>+11.50%)               | 7/24/2019  | 4,209               | 4,145             | 4,171         | 2.9                            |
| smarTours, LLC (4)<br>Preferred Equity<br>(500,000 units) (10) | Tour Operators   |                             |                              |            |                     | 439               | 1,019         | 0.7                            |

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|   |  |                            |                |                   |       |       |       |     |
|---|--|----------------------------|----------------|-------------------|-------|-------|-------|-----|
| Southern Technical<br>Institute, LLC (4)                  | Colleges, Universities,<br>and Professional<br>Schools | 9.0% cash<br>/ 4.0%<br>PIK | (L<br>+12.00%) | 12/2/2020         | 3,398 | 3,330 | 3,158 | 2.2 |
| Subordinated Loan   |  |                            |                |                   |       |       |       |     |
| Preferred Equity<br>(1,764,720 units),<br>15.75% PIK (10) |  |                            |                |                   |       | 1,938 | 1,984 | 1.4 |
| Warrants (2,174,905<br>units) (10)                        |  |                            |                | 3/30/2026<br>(12) |       | 46    | —     | —   |
|   |  |                            |                |                   | 3,398 | 5,314 | 5,142 | 3.6 |

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

| Portfolio Company (1)<br>Investment Type           | Industry  | Interest<br>Rate (2)           | Spread<br>Above<br>Index (2) | Maturity         | Principal<br>Amount | Amortized<br>Cost | Fair<br>Value | Percent<br>of<br>Net<br>Assets |
|--|---|--------------------------------|------------------------------|------------------|---------------------|-------------------|---------------|--------------------------------|
| Stancor, L.P. (4)                                  | Pump and<br>Pumping<br>Equipment<br>Manufacturing     | 9.75%                          | (L<br>+9.00%)                | 8/19/2019        | \$ 9,450            | \$ 9,407          | \$ 9,181      | 6.4 %                          |
| Senior Secured Loan                                |   |                                |                              |                  |                     | 1,501             | 835           | 0.6                            |
| Preferred Equity (1,250,000<br>units), 8% PIK (10) |   |                                |                              |                  | 9,450               | 10,908            | 10,016        | 7.0                            |
| TravelCLICK, Inc.                                  | Computer Systems<br>Design and<br>Related Services    | 8.75%                          | (L<br>+7.75%)                | 11/8/2021        | 4,000               | 3,879             | 3,946         | 2.7                            |
| Senior Secured Loan                                |   |                                |                              |                  |                     |                   |               |                                |
| United Biologics Holdings,<br>LLC (4)              | Medical<br>Laboratories                               | 12.0%<br>cash /<br>2.0%<br>PIK | N/A                          | 4/30/2018        | 4,181               | 4,106             | 4,034         | 2.8                            |
| Senior Secured Loan (11)                           |   |                                |                              |                  |                     |                   |               |                                |
| Subordinated Loan (10)                             |   | 8.0%<br>PIK                    | N/A                          | 4/30/2019        | 7                   | 7                 | 6             | —                              |
| Preferred Equity (151,787<br>units) (10)           |   |                                |                              |                  |                     | 9                 | 20            | —                              |
| Warrants (29,374 units)<br>(10)                    |   |                                |                              | 3/5/2022<br>(12) |                     | 82                | 114           | 0.1                            |
|  |   |                                |                              |                  | 4,188               | 4,204             | 4,174         | 2.9                            |
| VanDeMark Chemical Inc.                            | Other Basic<br>Inorganic<br>Chemical<br>Manufacturing | 6.50%                          | (L<br>+5.25%)                | 11/30/2017       | 2,406               | 2,386             | 2,379         | 1.7                            |
| Senior Secured Loan                                |   |                                |                              |                  |                     |                   |               |                                |
| Total<br>Non-control/Non-affiliate<br>Investments  |   |                                |                              |                  | 174,405             | 178,279           | 173,219       | 120.6                          |
| Affiliate Investments                              |   |                                |                              |                  |                     |                   |               |                                |

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|  |   |                                |     |            |        |        |        |     |
|--|---|--------------------------------|-----|------------|--------|--------|--------|-----|
| All Metals Holding, LLC<br>(4)                   | Metal Service<br>Centers and Other<br>Metal Merchant<br>Wholesalers | 12.0%<br>cash /<br>1.0%<br>PIK | N/A | 12/28/2021 | 12,867 | 12,135 | 12,865 | 8.9 |
| Senior Secured Loan                              |   |                                |     |            |        |        |        |     |
| Common Equity (637,954<br>units) (10)            |   |                                |     |            | 12,867 | 565    | 1,277  | 0.9 |
|  |   |                                |     |            | 12,700 |        | 14,142 | 9.8 |
| Contract Datascan<br>Holdings, Inc. (4)          | Office Machinery<br>and Equipment<br>Rental and<br>Leasing          |                                |     |            |        |        |        |     |
| Subordinated Loan                                |   | 12.00%                         | N/A | 2/5/2021   | 8,000  | 7,980  | 7,902  | 5.5 |
| Preferred Equity (3,061<br>shares), 10% PIK (10) |   |                                |     |            |        | 3,804  | 5,421  | 3.8 |
| Common Equity (11,273<br>shares) (10)            |   |                                |     |            |        | 104    | 187    | 0.1 |
|  |   |                                |     |            | 8,000  | 11,888 | 13,510 | 9.4 |

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

| Portfolio Company<br>(1)<br>Investment Type  | Industry   | Interest<br>Rate (2)             | Spread<br>Above<br>Index (2) | Maturity   | Principal<br>Amount | Amortized<br>Cost | Fair<br>Value | Percent<br>of<br>Net<br>Assets |
|--|--|----------------------------------|------------------------------|------------|---------------------|-------------------|---------------|--------------------------------|
| Intelli-Mark<br>Technologies,<br>Inc.(4)<br>Senior Secured<br>Loan (11)<br>Common Equity<br>(2,553,089 shares)<br>(10)                                       | Other Travel<br>Arrangement and<br>Reservation Services                    | 13.00%                           | N/A                          | 11/23/2020 | \$ 8,750            | \$ 8,682          | \$8,841       | 6.2 %                          |
|  |  |                                  |                              |            |                     | 1,500             | 1,998         | 1.5                            |
|  |  |                                  |                              |            | 8,750               | 10,182            | 10,839        | 7.7                            |
| Master Cutlery,<br>LLC (4)<br>Subordinated Loan<br>Preferred Equity<br>(3,723 units), 5%<br>cash, 3% PIK (7)<br>(10)<br>Common Equity<br>(15,564 units) (10) | Sporting and<br>Recreational Goods and<br>Supplies Merchant<br>Wholesalers | 13.00%                           | N/A                          | 4/17/2020  | 4,741               | 4,722             | 4,440         | 3.1                            |
|  |  |                                  |                              |            |                     | 3,483             | 954           | 0.7                            |
|  |  |                                  |                              |            | 4,741               | 8,205             | 5,394         | 3.8                            |
| NeoSystems Corp.<br>(4)<br>Subordinated Loan<br>Preferred Equity<br>(521,962<br>convertible shares),<br>10% PIK (10)   | Other Accounting<br>Services   | 10.50%<br>cash /<br>2.75%<br>PIK | N/A                          | 8/13/2019  | 4,090               | 4,070             | 3,656         | 2.5                            |
|  |  |                                  |                              |            |                     | 1,258             | 1,255         | 0.9                            |
|  |  |                                  |                              |            | 4,090               | 5,328             | 4,911         | 3.4                            |
| Pfanstiehl<br>Holdings, Inc. (4)<br>Subordinated Loan<br>(11)<br>Common Equity<br>(400 shares)   | Pharmaceutical<br>Preparation<br>Manufacturing                             | 10.50%                           | N/A                          | 9/29/2021  | 3,788               | 3,832             | 3,810         | 2.6                            |
|  |  |                                  |                              |            |                     | 217               | 6,083         | 4.2                            |
|  |  |                                  |                              |            | 3,788               | 4,049             | 9,893         | 6.8                            |

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|  |   |                       |             |            |        |        |        |      |  |
|--|---|-----------------------|-------------|------------|--------|--------|--------|------|--|
| Strategic Pharma Solutions, Inc. (4)                     | Other Professional, Scientific, and Technical Services  |                       |             |            |        |        |        |      |  |
| Senior Secured Loan                                      |   | 11.32%                | (L +10.00%) | 12/18/2020 | 8,411  | 8,344  | 8,383  | 5.8  |  |
| Preferred Equity (1,191 units), 6% PIK (10)              |   |                       |             |            |        | 1,915  | 3,026  | 2.1  |  |
|  |   |                       |             |            | 8,411  | 10,259 | 11,409 | 7.9  |  |
| TRS Services, LLC (4)                                    | Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance |                       |             |            |        |        |        |      |  |
| Senior Secured Loan                                      |   | 9.75% cash / 1.5% PIK | (L +10.25%) | 12/10/2019 | 9,807  | 9,607  | 9,549  | 6.5  |  |
| Preferred Equity (329,266 Class AA units), 15% PIK (10)  |   |                       |             |            |        | 346    | 354    | 0.2  |  |
| Preferred Equity (3,000,000 Class A units), 11% PIK (10) |   |                       |             |            |        | 3,170  | 1,707  | 1.2  |  |
| Common Equity (3,000,000 units) (10)                     |   |                       |             |            |        | 572    | —      | —    |  |
|  |   |                       |             |            | 9,807  | 13,695 | 11,610 | 7.9  |  |
| Total Affiliate Investments                              |   |                       |             |            | 60,454 | 76,306 | 81,708 | 56.7 |  |

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

| Portfolio Company<br>(1)<br>Investment Type   | Industry  | Interest<br>Rate (2)            | Spread<br>Above<br>Index (2) | Maturity   | Principal<br>Amount | Amortized<br>Cost | Fair<br>Value    | Percent<br>of<br>Net<br>Assets |
|---|---|---------------------------------|------------------------------|------------|---------------------|-------------------|------------------|--------------------------------|
| <b>Control Investments</b>  |   |                                 |                              |            |                     |                   |                  |                                |
| Malabar International<br>(4)  | Other Aircraft<br>Parts and Auxiliary<br>Equipment<br>Manufacturing | 11.25%<br>cash /<br>2.0%<br>PIK | N/A                          | 11/13/2021 | \$7,617             | \$7,642           | \$7,683          | 5.3 %                          |
| Preferred Stock<br>(1,644 shares), 6%<br>cash   |   |                                 |                              |            |                     | 4,283             | 5,868            | 4.1                            |
|   |   |                                 |                              |            | 7,617               | 11,925            | 13,551           | 9.4                            |
| MTE Holding Corp.<br>(4)  | Travel Trailer and<br>Camper<br>Manufacturing                       | 12.50%                          | (L<br>+11.50%)               | 11/25/2020 | 9,804               | 9,728             | 9,766            | 6.8                            |
| Senior Secured Loan<br>(to Mirage Trailers,<br>LLC, a controlled,<br>consolidated<br>subsidiary of MTE<br>Holding Corp.)<br>Common Equity (554<br>shares) |   |                                 |                              |            |                     | 3,069             | 3,383            | 2.4                            |
|   |   |                                 |                              |            | 9,804               | 12,797            | 13,149           | 9.2                            |
| <b>Total Control<br/>Investment</b>   |   |                                 |                              |            | <b>17,421</b>       | <b>24,722</b>     | <b>26,700</b>    | <b>18.6</b>                    |
| <b>Total Investments</b>  |   |                                 |                              |            | <b>\$252,280</b>    | <b>\$279,307</b>  | <b>\$281,627</b> | <b>195.9%</b>                  |

(1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company.

The majority of investments that bear interest at a variable rate are indexed to LIBOR (L) or Prime (P), and reset monthly, quarterly, or semi-annually. Substantially all of the Company's LIBOR referenced investments are subject (2) to an interest rate floor. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at December 31, 2016. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.

(3) The negative fair value is the result of the unfunded commitment being below par.

(4) Investments held by OFS SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility.

(5)

Non-qualifying assets under Section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of the Company's assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of December 31, 2016, 98.4% of the Company's assets were qualifying assets.

(6) Investment was on non-accrual status as of December 31, 2016, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 2, Non-accrual loans for further details.

(7) Recognition of PIK dividend income discontinued as of December 31, 2016. See Note 2, Dividend Income for further details.

(8) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 11.33% at December 31, 2016, includes additional interest of 2.08% per annum as specified under the contractual arrangement among the Company and the co lenders.

(9) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 12.47% at December 31, 2016, includes additional interest of 2.97% per annum as specified under the contractual arrangement among the Company and the co lenders.

(10) Non-income producing.

(11) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of December 31, 2016:

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments - Continued

December 31, 2016

(Dollar amounts in thousands)

| Portfolio Company                     | Investment Type     | Range of PIK<br>Option | Range of Cash<br>Option | Maximum<br>PIK<br>Rate<br>Allowed |
|---------------------------------------|---------------------|------------------------|-------------------------|-----------------------------------|
| Community Intervention Services, Inc. | Subordinated Loan   | 0% or 6.00%            | 13.00% or 7.00%         | 6.00 %                            |
| Intelli-Mark Technologies, Inc.       | Senior Secured Loan | 0% or 2.00%            | 13.00% or 11.50%        | 2.00 %                            |
| Jobson Healthcare Information, LLC    | Senior Secured Loan | 1.50% and 4.295%       | 10.13% and 12.925%      | 4.295 %                           |
| Pfanstiehl Holdings, Inc.             | Subordinated Loan   | 0% or 2.00%            | 10.50% or % 8.50%       | 2.00 %                            |
| United Biologics Holdings, LLC        | Senior Secured Loan | 0% or 2.00%            | 14.00% or 12.00%        | 2.00 %                            |

(12) Represents expiration date of the warrants.

See Notes to Financial Statements.

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

Note 1. Organization

OFS Capital Corporation, a Delaware corporation, is an externally managed, closed-end, non-diversified management investment company. The Company has elected to be regulated as a BDC under the 1940 Act. In addition, for income tax purposes, the Company has elected to be treated as a RIC under the Code.

The Company's objective is to provide stockholders with current income and capital appreciation through its strategic investment focus primarily on debt investments and, to a lesser extent, equity investments primarily in middle-market companies principally in the United States. OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company.

In addition, OFS Advisor also serves as the investment adviser for HPCI, a Maryland corporation and a BDC. HPCI's investment objective is similar to that of the Company.

The Company may make investments directly or through SBIC I LP, its investment company subsidiary licensed under the SBA SBIC Program. The SBIC Program is designed to stimulate the flow of capital into eligible businesses. SBIC I LP is subject to SBA regulatory requirements, including limitations on the businesses and industries in which it can invest, requirements to invest at least 25% of its regulatory capital in eligible smaller businesses, as defined under the SBIC Act, limitations on the financing terms of investments, capitalization thresholds that may limit distributions to the Company, and is subject to periodic audits and examinations of its financial statements.

In April 2017, the Company issued 3,625,000 shares of its common stock in a follow-on public offering at an offering price of \$14.57 per share (the "Offering"), including shares purchased by the underwriters pursuant to their exercise of the over-allotment option. OFS Advisor paid all of the underwriting discounts and commissions and an additional supplemental payment of \$0.25 per share, representing the difference between the public offering price of \$14.57 per share and the net offering proceeds of \$14.82 per share, which also represented the Company's NAV per share at the time of the Offering. All payments made by OFS Advisor in connection with the Offering are not subject to reimbursement by the Company. The Company received net proceeds from this Offering of \$53,723.

Note 2. Basis of Presentation and Significant Accounting Policies

**Basis of presentation:** The Company prepares its consolidated financial statements in accordance with GAAP, including ASC Topic 946, Financial Services—Investment Companies, the 1940 Act, Articles 6 or 10 of Regulation S-X, and the requirements for reporting on Form 10-Q. In the opinion of management, the consolidated financial statements include all adjustments, consisting only of normal and recurring accruals and adjustments, necessary for fair presentation have been made. Certain amounts in the prior period financial statements have been reclassified to conform to the current year presentation. These consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

**Principles of consolidation:** The Company consolidates majority-owned, investment company subsidiaries. The Company does not own any controlled operating company whose business consists of providing services to the Company, which would also require consolidation. All intercompany balances and transactions are eliminated upon consolidation.

**Fair value of financial instruments:** The Company applies fair value to substantially all of its financial instruments. ASC Topic 820 defines fair value, establishes a framework to measure fair value, and requires disclosures regarding fair value measurements. Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined through the use of models and other valuation techniques, valuation inputs, and assumptions market participants would use to value the investment. Highest priority is given to prices for identical assets quoted in active markets (Level 1) and the lowest

priority is given to unobservable valuation inputs (Level 3). The availability of observable inputs can vary significantly and is affected by many factors, including the type of product, whether the product is new to the market, whether the product is traded on an active exchange or in the secondary market, and the current market conditions. To the extent that the valuation is based on less observable or unobservable inputs, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3 (i.e., those instruments valued using non-observable inputs), which comprise the entirety of the Company's investments.

Changes to the valuation policy are reviewed by management and the Company's Board. As the Company's investments change, markets change, new products develop, and valuation inputs become more or less observable, the Company will continue to refine its valuation methodologies.

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

See Note 5 for more detailed disclosures of the Company's fair value measurements of its financial instruments.

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

**Use of estimates:** The preparation of 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 significantly from those estimates.

**Reportable segments:** The Company has a single reportable segment and single operating segment structure.

**Cash and cash equivalents:** Cash and cash equivalents consist of cash and highly liquid investments not held for resale with original maturities of three months or less. The Company's cash and cash equivalents are maintained with a member bank of the FDIC and at times, such balances may be in excess of the FDIC insurance limits. Included in cash and cash equivalents was \$46,459 and \$17,659 held in a US Bank Money Market Deposit Account as of June 30, 2017, and December 31, 2016, respectively.

**Revenue recognition:**

**Interest Income:** Interest income is recorded on an accrual basis and reported as interest receivable until collected. Interest income is accrued daily based on the outstanding principal amount and the contractual terms of the debt investment. Certain of the Company's investments contain a payment-in-kind interest income provision ("PIK interest"). The PIK interest, computed at the contractual rate specified in the applicable investment agreement, is added to the principal balance of the investment, rather than being paid in cash, and recorded as interest income, as applicable, on the consolidated statements of operations. The Company discontinues accrual of interest income, including PIK interest, when there is reasonable doubt that the interest income will be collected.

**Loan origination fees, original issue discount ("OID"), market discount or premium, and loan amendment fees (collectively, "Net Loan Fees")** are recorded as an adjustment to the amortized cost of the investment, and accreted or amortized as an adjustment to interest income over the life of the respective debt investment using a method that approximates the effective interest method. When the Company receives a loan principal payment, the unamortized Net Loan Fees related to the paid principal is accelerated and recognized in interest income.

Further, the Company may acquire or receive equity, warrants or other equity-related securities ("Equity") in connection with the Company's acquisition of, or subsequent amendment to, debt investments. The Company determines the cost basis of Equity based on their fair value, and the fair value of debt investments and other securities or consideration received. Any resulting difference between the face amount of the debt and its recorded cost resulting from the assignment of value to the Equity is treated as OID, and accreted into interest income as described above.

**Dividend Income:** Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared. Dividend income on preferred equity securities is accrued as earned. Dividends on preferred equity securities may be payable in cash or in additional preferred securities, and are generally not payable unless declared or upon liquidation. Declared dividends payable in cash are reported as dividend receivables until collected. Dividends payable in additional preferred securities or contractually earned but not declared ("PIK dividends") are recorded as an adjustment to the cost basis of the investment. The Company discontinues accrual of PIK dividends on preferred equity securities when there is reasonable doubt that the dividend income will be collected. At June 30, 2017, the Company had two preferred equity securities (Master Cutlery, LLC and Stancor, L.P.), with an aggregate amortized cost and fair value of \$4,984 and \$875, respectively, for which the Company discontinued the PIK dividend accrual.

In addition, at June 30, 2017, the Company discontinued recognition of the cash preferred dividend from its investment in Master Cutlery, LLC. At December 31, 2016, the Company had one preferred equity security (Master Cutlery, LLC) with an amortized cost and fair value of \$3,483, and \$954, respectively, for which the Company discontinued the PIK dividend accrual.

Fee Income: The Company generates revenue in the form of management, valuation, and other contractual fees, that is recognized as the related services are rendered. In the general course of its business, the Company receives certain fees from portfolio companies which are non-recurring in nature. Such non-recurring fees include prepayment fees on certain loans repaid prior to their scheduled due date, which are recognized as earned when received, and fees for capital structuring services from certain portfolio companies, which are recognized as earned upon closing of the investment.

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

**Net Realized and Unrealized Gain or Loss on Investments:** Investment transactions are reported on a trade-date basis. Unsettled trades as of the balance sheet date are included in payable for investments purchased on the consolidated balance sheets. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the amortized cost basis of the investment. Investments are valued at fair value as determined in good faith by Company management under the supervision and review of the Board. After recording all appropriate interest, dividend, and other income, some of which is recorded as an adjustment to the cost basis of the investment as described above, the Company reports changes in the fair value of investments as net changes in unrealized appreciation/depreciation on investments in the consolidated statements of operations.

**Non-accrual loans:** When there is reasonable doubt that principal, cash interest, PIK interest, or dividends will be collected, loans or preferred equity investments are placed on non-accrual status and the Company will generally cease recognizing cash interest, PIK interest, Net Loan Fee amortization, or dividend income, as applicable. When an investment is placed on non-accrual status, all interest and dividends previously accrued but not collected, other than PIK interest or dividends that has been contractually added to the adjusted cost basis of the investment prior to the designation date, is reversed against current period interest and dividend income. Interest and dividend payments subsequently received on non-accrual investments may be recognized as income or applied to principal depending upon management's judgment. Interest or dividend accruals and Net Loan Fee amortization are resumed on non-accrual investments only when they are brought current with respect to principal, interest or dividends and when, in the judgment of management, the investments are estimated to be fully collectible as to all principal, interest or dividends. At June 30, 2017, the Company had two loans (Community Intervention Services, Inc. and My Alarm Center, LLC) on non-accrual status with respect to all interest and Net Loan Fee amortization, with an aggregate amortized cost and fair value of \$14,340 and \$5,030, respectively. In July 2017, the My Alarm Center, LLC loan was restructured and converted into preferred equity securities. At December 31, 2016, the Company had one loan (Community Intervention Services, Inc.) on non-accrual status with respect to PIK interest and Net Loan Fees with an amortized cost and fair value of \$7,639 and \$5,393, respectively.

**Income taxes:** The Company has elected to be treated, and intends to qualify annually, as a RIC under Subchapter M of the Code. To qualify as a RIC, the Company must, among other things, meet certain source of income and asset diversification requirements, and timely distribute at least 90% of its ICTI to its stockholders. The Company has made, and intends to continue to make, the requisite distributions to its stockholders, which generally relieves the Company from U.S. federal income taxes.

Depending on the level of ICTI earned in a tax year, the Company may choose to retain ICTI in an amount less than that which would trigger federal income tax liability under Subchapter M of the Code. However, the Company would be liable for a 4% excise tax on such income. Excise tax liability is recognized when the Company determines its estimated current year annual ICTI exceeds estimated current year distributions.

The Company may utilize wholly-owned holding companies taxed under Subchapter C of the Code when making equity investments in portfolio companies taxed as pass-through entities to meet its source-of-income requirements as a RIC. These "tax blocker" entities are consolidated in the Company's GAAP financial statements and may result in federal income tax expense with respect to income derived from those investments. Such income, net of applicable federal income tax, is not included in the Company's tax-basis net investment income until distributed by the holding company, which may result in temporary differences and character differences between the Company's GAAP and tax-basis net investment income and realized gains and losses. Federal income tax expense from such holding-company subsidiaries is included in general and administrative expenses in the consolidated statements of operations.

The Company evaluates tax positions taken in the course of preparing its tax returns to determine whether they are "more-likely-than-not" to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the

more-likely-than-not threshold could result in greater and undistributed ICTI, income and excise tax expense, and, if involving multiple years, a re-assessment of the Company's RIC status. GAAP requires recognition of accrued interest and penalties related to uncertain tax benefits as income tax expense. There were no uncertain income tax positions at June 30, 2017 or December 31, 2016. The current and prior three tax years remain subject to examination by U.S. federal and most state tax authorities.

Distributions: Distributions to common stockholders are recorded on the declaration date. The timing of distributions as well as the amount to be paid out as a distribution is determined by the Board each quarter. Distributions from net investment income and net realized gains are determined in accordance with the Code. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment. Distributions paid in excess of taxable net investment income and net realized gains are considered returns of capital to stockholders.

The Company has adopted a DRIP that provides for reinvestment of any distributions the Company declares in cash on behalf of its stockholders, unless a stockholder elects to receive cash. As a result, if the Board authorizes and the Company declares a

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

cash distribution, then stockholders who have not “opted out” of the DRIP will have their cash distribution automatically reinvested in additional shares of the Company’s common stock, rather than receiving the cash distribution.

The Company may use newly issued shares under the guidelines of the DRIP, or the Company may purchase shares in the open market in connection with its obligations under the plan.

**Deferred debt issuance costs:** Deferred debt issuance costs represent fees and other direct incremental costs incurred in connection with the Company’s borrowings. Deferred debt issuance costs are presented as a direct reduction of the related debt liability on the consolidated balance sheets except for deferred debt issuance costs associated with the Company’s line of credit arrangements, which are included in prepaid expenses and other assets on the consolidated balance sheets. Deferred debt issuance costs are amortized to interest expense over the term of the related debt.

**Goodwill:** On December 4, 2013, in connection with the SBIC Acquisitions, the Company recorded goodwill of \$1,077, which is included in prepaid expenses and other assets on the consolidated balance sheets. Goodwill is not subject to amortization. Goodwill is evaluated for impairment annually or more frequently if events occur or circumstances change that indicate goodwill may be impaired. There have been no goodwill impairments since the date of the SBIC Acquisitions.

**Intangible asset:** On December 4, 2013, in connection with the SBIC Acquisitions, the Company recorded an intangible asset of \$2,500 attributable to the SBIC license. The Company amortizes this intangible asset on a straight-line basis over its estimated useful life of 13 years. The Company expects to incur annual amortization expense of \$195 in each of the years ending December 31, 2025 and \$145 in 2026.

The Company tests its intangible asset for impairment if events or circumstances suggest that the asset carrying value may not be fully recoverable. The intangible asset, net of accumulated amortization of \$698 and \$600 at June 30, 2017 and December 31, 2016, respectively, is included in prepaid expenses and other assets.

**Interest expense:** Interest expense is recognized on an accrual basis.

**Concentration of credit risk:** Aside from its debt instruments, financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits at financial institutions. At various times during the year, the Company may exceed the federally insured limits. To mitigate this risk, the Company places cash deposits only with high credit quality institutions. Management believes the risk of loss is minimal.

**New Accounting Standards:** The following table discusses ASUs issued by the FASB adopted or yet to be adopted by the Company during 2017:

| Standard  | Description  | Period of Adoption    | Effect of Adoption on the financial statements                        |
|---|--|-----------------------|---|
| Standards that were adopted   |  |                       |   |
| ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323); Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update) | Incorporates into the FASB ASC Topic 250, SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on the financial statements of recently issued accounting standards when adopted, and specifically for ASU 2014-09, ASU 2016-02, and ASU 2016-03. If a registrant does not know or cannot reasonably estimate the impact of adoption of the above standards, the SEC staff expects the registrant to make a statement to that effect. Consistent with SAB Topic 11.M, the SEC staff also expects the registrant to provide qualitative disclosures to help users assess the significance the adoption will have on the | First Quarter of 2017 | No material impact to the Company's consolidated financial statements |

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financial statements. In addition, conforms the SEC Staff comments included in ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for investments in Qualified Affordable Housing Projects. The primary effect of the amendment was to change the reference "effective yield method" to "proportional amortization method"

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

| Standard  | Description   | Effect of Adoption on the the financial statements  |
|---|---|---|
| Standards that are not yet adopted                  |   |   |
| ASU 2014-09, Revenue from Contracts with Customers  | Supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of the standard is to recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The standard defines a five step process to achieve this core principle. The standard must be adopting using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures) | In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09, such that the guidance is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is not permitted. The Company has completed its initial evaluation phase and has determined the impact of its pending adoption of ASU 2014-09 is not expected to have a material effect on the Company's consolidated financial statements. |
| ASU 2016-01, Financial Instruments – Overall        | Modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value, and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820 - Fair Value Measurement, and as such these investments may be measured at cost  | Annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company is required to record its investments at fair value with changes in fair value recognized in net income in accordance with ASC Topic 946, Financial Services—Investment Companies. Therefore, the adoption of ASU 2016-01 is not expected to have a material effect on the Company's consolidated financial statements                     |
| ASU 2016-15, Statement of Cash Flows                | Addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows  | Annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted. The Company is currently evaluating the impact of this ASU will have on the Company's consolidated financial position and disclosures.   |
| ASU 2016-19, Technical Corrections and Improvements | Makes minor corrections and clarifications that affect a wide variety of topics in the Accounting Standards Codification, including an amendment to ASC Topic 820, Fair Value Measurement, which  | Annual reporting periods beginning after December 15, 2017, including interim periods within those years. Early application is permitted for any  |

clarifies the difference between a valuation approach and a valuation technique when applying the guidance of that Topic. The amendment also requires an entity to disclose when there has been a change in either or both a valuation approach and/or a valuation technique. The transition guidance for the ASC Topic 820 amendment must be applied prospectively because it could potentially involve the use of hindsight that includes fair value measurements

fiscal year or interim period for which the entity's financial statements have not yet been issued. The Company is currently evaluating the impact this ASU will have on the Company's consolidated financial position or disclosures

ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers

Amends certain narrow aspects of ASU 2014-09, including loan guarantee fees, impairment testing of contract costs, provisions for losses on construction-type and production type contracts, advertising costs, scope exception clarifications, and various disclosures

The effective date and transition requirements are the same as the effective date and transition requirements for ASU 2014-09 and is not expected to have a material effect on the Company's consolidated financial statements.

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

| Standard   | Description   | Effect of Adoption on the the financial statements   |
|--|---|--|
| Standards that are not yet adopted   |   |  |
| ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment  | Removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill  | Annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early application is permitted. The adoption of ASU 2017-04 is not expected to have a material effect on the Company's consolidated financial statements.   |
| ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 620-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets | Defines "insubstance nonfinancial asset", unifies guidance related to partial sales of nonfinancial assets, eliminates rules specifically addressing sales of real estate, removes exceptions to the financial asset derecognition model, and clarifies the accounting for contributions of nonfinancial assets to joint ventures | The effective date and transition requirements are the same as the effective date and transition requirements for ASU 2014-09 and is not expected to have a material effect on the Company's consolidated financial statements.  |
| ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities  | Shortens the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Securities held at a discount are to continue to be amortized to maturity  | Annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the ASU in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The adoption of ASU 2017-08 is not expected to have a material effect on the Company's consolidated financial statements. |

Note 3. Related Party Transactions

Investment Advisory and Management Agreement: OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company pursuant to an Investment Advisory Agreement. The Investment Advisory Agreement was most recently re-approved on April 7, 2017. Under the terms of the Investment Advisory Agreement, which are in accordance with the 1940 Act and subject to the overall supervision of the Company's Board, OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring investments, and monitoring investments and portfolio companies on an ongoing basis. OFS Advisor is a subsidiary of OFSAM and a registered investment advisor under the Investment Advisers Act of 1940, as amended.

OFS Advisor's services under the Investment Advisory Agreement are not exclusive to us and OFS Advisor is free to furnish similar services to other entities, including other BDCs affiliated with OFS Advisor, so long as its services to us are not impaired. OFS Advisor also serves as the investment adviser to CLO funds and other assets, including HPCI, a non-traded BDC with an investment strategy similar to the Company.

OFS Advisor receives fees for providing services, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.75% and based on the average value of the Company's total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters, adjusted for any share issuances or repurchases during the quarter. OFS Advisor has elected to exclude the value of the intangible asset and goodwill resulting from the SBIC Acquisitions from the base management fee calculation.

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

The base management fee is payable quarterly in arrears and was \$1,224 and \$2,416 for the three and six months ended June 30, 2017, respectively and \$1,089 and \$2,204, for the three and six months ended June 30, 2016.

The incentive fee has two parts. The first part ("Part One") is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination and sourcing, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement (as defined below) and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest or dividend feature (such as OID, debt instruments with PIK interest, equity investments with accruing or PIK dividend and zero coupon securities), accrued income that the Company has not yet received in cash.

Pre-incentive fee net investment income is expressed as a rate of return on the value of the Company's net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter and adjusted for any share issuances or repurchases during such quarter. Accordingly, as a result of the Offering, the Part One incentive fee was reduced by \$(593) for the three months ended June 30, 2017, determined by adjusting the value of net assets, as defined above, at March 31, 2017 by the daily weighted average of the Offering proceeds available to the Company during the three months ended June 30, 2017.

The incentive fee with respect to pre-incentive fee net income is 20.0% of the amount, if any, by which the pre-incentive fee net investment income for the immediately preceding calendar quarter exceeds a 2.0% (which is 8.0% annualized) hurdle rate and a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, OFS Advisor receives no incentive fee until the net investment income equals the hurdle rate of 2.0%, but then receives, as a "catch-up," 100.0% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, OFS Advisor will receive 20.0% of the pre-incentive fee net investment income.

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that the Company may pay an incentive fee in a quarter in which the Company incurs a loss. For example, if the Company receives pre-incentive fee net investment income in excess of the quarterly minimum hurdle rate, the Company will pay the applicable incentive fee even if the Company has incurred a loss in that quarter due to realized and unrealized capital losses. The Company's net investment income used to calculate this part of the incentive fee is also included in the amount of the Company's gross assets used to calculate the base management fee. These calculations are appropriately prorated for any period of less than three months.

The second part ("Part Two") of the incentive fee (the "Capital Gain Fee") is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), commencing on December 31, 2012, and equals 20.0% of the Company's aggregate realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation through the end of such year, less all previous amounts paid in respect of the Capital Gain Fee; provided that the incentive fee determined as of December 31, 2012, was calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation for the period beginning on the date of the Company's

election to be a BDC and ending December 31, 2012.

The Company accrues the Capital Gain Fee if, on a cumulative basis, the sum of net realized capital gains and (losses) plus net unrealized appreciation and (depreciation) is positive. If, on a cumulative basis, the sum of net realized capital gains (losses) plus net unrealized appreciation (depreciation) decreases during a period, the Company will reverse any excess Capital Gain Fee previously accrued such that the amount of Capital Gains Fee accrued is no more than 20% of the sum of net realized capital gains (losses) plus net unrealized appreciation (depreciation). OFS Advisor has excluded from the Capital Gain Fee calculation any realized gain with respect to (1) the SBIC Acquisitions, and (2) the WM Asset Sale.

The Company incurred incentive fee expense of \$(22) and \$1,159 for the three and six months ended June 30, 2017, respectively. Incentive fees for the three and six months ended June 30, 2017, included Part One incentive fees (based on net investment income) of \$261 and \$1,159, respectively, which includes a share issue adjustment of \$(593) related to the Company's Offering, and Part Two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$(283) and \$-0-, respectively. The Company incurred incentive fee expense of \$857 and \$1,590 for the three and six months ended June 30, 2016, respectively, which consisted of Part One incentive fees (based on net investment income) of \$857 and

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

\$1,729, respectively. Part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) were \$-0- and \$(139).

**License Agreement:** The Company entered into a license agreement with OFSAM under which OFSAM has agreed to grant the Company a non-exclusive, royalty-free license to use the name "OFS."

**Administration Agreement:** OFS Services, a wholly-owned subsidiary of OFSAM, furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions, and clerical, bookkeeping and record keeping services at such facilities pursuant to an Administration Agreement. Under the Administration Agreement, OFS Services performs, or oversees the performance of, the Company's required administrative services, which include being responsible for the financial records that the Company is required to maintain and preparing reports to its stockholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists the Company in determining and publishing its net asset value, oversees the preparation and filing of its tax returns and the printing and dissemination of reports to its stockholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, OFS Services also provides managerial assistance on the Company's behalf to those portfolio companies that have accepted the Company's offer to provide such assistance. Payment under the Administration Agreement is equal to an amount based upon the Company's allocable portion of OFS Services's overhead in performing its obligations under the Administration Agreement, including, but not limited to, rent, information technology services and the Company's allocable portion of the cost of its officers, including its chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and their respective staffs.

Administration fee expense was \$307 and \$708 for the three and six months ended June 30, 2017, respectively. For the three and six months ended June 30, 2016, administration fee expense was \$326 and \$754, respectively.

**Note 4. Investments**

As of June 30, 2017, the Company had loans to 40 portfolio companies, of which 78% were senior secured loans and 22% were subordinated loans, at fair value, as well as equity investments in 17 of these portfolio companies. The Company also held an equity investment in two portfolio companies in which it did not hold a debt investment. At June 30, 2017, investments consisted of the following:

|                                 | Amortized Fair |            |
|---------------------------------|----------------|------------|
|                                 | Cost           | Value      |
| Senior secured debt investments | \$ 208,376     | \$ 202,764 |
| Subordinated debt investments   | 61,840         | 56,320     |
| Preferred equity                | 24,872         | 27,979     |
| Common equity and warrants      | 5,608          | 9,845      |
| Total                           | 300,696        | 296,908    |

At June 30, 2017, all but one (domiciled in Canada) of the Company's investments, with an amortized cost and fair value of \$3,931 and \$4,029, respectively, were domiciled in the United States. Geographic composition is determined by the location of the corporate headquarters of the portfolio company. The industry compositions of the Company's portfolio were as follows:

|  | Amortized<br>Cost | Fair Value     |
|--|-------------------|----------------|
| Administrative and Support and Waste Management and Remediation Services |                   |                |
| Security Systems Services (except Locksmiths)                            | \$ 19,352 6.4%    | \$ 13,975 4.7% |
| Tour Operators   | 439 0.1           | 1,080 0.4      |
| Arts, Entertainment, and Recreation                                      |                   |                |

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|  |        |     |        |     |
|--|--------|-----|--------|-----|
| Fitness and Recreational Sports Centers<br>Construction                | 14,884 | 4.9 | 14,903 | 5.0 |
| Electrical Contractors and Other Wiring Installation Contractors       | 18,638 | 6.2 | 18,638 | 6.3 |
| Education Services<br>Colleges, Universities, and Professional Schools | 5,559  | 1.8 | 4,468  | 1.5 |
| Finance and Insurance<br>Insurance Agencies and Brokerages             | 17,360 | 5.8 | 17,538 | 5.9 |
| Offices of Real Estate Agents and Brokers                              | 3,931  | 1.3 | 4,029  | 1.4 |

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## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

|   | Amortized Cost |        | Fair Value |        |
|---|----------------|--------|------------|--------|
| Health Care and Social Assistance   |                |        |            |        |
| Medical Laboratories  | 4,280          | 1.4    | 4,304      | 1.4    |
| Other Outpatient Care Centers   | 14,213         | 4.7    | 14,250     | 4.8    |
| Outpatient Mental Health and Substance Abuse Centers  | 7,639          | 2.5    | 3,285      | 1.1    |
| Information   |                |        |            |        |
| Other Information Services  | 2,417          | 0.8    | 2,412      | 0.8    |
| Software Publishers   | 4,038          | 1.3    | 4,060      | 1.4    |
| Manufacturing   |                |        |            |        |
| Bolt, Nut, Screw, Rivet, and Washer Manufacturing   | 3,986          | 1.3    | 3,650      | 1.2    |
| Commercial Printing (except Screen and Books)   | 6,659          | 2.2    | 6,661      | 2.2    |
| Other Aircraft Parts and Auxiliary Equipment Manufacturing  | 11,997         | 4.0    | 15,305     | 5.2    |
| Other Basic Inorganic Chemical Manufacturing  | 4,290          | 1.4    | 4,296      | 1.4    |
| Packaging Machinery Manufacturing   | 1,666          | 0.6    | 1,661      | 0.6    |
| Pharmaceutical Preparation Manufacturing  | 4,044          | 1.3    | 8,251      | 2.8    |
| Pump and Pumping Equipment Manufacturing  | 10,255         | 3.4    | 9,581      | 3.2    |
| Travel Trailer and Camper Manufacturing   | 10,151         | 3.5    | 10,601     | 3.6    |
| Truck Trailer Manufacturing   | 6,238          | 2.1    | 6,277      | 2.1    |
| Other Services (except Public Administration)   |                |        |            |        |
| Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance | 13,948         | 4.7    | 13,246     | 4.5    |
| Professional, Scientific, and Technical Services  |                |        |            |        |
| Computer Systems Design and Related Services  | 7,298          | 2.4    | 7,334      | 2.5    |
| Custom Computer Programming Services  | 6,782          | 2.3    | 6,822      | 2.3    |
| Other Accounting Services   | 3,440          | 1.1    | 3,396      | 1.1    |
| Other Professional, Scientific, and Technical Services  | 33,688         | 11.3   | 35,457     | 11.9   |
| Veterinary Services   | 743            | 0.2    | 750        | 0.3    |
| Public Administration   |                |        |            |        |
| Other Justice, Public Order, and Safety Activities  | 14,730         | 5.0    | 14,825     | 5.0    |
| Real Estate and Rental and Leasing  |                |        |            |        |
| Home Health Equipment Rental  | 900            | 0.3    | 358        | 0.1    |
| Office Machinery and Equipment Rental and Leasing   | 12,156         | 4.0    | 13,427     | 4.5    |
| Retail Trade  |                |        |            |        |
| Warehouse Clubs and Supercenters  | 7,267          | 2.4    | 7,157      | 2.4    |
| All Other General Merchandise Stores  | 6,699          | 2.2    | 6,528      | 2.2    |
| Wholesale Trade   |                |        |            |        |
| Metal Service Centers and Other Metal Merchant Wholesalers  | 12,837         | 4.4    | 14,390     | 4.9    |
| Sporting and Recreational Goods and Supplies Merchant Wholesalers   | 8,172          | 2.7    | 3,993      | 1.3    |
|   | \$300,696      | 100.0% | \$296,908  | 100.0% |

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

As of December 31, 2016, the Company had loans to 39 portfolio companies, of which 74% were senior secured loans and 26% were subordinated loans, at fair value, as well as equity investments in 17 of these portfolio companies. The Company also held an equity investment in two portfolio companies in which it did not hold a debt interest.

At December 31, 2016, investments consisted of the following:

|                                 | Amortized Fair |            |
|---------------------------------|----------------|------------|
|                                 | Cost           | Value      |
| Senior secured debt investments | \$ 182,315     | \$ 180,955 |
| Subordinated debt investments   | 66,591         | 63,410     |
| Preferred equity                | 23,293         | 23,721     |
| Common equity and warrants      | 7,108          | 13,541     |
| Total                           | \$ 279,307     | \$ 281,627 |

At December 31, 2016, all but one (domiciled in Canada) of the Company's investments, with an amortized cost and fair value of \$3,923 and \$3,923, respectively, were domiciled in the United States. Geographic composition is determined by the location of the corporate headquarters of the portfolio company. The industry compositions of the Company's portfolio were as follows:

|  | Amortized |      | Fair Value |      |
|--|-----------|------|------------|------|
|  | Cost      |      |            |      |
| Administrative and Support and Waste Management and Remediation Services |           |      |            |      |
| Other Travel Arrangement and Reservation Services                        | \$ 10,182 | 3.6% | \$ 10,839  | 3.8% |
| Security Systems Services (except Locksmiths)                            | 18,663    | 6.7  | 18,883     | 6.7  |
| Tour Operators   | 439       | 0.2  | 1,019      | 0.4  |
| Arts, Entertainment, and Recreation                                      |           |      |            |      |
| Fitness and Recreational Sports Centers                                  | 14,372    | 5.1  | 14,410     | 5.1  |
| Education Services   |           |      |            |      |
| Colleges, Universities, and Professional Schools                         | 5,314     | 1.9  | 5,142      | 1.8  |
| Finance and Insurance  |           |      |            |      |
| Insurance Agencies and Brokerages  | 13,510    | 4.8  | 13,599     | 4.8  |
| Health Care and Social Assistance  |           |      |            |      |
| Medical Laboratories   | 4,204     | 1.5  | 4,174      | 1.5  |
| Other Outpatient Care Centers  | 14,207    | 5.2  | 14,393     | 5.1  |
| Outpatient Mental Health and Substance Abuse Centers                     | 7,639     | 2.7  | 5,393      | 1.9  |
| Information  |           |      |            |      |
| Other Information Services   | 2,427     | 0.9  | 2,340      | 0.8  |
| Other Telecommunications   | 2,652     | 0.9  | 2,630      | 0.9  |
| Software Publishers  | 4,896     | 1.8  | 4,949      | 1.8  |
| Manufacturing  |           |      |            |      |
| Bolt, Nut, Screw, Rivet, and Washer Manufacturing                        | 4,090     | 1.5  | 3,555      | 1.3  |
| Other Aircraft Parts and Auxiliary Equipment Manufacturing               | 11,925    | 4.3  | 13,551     | 4.8  |
| Other Basic Inorganic Chemical Manufacturing                             | 4,413     | 1.6  | 4,396      | 1.6  |
| Packaging Machinery Manufacturing  | 1,996     | 0.7  | 1,885      | 0.7  |
| Pharmaceutical Preparation Manufacturing                                 | 4,049     | 1.4  | 9,893      | 3.5  |
| Pump and Pumping Equipment Manufacturing                                 | 10,908    | 3.9  | 10,016     | 3.6  |
| Travel Trailer and Camper Manufacturing                                  | 12,797    | 4.6  | 13,149     | 4.7  |
| Other Services (except Public Administration)                            |           |      |            |      |

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|   |        |     |        |     |
|---|--------|-----|--------|-----|
| Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance | 13,695 | 4.9 | 11,610 | 4.1 |
| Professional, Scientific, and Technical Services  |        |     |        |     |
| Computer Systems Design and Related Services  | 3,879  | 1.4 | 3,946  | 1.4 |
| Custom Computer Programming Services  | 5,097  | 1.8 | 5,143  | 1.8 |
| Other Accounting Services   | 5,328  | 1.9 | 4,911  | 1.7 |
| Other Computer Related Services   | 14,738 | 5.3 | 14,883 | 5.3 |

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OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

|   | Amortized Cost |        | Fair Value |        |
|---|----------------|--------|------------|--------|
| Other Professional, Scientific, and Technical Services            | 32,750         | 11.7   | 31,422     | 11.2   |
| Veterinary Services   | 650            | 0.2    | 651        | 0.2    |
| Real Estate and Rental and Leasing                                |                |        |            |        |
| Home Health Equipment Rental                                      | 900            | 0.3    | 1,037      | 0.4    |
| Office Machinery and Equipment Rental and Leasing                 | 11,888         | 4.3    | 13,510     | 4.8    |
| Offices of Real Estate Agents and Brokers                         | 3,923          | 1.4    | 3,923      | 1.4    |
| Offices of Real Estate Appraisers                                 | 10,032         | 3.6    | 10,000     | 3.6    |
| Retail Trade  |                |        |            |        |
| All Other General Merchandise Stores                              | 6,839          | 2.4    | 6,839      | 2.4    |
| Wholesale Trade   |                |        |            |        |
| Metal Service Centers and Other Metal Merchant Wholesalers        | 12,700         | 4.5    | 14,142     | 5.0    |
| Sporting and Recreational Goods and Supplies Merchant Wholesalers | 8,205          | 3.0    | 5,394      | 1.9    |
|   | \$279,307      | 100.0% | \$281,627  | 100.0% |

Unconsolidated Significant Subsidiaries: In accordance with Regulation S-X and GAAP, the Company is not permitted to consolidate any subsidiary or other entity that is not an investment company, including those in which the Company has a controlling interest unless the business of the controlled operating company consists of providing services to the Company. In accordance with Regulation S-X Rules 3-09 and 4-08(g), the Company evaluates its unconsolidated controlled portfolio companies as significant subsidiaries under the respective rules. As of June 30, 2017, each of MTE Holding Corp. and Malabar International was considered a significant unconsolidated subsidiary under Regulation S-X Rule 4-08(g). The following tables show summarized financial information for the Company's significant subsidiaries.

MTE Holding Corp.

The Company's voting ownership in MTE Holding Corp is limited to 50% through a substantive participating voting rights agreement with an unaffiliated investor. Based on the requirements under Regulation S-X Rule 4-08(g), the summarized consolidated financial information of MTE Holding Corp. and Subsidiaries is presented below:

| Balance Sheet:                               | June 30, December |           | Three Months   |         | Six Months     |          |
|--|-------------------|-----------|----------------|---------|----------------|----------|
|  | 2017              | 31, 2016  | Ended June 30, |         | Ended June 30, |          |
| Current assets                               | \$6,776           | \$ 5,535  |                |         |                |          |
| Noncurrent assets                            | 25,294            | 24,681    |                |         |                |          |
| Total Assets                                 | \$32,070          | \$ 30,216 |                |         |                |          |
| Current liabilities                          | \$2,873           | \$ 2,401  |                |         |                |          |
| Noncurrent liabilities                       | 17,350            | 16,889    |                |         |                |          |
| Total liabilities                            | 20,223            | 19,290    |                |         |                |          |
| Non-controlling interest                     | 5,289             | 4,878     |                |         |                |          |
| Total equity                                 | 6,558             | 6,048     |                |         |                |          |
| Summary of Operations:                       |                   |           | 2017           | 2016    | 2017           | 2016     |
| Net Sales                                    |                   |           | \$8,923        | \$7,747 | 15,862         | \$14,018 |
| Gross Profit                                 |                   |           | 2,943          | 2,511   | 5,209          | 4,593    |
| Net income                                   |                   |           | 842            | 827     | 1,452          | 1,336    |
| Net income attributable to MTE Holding Corp. |                   |           | 466            | 458     | 804            | 740      |



## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

## Malabar International

Based on the requirements under Regulation S-X Rule 4-08(g), the summarized consolidated financial information of Malabar International is presented below:

| Balance Sheet:         | June 30, December |          |
|------------------------|-------------------|----------|
|                        | 2017              | 31, 2016 |
| Current assets         | \$12,486          | \$13,246 |
| Noncurrent assets      | 16,493            | 19,517   |
| Total Assets           | \$28,979          | \$32,763 |
| Current liabilities    | \$3,540           | \$4,827  |
| Noncurrent liabilities | 22,961            | 24,417   |
| Total liabilities      | 26,501            | 29,244   |
| Total equity           | 2,478             | 3,519    |

  

| Summary of Operations <sup>(1)</sup> : | Three    | Six      |
|--|----------|----------|
|  | Months   | Months   |
|  | Ended    | Ended    |
|  | June 30, | June 30, |
|  | 2017     | 2017     |
| Net Sales                              | \$6,451  | \$14,503 |
| Gross Profit                           | 2,550    | 5,470    |
| Income from continuing operations      | 271      | 546      |
| Net income (loss)                      | 271      | (811 )   |

(1) Comparable summarized financial information for the three and six months ended June 30, 2016 is not available.

## Note 5. Fair Value of Financial Instruments

The Company's investments are valued at fair value as determined in good faith by Company management under the supervision, and review and approval of the Board. These fair values are determined in accordance with a documented valuation policy and a consistently applied valuation process that includes a review of each investment by an independent valuation firm at least once every 12 months.

Each quarter the Company assesses whether sufficient market quotations are available or whether a sufficient number of indicative prices from pricing services or brokers or dealers have been received. Investments for which sufficient market quotations are available are valued at such market quotations. Otherwise, the Company undertakes, on a quarterly basis, a multi-step valuation process as described below:

For each debt investment, a basic credit risk rating review process is completed. The risk rating on every credit facility is reviewed and either reaffirmed or revised by OFS Advisor's investment committee.

Each portfolio company or investment is valued by OFS Advisor.

The preliminary valuations are documented and are then submitted to OFS Advisor's investment committee for ratification.

Third-party valuation firm(s) provide valuation services as requested, by reviewing the investment committee's preliminary valuations. OFS Advisor's investment committee's preliminary fair value conclusions on each of the Company's assets for which sufficient market quotations are not readily available is reviewed and assessed by a third-party valuation firm at least once in every 12-month period, and more often as determined by the audit committee of the Company's Board or required by the Company's valuation policy. Such valuation assessment may be in the form of positive assurance, range of values or other valuation method based on the discretion of the Company's Board.

The audit committee of the Board reviews the preliminary valuations of OFS Advisor's investment committee and independent valuation firms and, if appropriate, recommends the approval of the valuations by the Board.

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

The Company's Board discusses valuations and determines the fair value of each investment in the portfolio in good faith based on the input of OFS Advisor, the audit committee and, where appropriate, the respective independent valuation firm.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are determined with models or other valuation techniques, valuation inputs, and assumptions market participants would use in pricing an asset or liability. Valuation inputs are organized in a hierarchy that gives the highest priority to prices for identical assets or liabilities quoted in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of inputs in the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include: (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active, (iii) inputs other than quoted prices that are observable for the asset or liability, and (iv) inputs that are derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs for the asset or liability, and situations where there is little, if any, market activity for the asset or liability at the measurement date.

The inputs into the determination of fair value are based upon the best information under the circumstances and may require significant management judgment or estimation. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the measurement date. All of the Company's investments, which are measured at fair value, were categorized as Level 3 based upon the lowest level of significant input to the valuations. There were no transfers among Level 1, 2 and 3 for the three and six months ended June 30, 2017 and 2016.

Consistent with the policies and methodologies adopted by the Board, the Company performs detailed valuations of its debt and equity investments, including an analysis on the Company's unfunded loan commitments, using both the market and income approaches as appropriate. There is no one methodology to estimate enterprise value and, in fact, for any one portfolio company, enterprise value is generally best expressed as a range of values. The Company may also engage one or more independent valuation firms(s) to conduct independent appraisals of its investments to develop the range of values, from which the Company derives a single estimate of value. Under the income approach, the Company typically prepares and analyzes discounted cash flow models to estimate the present value of future cash flows of either an individual debt investment or of the underlying portfolio company itself.

The primary method used to estimate the fair value of the Company's debt investments is the discounted cash flow method. However, if there is deterioration in credit quality or a debt investment is in workout status, the Company may consider other methods in determining the fair value, including the value attributable to the debt investment from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The discounted cash flow approach to determine fair value (or a range of fair values) involves applying an appropriate discount rate(s) to the estimated future cash flows using various relevant factors depending on investment type, including the latest arm's length or market transactions involving the subject security, a benchmark credit spread or

other indication of market yields, and company performance. The valuation based on the inputs determined to be the most reasonable and probable is used as the fair value of the investment, which may include a weighting factor applied to multiple valuation methods. The determination of fair value using these methodologies may take into consideration a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment and anticipated financing transactions after the valuation date.

The Company changed the primary method used to value certain of its investments, primarily equity investments, as of December 31, 2016, from the income approach to the market approach, principally due to the nature of evidence available under the discounted cash flow method, and to better align with industry practice. The Company may also utilize an income approach when estimating the fair value of its equity securities, either as a primary methodology if consistent with industry

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

practice or if the market approach is otherwise not applicable, or as a supporting methodology to corroborate the fair value ranges determined by the market approach.

Under the market approach, the Company estimates the enterprise value of portfolio companies. Typically, the enterprise value of a private company is based on multiples of EBITDA, net income, revenues, or other relevant basis. The valuation based on the inputs determined to be the most reasonable and probable is used as the fair value of the investment, which may include a weighting factor applied to multiple valuation methods. In estimating the enterprise value of a portfolio company, the Company analyzes various factors consistent with industry practice, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, the portfolio company's historical and projected financial results, applicable market trading and transaction comparables, applicable market yields and leverage levels, the nature and realizable value of any collateral, financing transactions subsequent to the acquisition of the investment and anticipated financing transactions after the valuation date.

Application of these valuation methodologies involves a significant degree of judgment by management. Fair values of new investments or investments where an arm's length transaction occurred in the same security are generally assumed to be equal to their cost ("Transaction Price") for up to three months after their initial purchase.

Due to the inherent uncertainty of determining the fair value of Level 3 investments, the fair value of the investments may differ significantly from the values that would have been used had a ready market or observable inputs existed for such investments and may differ materially from the values that may ultimately be received or settled. Further, such investments are generally subject to legal and other restrictions, or otherwise are less liquid than publicly traded instruments. If the Company were required to liquidate a portfolio investment in a forced or liquidation sale, the Company might realize significantly less than the value at which such investment had previously been recorded. The Company's investments are subject to market risk. Market risk is the potential for changes in the value due to market changes. Market risk is directly impacted by the volatility and liquidity in the markets in which the investments are traded.

The following tables provide quantitative information about the Company's significant Level 3 fair value inputs to the Company's fair value measurements as of June 30, 2017, and December 31, 2016. In addition to the techniques and inputs noted in the tables below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining the Company's fair value measurements. The table below is not intended to be exhaustive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements.

|                            | Fair Value at June 30, 2017 (1) | Valuation technique                      | Unobservable inputs               | Range (Weighted average)                          |
|----------------------------|---------------------------------|--|-----------------------------------|---|
| <b>Debt investments:</b>   |                                 |  |                                   |   |
| Senior secured             | \$ 162,042,888                  | Discounted cash flow<br>Enterprise value | Discount rates<br>EBITDA multiple | 6.25% - 20.00% (11.33%)<br>7.49x - 7.49x (7.49x)  |
| Subordinated               | 41,960,727                      | Discounted cash flow<br>Enterprise value | Discount rates<br>EBITDA multiple | 10.65% - 20.00% (14.63%)<br>7.00x - 7.81x (7.37x) |
| <b>Equity investments:</b> |                                 |  |                                   |   |
| Preferred equity           | 27,979                          | Enterprise value                         | EBITDA multiples                  | 4.50x - 9.18x (7.14x)                             |
| Common equity and warrants | 9,845                           | Enterprise value                         | EBITDA multiples                  | 4.47x - 8.90x (5.52x)                             |

(1) Excludes \$27,834, \$7,082, and \$-0-, of senior secured debt investments, subordinated debt investments, and equity investments, respectively, valued at a Transaction Price.

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(Dollar amounts in thousands, except per share data)

|                            | Fair Value<br>at<br>December<br>31, 2016<br>(1) | Valuation technique                      | Unobservable inputs                | Range<br>(Weighted average)                       |
|----------------------------|---|--|------------------------------------|---|
| Debt investments:          |   |  |                                    |   |
| Senior secured             | \$ 149,128<br>15,901                            | Discounted cash flow<br>Enterprise value | Discount rates<br>EBITDA multiples | 6.70% - 18.71% (12.07%)<br>7.25% - 7.50% (7.31%)  |
| Subordinated               | 45,635<br>5,393                                 | Discounted cash flow<br>Enterprise value | Discount rates<br>EBITDA multiples | 10.75% - 21.24% (14.19%)<br>8.00x - 8.00x (8.00x) |
| Equity investments         |   |  |                                    |   |
| Preferred equity           | 23,721  | Enterprise value                         | EBITDA multiples                   | 4.50x - 8.50x (6.82x)                             |
| Common equity and warrants | 13,042  | Enterprise value                         | EBITDA multiples                   | 5.00x - 8.50x (6.07x)                             |

(1) Excludes \$15,926, \$12,382, and \$499 of senior secured debt investments, subordinated debt investments, and equity investments, respectively, valued at a Transaction Price.

Changes in market credit spreads or the credit quality of the underlying portfolio company (both of which could impact the discount rate), as well as changes in EBITDA and/or EBITDA multiples, among other things, could have a significant impact on debt fair values, with the fair value of a particular debt investment susceptible to change in inverse relation to the changes in the discount rate but in tandem with changes in EBITDA and/or EBITDA multiples. Changes in EBITDA and/or EBITDA multiples, could have a significant impact on equity fair values, with the fair value of an equity investment susceptible to change in tandem with the changes in EBITDA and/or EBITDA and other multiples. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

The following tables present changes in investments measured at fair value using Level 3 inputs for the six months ended June 30, 2017 and June 30, 2016.

|                                 | Six Months Ended June 30, 2017           |                                     |                     |                                     |            |
|---------------------------------|--|-------------------------------------|---------------------|-------------------------------------|------------|
|                                 | Senior<br>Secured<br>Debt<br>Investments | Subordinated<br>Debt<br>Investments | Preferred<br>Equity | Common<br>Equity<br>and<br>Warrants | Total      |
| Level 3 assets, January 1, 2017 | \$ 180,955                               | \$ 63,410                           | \$ 23,721           | \$ 13,541                           | \$ 281,627 |